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Submitted by email only to: policy@maldon.gov.uk

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Dear Sirs,

Consultation on the Maldon District Preliminary Draft Charging Schedule

We are instructed by Gladman Developments to review the proposed residential tariff for CIL charging within Maldon District. In undertaking our work, we have reviewed the following documentation –

- Maldon District Community Infrastructure Levy – Preliminary Draft Charging Schedule (January 2014)
- Maldon District Infrastructure Delivery Plan Update 2013 (December 2013)
- Local Plan and Community Infrastructure Levy Viability Study (HDH Planning & Development, August 2013)
- Local Plan and Community Infrastructure Levy Viability Study Post Consultation Update (HDH Planning & Development, November 2013)

We have also had regard to the provisions of the emerging Maldon District Local Development Plan 2014-2029, and related evidence base.

Context

As the authority will be aware, since publication of the Preliminary Draft Charging Schedule for consultation, further changes to the CIL Regulations came into force on 24th February. In short, these changes include:

- Provisions that provide a basis for giving charging authorities the option 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 <u>requirement</u> 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.
- Provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

Maldon District Council has had the opportunity to consider the implications of these changes in preparing its Draft Charging Schedule. We fully endorse the emphasis now being given to ensuring that an appropriate balance is struck 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. Furthermore, we note in the Preliminary Draft Charging Schedule that the District Council is considering introducing an instalment policy. We would strongly support the introduction of such a policy, as allowing the payment of CIL liabilities in instalments can make a significant difference to the viability of development schemes.

Maldon Charge Rates

The proposed residential charging zones and proposed charge rates included in the Preliminary Draft Charging Schedule are as follows:

Type of Development	**CIL Charge**	
	All areas (except Heybridge Strategic Sites S2(d) and S2(e))	**Local Development Plan Heybridge Strategic Sites S2(d) and S2(e)**
Residential (Use Class C3 including sheltered or specialist housing)	£70 per sq m	£0 per sq m

In comparison with many charging authorities, the proposed residential charge rates are straightforward. However, the simplistic approach to CIL charge rates must be contrasted with the Council's more complex emerging affordable housing policy. The Council has recognised the differences across the District in setting a differential affordable housing requirement, but this same level of sensitivity has not been applied to the draft CIL Charging Schedule. We comment on this matter in more detail below.

We also address the fact that the Viability Study prepared by HDH Planning and Development (published August 2013) recommended a very different set of CIL Charge Rates, to those recommended in the Update Report, published just three months later.

Whilst each CIL charging schedule needs to be locally evidenced to take account of local circumstances, we note that nearby Thurrock District is proposing a residential CIL rate of £38 per sq.m in 'Zone A' (higher value areas) and £0 per sq.m in 'Zone B' (lower value areas). These charges are more comparable with the rates recommended in the August 2013 Viability Study prepared by HDH Planning and Development.

Our considered view is that the proposed residential tariff has not been robustly evidenced, and if

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implemented without modification, would have an adverse impact on the delivery of new housing (including affordable housing) in the area. Importantly, it would also adversely impact upon the delivery of development opportunities within urban areas, which will often deliver sustainable development in sustainable locations, and help to regenerate and improve existing residential areas.

Affordable Housing

The Viability Study and Update recognise the importance of considering the cumulative impact of policy requirements on the viability of new development. We would concur with the view that two of the biggest influences on residential development viability will be the CIL levy on a development, and the percentage and mix of affordable housing required.

Paragraph 5.2 of the Maldon District Local Development Plan (January 2014) states –

"There is a significant shortage in the availability of affordable housing in the District (DCA, 2012) and increasing the supply of affordable housing is one of the key priorities for the Council and for the District as identified within the Corporate Plan (MDC, 2011c) and the Sustainable Community Strategy (MDLSP, 2011).

Given that the delivery of affordable housing is a key priority for the Council, it is concerning that the Infrastructure Delivery Plan Update (December 2013) already accepts that the Council is unlikely to achieve the level of affordable housing required by emerging policy. Paragraph 16.5 of the Infrastructure Delivery Plan states that '*it is not possible to be certain as to.... the actual level of affordable housing that will be secured*'. This strongly suggests that the Council recognises that the viability of schemes is going to be compromised by the combined impact of the emerging policy requirements in relation to affordable housing, and the proposed residential CIL charge rates.

