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<b>Portfolio Leaders</b>	<b>Economic Development and Planning / Housing</b>
<b>Key Decision:</b>	<b>Yes</b>
<b>Report Track:</b>	<b>Cabinet: 20/02/13</b>

**CABINET  
20 FEBRUARY 2013  
AFFORDABLE HOUSING DELIVERY and COMMUNITY INFRASTRUCTURE  
LEVY**

**1 Purpose of Report**

- 1.1 To consider the findings of the Economic Viability Assessment of Future Development of Affordable Housing in Cannock Chase (EVA) and the recommendations of the Housing Policy Development Committee regarding planning policy for the delivery of affordable housing in the District.
- 1.2 To note the findings of the Community Infrastructure Levy Viability Study (CILVS)

**2 Recommendations**

- 2.1 That the findings of the Economic Viability Assessment for the Future Development of Affordable Housing and the recommendations of the Housing Policy Development Committee in respect of this are noted.
- 2.2 That the Council's proposed affordable housing policies as set out below are agreed:
  - (i) To seek 20% affordable housing on sites of 15 or more dwellings with a tenure split of 80% social rent and 20% intermediate tenure that meet the Homes and Community Agency Design and Quality Standards and Level 3 of the Code for Sustainable Homes, subject to the viability of individual sites; in exceptional circumstances to accept a financial contribution to the provision of affordable housing on other sites.

- (ii) To seek a financial contribution on sites under 15 units as an alternative to on-site affordable housing provision in accordance with the formula set out in paragraph 5.14 of the report, subject to the viability of individual sites.
- 2.3 That the proposed affordable housing policies form part of the consultation process for the Cannock Chase Local Plan (Part 1) and a revised Supplementary Planning Document for Affordable Housing.
- 2.4 That the contents of the Community Infrastructure Levy (CIL) Viability Study are noted and that further work is undertaken to identify robust CIL charging rates to enable consultation to take place on a draft charging schedule in the 3<sup>rd</sup> quarter of 2013/14.

### **3 Key Issues and Reasons for Recommendation**

#### ***Economic Viability Assessment of Future Development of Affordable Housing in Cannock Chase***

- 3.1 Adams Integra were appointed in July 2012 to undertake a high level review of housing development viability across the District and produce locally derived affordable housing targets that are economically viable.
- 3.2 The Housing Policy Development Committee on 28 November 2012 considered the results of the Economic Viability Assessment and have recommended revised affordable housing policies for consideration by Cabinet.
- 3.3 Further consideration has however been given to the affordable housing requirements on sites under 15 dwellings and it is now proposed that a financial contribution should be sought from all such developments, subject to the viability of individual sites.
- 3.4 Subject to the proposed policies being agreed, it is proposed that they form part of the consultation process for the Cannock Chase Local Plan (Part 1) and a revised Supplementary Document for Affordable Housing.

#### ***Community Infrastructure Levy Viability Study***

- 3.5 One means of funding infrastructure required to enable the policies and proposals in a Local Plan to be implemented, is to introduce a Community Infrastructure Levy (CIL). This is a tax which can be charged in connection with most forms of built development. Affordable Housing and development by charities are exempt from CIL. In order for the Council to adopt a CIL charging schedule following an independent examination, the following tests/processes need to be carried out –

- An up to date Local Plan needs to have been adopted after a successful examination, unless the two processes are dealt with at a joint examination.
  - There needs to be clear evidence of an infrastructure funding gap, having considered other sources of funding such as S106 agreements, UK Government or European grants/loans, that can be partially or fully met by CIL. The evidence for this is found in the Infrastructure Delivery Plan (IDP) which accompanies the Local Plan.
  - The CIL rate per square metre of built development must be set at a level which does not pose a threat to the overall viability of any particular category of development e.g. housing, retail, offices, industry. Different rates can be set for specific development types and/or geographical locations if the evidence on viability supports this.
- 3.6 Policy CP2 – Developer Contributions for Infrastructure sets out how all housing, employment and commercial development will contribute towards providing affordable housing and/or infrastructure necessary to deliver the policies and proposals in the Local Plan (Annex 2 ).
- 3.7 The District Valuer was jointly commissioned by this Council, Lichfield District Council and Tamworth Borough Council in July 2012 to produce a Local Plan and CIL Viability Study. The study covers all major development types and by identifying a range of scales of development and notional development sites in Cannock, Hednesford, Heath Hayes, Norton Canes and Rugeley a picture is built up of developments identified as viable or unviable.
- 3.8 The key conclusions in relation to housing development are that development with at least 15% affordable units is in principle viable in Rugeley but not elsewhere in the District. Similar issues of unviability are identified in Burntwood (Lichfield District) and large parts of Tamworth. These conclusions, based on notional development sites run counter to the conclusions of the Adams Integra work and practical evidence of current and committed delivery of housing in most parts of the District. In the latter case developers are currently committing via S106 agreements to delivering a minimum of 14% affordable housing on key sites identified in the Local Plan i.e. land west of Pye Green Road Hednesford and land south of Norton Canes. Delivery of affordable units is currently underway on commercial housebuilders' sites at Bridgtown (Bellway Homes) and Rugeley (Taylor-Wimpey).
- 3.9 Officers therefore wish to review the conclusions on overall CIL viability for Cannock Chase District, but are confident that there is sufficient other evidence to proceed with an updated affordable housing policy.

#### **4 Relationship to Corporate Priorities**

- 4.1 This report supports the Council's Corporate Priorities as follows:

Place – improved living environment. The need for affordable housing continues to be a priority for the Council and the Economic Viability

Assessment gives the Council the information it requires to develop affordable housing policies that are economically viable.

On the wider issue of bringing forward a CIL charging schedule, this has the potential to support delivery of a wide range of infrastructure, including transport, open space sport & recreation facilities and education to benefit the residential and business communities of the District.

## 5 Report Detail

### ***Economic Viability Assessment of Future Development of Affordable Housing in Cannock Chase – October 2012***

- 5.1 The National Planning Policy Framework (NPPF) published in March 2012 requires that Local Planning Authorities should set out their policies on local standards in the Local Plan, including requirements for affordable housing. Local authorities should assess the likely cumulative impacts on development of all existing and proposed local standards, supplementary planning documents and policies that support the development plan.
- 5.2 A Southern Staffordshire District Housing Needs Survey and Strategic Housing Market Update (SHMA) was produced in May 2012. The SHMA identified an affordable housing need in the District of 197 units per annum, with a recommended tenure split of 80% social rent, 10% affordable rent and 10% intermediate tenure. The study suggested a size mix of 63% 2 bed, 24% 3 bed and 13% 4 beds. The Economic Viability Assessment (EVA) provides the Council with options and recommendations on how best to achieve this need and maximise affordable housing.
- 5.3 The objectives of the Economic Viability Assessment were to produce:
- A district wide affordable housing viability assessment for housing delivery over the lifetime of the Core Strategy/Local Plan.
  - A viability assessment which supports the affordable housing requirements that will be set out as policy in the emerging Core Strategy/Local Plan and other documents that will form part of the Local Plan.
  - An assessment of potential development scenarios of sites that reflect viability in the district overall, in terms of scope to deliver the affordable housing requirements.
  - An Economic Viability Assessment that takes account of different potential levels of Community Infrastructure Levy (CIL).
  - Consideration of specific factors that could impact significantly on the viability of schemes including residential values, Code for Sustainable Homes, Lifetime Homes etc.
- 5.4 The results of the Economic Viability Assessment were considered by the Housing Policy Development Committee on 28 November 2012.