We are concerned that if there are issues around viability that need to be resolved at the planning application stage (resulting in protracted negotiations over the level of affordable housing that might or might not be deliverable), this could delay the delivery of new market and affordable housing. There is of course always the option for Maldon District Council to accept a lower level of affordable housing on any given scheme to help ensure delivery, but such an approach would compromise a key objective of the emerging Local Development Plan – namely, to increase the supply of affordable housing.

We strongly believe that the Council should reduce the proposed residential CIL charge rate, to a level no higher, and preferably below, the level first recommended by the HDH Planning and Development.

Deliverability

The Infrastructure Delivery Plan Update (December 2013) outlines the infrastructure funding gap in Maldon District. This currently stands at an estimated £78,733,452.

Given the size of the funding gap, concerns must be raised in relation to the deliverability of the Maldon District Local Development Plan.

Instalment Policy

Section 2.7 of the Preliminary Draft Charging Schedule states that the council is considering introducing an instalment policy and that "*such a policy would not be part of the charging schedule and could be changed independently of it*". However, this is at odds with the evidence in the CIL Viability Study (August 2013) which is clearly based on the fact that the Council will implement such a policy. Paragraph 3.11 of the methodology states that the assumption has been made that "*the CIL is payable in equal annual instalments over the life of the project*".

Paragraph 13.44 of the Viability Study (August 2013) sets out the firm recommendation for the Council to introduce an instalment policy that enables CIL to be paid through the life of the project and considers that not to do so could put the Local Development Plan at serious risk.

To ensure any future CIL Charging Schedule is robust, it would therefore seem imperative that it is accompanied by an instalments policy.

Residential Property Market

An important input to the viability modelling is assumed sale values of new build properties. The Viability Study provides some general commentary of the residential market generally, and specifically in relation to Maldon.

A survey of new homes for sale was undertaken during May 2013. This survey identified '*about 25 new homes for sale in and near to the District*' (paragraph 4.14 of the Viability Study, August 2013). Table 4.1 of the Viability Study shows just 21 properties in total. HDH Planning and Development were not able to obtain floorspace information for all of these 21 properties, and therefore were not able to extrapolate the £/m^2 figures for four of the properties.

This leaves a sample size of just 17 properties.

We believe that the admission at paragraph 4.14 of the Viability Study (August 2013) that '*.....the information collected was not comprehensive...*' is a gross understatement. The survey information collected was wholly inadequate as the basis for an important input into the Viability Study.

On closer analysis, many of the properties within Table 4.1 do not fit with the property profile of the types of properties that are likely to come forward via the Maldon District Local Development Plan. For example, four of the properties (or 23% of the 17 properties with £/m^2 figures) form part of a high quality barn conversion scheme (Woodham Lodge Barns). These will sell for a significant premium over an estate property on an urban extension – and should be excluded from the 'calculation' of average asking prices.

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In a similar vein, a number of the other properties listed are small scale urban schemes, which again will often fetch a premium, when compared with an estate property within a larger urban extension.

Setting aside for one moment these fundamental concerns with the sales value data included within the Viability Study, the average £/m^2 figures for the properties listed in Table 4.1 (excluding Woodham Lodge Barns) is £2,717 £/m^2. As new homes sales will often not achieve the full asking price, for modelling purposes a discount of up to 10% (between asking price and sales price) should be applied. The full 10% discount would bring the average sales prices down to under £2,500 £/m^2. Indeed, we would recommend a lower figure still for modelling purposes, to take account of the likely lower sales values on large estate urban extensions, as opposed to some of the smaller bespoke schemes included in Table 4.1 of the Viability Study (August 2013).