***Delivery above the 15 unit affordable housing threshold***

- 5.5 The Council's current policy position is based on the 15 unit threshold which was regarded as the "National indicative minimum" as set out by the Government's previous statement on planning for housing (PPS3). This is now superseded by the National Planning Policy Framework which no longer contains a suggested threshold. 14% affordable housing is currently requested as per the findings of a previous Viability Study undertaken in 2010. A target of 75% social rent and 25% intermediate tenure has been sought on all sites of 15 units and above.
- 5.6 The EVA used notional scheme information based on a range of types taken from the Strategic Housing Land Availability Assessment (SHLAA) and past completion records to test a range of scenarios. The scenarios were appraised to assess the viability of the approach to thresholds and proportions of affordable housing alongside other costs that may affect the viability of residential development (e.g. design standards, other planning obligation costs etc). Schemes were tested at 0%, 10%, 15%, 20% and 25% affordable housing and the results suggest that 20% affordable housing is an appropriate policy target for sites of 15 or more dwellings with a provision of 80% social rent, 20% intermediate tenure. All appraisals assumed compliance with Level 3 of the Code for Sustainable Homes and HCA Design and Quality Standards.
- 5.7 The current policy position is to request 14% affordable housing on sites of 15 or more units. Increasing this to 20% will obviously increase the affordable homes that will be delivered on development sites in the District.
- 5.8 The EVA emphasises that it is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites. Policy should acknowledge the role of specific site viability and the need to take a flexible approach where required. The presumption should always be for an on site contribution on sites of 15 or more units but there may be exceptions i.e. a development of flats where it is more appropriate to accept a financial contribution towards delivery on other sites.
- 5.9 The Housing Policy Development Committee have recommended this approach.

***Delivery below the 15 unit affordable housing threshold***

- 5.10 Adams Integra also state that scheme size is not a determinant of viability in itself and this is a consistent finding common to all their studies. There is no viability reason why smaller sites shouldn't make an appropriate, carefully judged level of contribution towards meeting affordable housing needs.
- 5.11 The EVA argues that sites below 15 units should be making a contribution to affordable housing through financial payments being made (in lieu of on-site affordable housing requirements) from schemes within the size range of 1 to 14 units. The thinking behind this is the need to optimise overall contributions towards meeting affordable housing needs by seeking some level of provision

from the numerous smaller sites which typically make up a significant proportion of our housing delivery.

5.12 The Housing Policy Development Committee have recommended an approach whereby a financial contribution is requested on sites of 5 to 14 units (inclusive). However, further consideration has been given to this matter and it is now proposed that a financial contribution should be sought from all sites below 15 dwellings (in accordance with the EVA), subject to the viability of individual sites.

5.13 The methodology advised to calculate the financial contribution is based on residual land values (RLV). The land value as a percentage of gross development value is used as it represents a typical land value in the Cannock Chase area. Site preparation and servicing costs are also included in the formula as shown in the table below:

Number of Units		Value Point 1	Value Point 2	Value Point 3	Value Point 4	Value Point 5
5	<b>Residual Land Value</b>	£36,539	£90,102	£161,519	£202,326	£253,659
	<b>GDV</b>	£685,000	£760,000	£860,000	£920,000	£1,000,000
	<b>% to GDV (RLV÷GDV)</b>	5.3%	11.9%	<b>18.8%</b>	22.0%	25.4%
10	<b>Residual Land Value</b>	£77,911	£176,888	£304,760	£382,279	£481,743
	<b>GDV</b>	£1,360,000	£1,505,000	£1,700,000	£1,815,000	£1,970,000
	<b>% to GDV (RLV÷GDV)</b>	5.7%	11.8%	<b>17.9%</b>	21.1%	24.5%
15	<b>Residual Land Value</b>	£107,134	£250,574	£447,224	£558,067	£713,105
	<b>GDV</b>	£2,045,000	£2,265,000	£2,560,000	£2,735,000	£2,970,000
	<b>% to GDV (RLV÷GDV)</b>	5.2%	11.1%	<b>17.5%</b>	20.4%	24.0%

\* **Residual Land Value (RLV)** - This is the amount left for land purchase once all development, finance and land costs have been deducted from the gross development value.

\*\* **Gross Development Value (GDV)** - The total value a developer can expect to receive from the sale of all units within a development, before all costs are subtracted.

Adams Integra suggest that 18% is a fair average residual land figure for sites under 15 units. The RLV as a percentage of GDV is shown as 18.8% at value point 3 (mid range property sales value in the District) for the 5 unit scheme and 17.9% for a 10 unit scheme.

5.14 The financial contribution would be calculated via the following steps:

- (i) Gross development value of each house type.

- (ii) Multiply by the Residual Land Value percentage – 18%.
- (iii) Add 15% of the result of (a x b) to reflect (as an estimate) site acquisition and preparation/servicing costs.
- (iv) Apply to the relevant dwelling numbers and types and to the equivalent affordable housing policy proportion – 20%.

5.15 The following is a worked example of the calculation:

Example – Scheme of 5 x 3 bed houses

1.	Open Market Value of 3 bed house	£150,000
2.	Multiply by the Residual Land Value percentage (18%)	£27,000
3.	Add 15% on-costs	£31,050
4.	Apply affordable housing equivalent proportion at 20%	£6,210
5.	Multiply by number of units (5)	
6.	<b>Financial contribution payable</b>	<b>£31,050</b>

5.16 The funds received would be ring fenced for affordable housing and used to provide funding assistance to other schemes and address priority needs.

5.17 The Housing Policy Development Committee support this approach.

5.18 This evidence has been used to formulate Policy CP7 – Housing Choice (Annex 1) within the Cannock Chase Local Plan (Part 1) which Council has agreed to publish. Formal publication will take place in February and submission in May, with an examination to follow later in the year.

5.19 The recommendation to collect financial contributions from sites of below 15 units, based on the above calculation methodology, would be a significant change in planning policy which will need to be consulted on widely as part of the consultation exercise that will be undertaken on a replacement draft Supplementary Planning Document for Affordable Housing to be produced following adoption of the Local Plan.

### ***Community Infrastructure Levy Viability Study***

5.20 In July 2012 Cannock Chase Council, Lichfield District Council and Tamworth Borough Council commissioned the District Valuer to produce a Local Plan and Community Infrastructure Levy Viability Study. This work examined viability of all forms of development which could in future be potentially liable to pay CIL. Information has been produced about all the major “Use Classes” of built development A1 retail, A2 financial and professional services A3-A5 food and drink, B1 offices and light industry, B2 general industry, B8 warehousing, C1 hotels, C2 residential/nursing homes, D1 schools/colleges and D2 cinemas in addition to C3 housing development. Further work is required to identify potential CIL charging rates for all forms of development. In determining potential CIL rates for housing development, the requirement to deliver affordable housing will form part of the baseline viability calculations.

5.21 As noted in paragraph 5.6, the evidence from Adams Integra indicates that provision of affordable housing at up to 20% can be viable on many sites of 15 or more units. It is therefore appropriate to move forward planning policy in this area now.

**6 Implications**

**6.1 Financial**

The report highlights the potential for the Council to collect additional income by way of Section 106 Agreements in order to support the delivery of affordable housing, in addition to the actual units built by developers.

It is not possible to quantify how much this will be in the future as it will be dependent on the number and type of applications submitted in future years.

**6.2 Legal**

Section 206 of the Planning Act 2008 confers power to charge the Community Infrastructure Levy (CIL) on local planning authorities. In order to enable the CIL to be levied the Council is required to prepare and publish a document known as a 'charging schedule' which will set out the rates of the CIL which will apply in the Council's area. The CIL will be subject to independent examination at which the Council must be able to show that the proposed rate or rates are informed by and consistent with the evidence on economic viability across the Council's area and would not threaten delivery of the Local Plan.

**6.3 Human Resources**

None

**6.4 Section 17 (Crime Prevention) –**

None

**6.5 Human Rights Act**

None

**6.6 Data Protection**

None

**6.7 Risk Management**

There is a risk that developers will seek to challenge the Adams Integra conclusions on the viability of residential development. However the provision in the policy to enable developers to raise viability issues on a site by site

basis, e.g. where there are abnormal development costs involved, is an appropriate response.

**6.8 Equality & Diversity**

The equality and diversity implications will be assessed as part of the equalities impact assessment for the Supplementary Planning Document for Affordable Housing.

It is a statutory requirement to carry out an Equalities Impact Assessment for the Local Plan and this has been completed.

**6.9 Best Value**

Increasing the supply of affordable housing that can be delivered on sites in the District will assist more households to access homes suited to their needs and therefore create sustainable, mixed communities.

**7 Appendices to the Report**

- Appendix 1            Local Plan Policy CP7 – Housing Choice
- Appendix 2            Local Plan Policy CP2 – Developer Contributions for Infrastructure

<b>Previous Consideration</b>		
Affordable Housing Delivery	Housing Policy Development Committee	28 November 2012

<b>Background Papers</b>
Economic Viability Assessment of Future Development of Affordable Housing in Cannock Chase – October 2012
Community Infrastructure Levy Viability Study - November 2012

**Appendix 1****Policy CP7 – Housing Choice**

Housing Choice will be encouraged by the following measures and elaborated within a Supplementary Planning Document.

**Affordable Housing**

In recognition of a net annual need for 197 affordable homes in Cannock Chase District the Council prioritises provision via a combination of the following measures:

- 20% affordable housing being provided by commercial house builders on developments of 15 or more units;
- On smaller sites of fewer than 15 units and exceptionally on sites of 15 or more units, financial contributions to be made to delivery on other sites;
- Re-development of poor quality Council Housing estates;
- Registered Providers own investment programmes in new build and acquisitions.

The overall target for affordable housing provision on commercial house builder's sites will be maximised, informed by an assessment of economic viability. This will be reviewed when changes in market conditions justify. Details will be elaborated in a Housing Choices SPD. Individual site viability issues will be considered in the context of the above.

Delivery on commercial house builders' sites or the alternative of pro-rata financial contributions will be secured by conditions imposed on the grant of planning permissions or the completion of planning obligations. Where sites have a construction programme which is proposed to extend beyond 2 years, the planning obligation will provide for the affordable housing component of later phases to be reviewed in the light of changes in the cost/revenue equation which will result in an increase of the affordable housing requirement if demonstrated by the reviewed assessment.

## Appendix 2

### Policy CP2 – Developer Contributions for Infrastructure

All housing, employment and commercial development will be required to contribute towards providing affordable housing and/or the infrastructure necessary for delivery of the Local Plan informed by viability assessment.

#### Contributions will be secured primarily via:

1. Rates set out in a Community Infrastructure Levy (CIL) charging schedule
2. Section 106 planning obligations

Where appropriate, contributions may be required by more than one of these methods and contributions from a number of developments may be pooled to address a cumulative impact.

Infrastructure requirements for the plan period are set out in an infrastructure delivery plan (IDP). Delivery of affordable housing and the critical infrastructure identified in the IDP will be prioritised.

The appropriate level of contributions for District-wide and sub-regional infrastructure will be set out in a Community Infrastructure Levy (CIL) Charging Schedule and for site specific contributions in the Local Plan Part 1 for affordable housing and the Local Plan Part 2 for infrastructure, at a level that is economically viable for the majority of development. Viability of affordable housing is addressed in policy CP7.

A meaningful proportion of CIL funds will be passed to neighbourhoods where the development has taken place, in accordance with national regulations. Once a Community Infrastructure Levy (CIL) is adopted a new SPD on developer contributions will be produced. Only five S106 agreements can be negotiated for any item of infrastructure once the CIL schedule is adopted.