The actual price assumptions used in the Viability Study are found in Table 9.9 of the Viability Study (August 2013). The revised price assumptions range from £2,325 £/m^2 to £3,200 £/m^2. We are concerned that these figures are generally too high (when assessed against the limited new build house price data included in Table 4.1). We would strongly recommend that further local new homes sales information is collected, with a view to robustly evidencing the price assumptions. A discount needs to be applied to factor in the variation between asking prices and sales prices, and full account taken of the differences between the values of a small bespoke scheme, and those on a larger urban extension.

Appraisal Assumptions

In addition to the concerns raised in relation to the combined impact of affordable housing policy and the proposed CIL residential charge rates, we have a number of more detailed concerns over the assumptions used in the Viability Study (August 2013 and November 2013).

We believe that the level of 'overage' identified in Table 13.2 of the Viability Study (November 2013) is exaggerated, and does not form a sound basis for making decisions on the appropriate CIL residential charge rates. Of particular concern –

- **Benchmark Land Values –** Section 6 of the Viability Study (August 2013) addresses residential land values. After consideration is given to a range of factors, HDH Planning and Development conclude that a reasonable land value assumption for the purposes of their viability work is £1,000,000 per net developable hectare. Importantly, at paragraph 6.18 of the Viability Study, HDH Planning and Development accept that residential land could have a substantially higher value.

  Taking a step back, and in terms of the guidance on how to arrive at appropriate bench mark land values, paragraph 3.4.3 of the RICS Financial Viability in Planning (FVIP) is a key consideration:

  "The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations. Any planning obligations imposed will need to be paid out of this uplift but cannot use up the whole of this difference, other than in

exceptional circumstances, as that would remove the likelihood of the land being released for development."

The gap between the two parameters needs to be understood and a judgement reached in each case as to how the market would assess the "competitive return" for the landowner. In the context of 'competitive returns to a landowner', consideration also needs to be given to Viability Testing Local Plans (VTLP) advice, which complements the RICS advice, stating that:

"….threshold land value should represent the value at which a typical willing landowner is likely to release land for development…"

For greenfield sites, VTLP recommends the use of benchmarks based on local market evidence and typical minimum price provisions used in developer / site promoter agreements involving similar sites. No such evidence is provided in the HDH Planning and Development Viability Study.

Whilst we believe a higher land value assumption can be justified, and indeed, would make the conclusions from the Viability Study 'safer', the figure of £1,000,000 per net developable hectare is not considered unreasonable. That said, Maldon District Council will need to take land values into account when negotiating with developers on the level of affordable housing to be provided on a site by site basis. In those cases where land values are higher, or significantly higher, the Council will be unlikely to achieve the proposed percentage of affordable housing set out in the emerging Maldon District Local Development Plan.

- **Build Costs** – HDH Planning and Development have included a 5% contingency provision on build costs. This is supported, and is a basic bank funding requirement, without which funding will not be available.

- **Profit (or Development Margin) –** HDH Planning and Development have used a 20% profit margin on Gross Development Value. Most, if not all residential developers assess development margin requirements against the Gross Development Value of the scheme. Whilst the minimum developer return will vary between house builders at any one time depending upon their own particular circumstances, there is a much closer degree of consistency with traditional bank funders' minimum requirements. For a standard build, the minimum return has been on average 20% of Gross Development Value (for the last two to three years).

  We support, as a minimum, the 20% profit margin on Gross Development Value used in the Viability Study.

- **Finance Costs** – Interest rates have now remained low for several years, but the clear expectation is that they will start to rise as the UK economic outlook improves. This will serve to increase the finance costs for developers – a factor that should certainly be considered via some form of sensitivity testing.

Higher interest rates could also impact upon house prices – as the cost of servicing mortgage payments inevitably increases.

- **Contingency on Construction Costs –** HDH has included a 5% contingency provision on build costs. This should be considered a minimum. Indeed, without such provision on a scheme by scheme basis, bank funding will not be made available.

- **Development Density and Housing Mix** – A major factor influencing development value, and therefore development viability, is the scale and density that is achievable on a site.

  The appraisals have been run with a range of development density assumptions, ranging from 30 to 48 dwellings per hectare. For the larger modelled schemes (i.e. in excess of 100 units, the density assumptions are all in excess of 35 dwellings per hectare. In reality, the density of development will vary on sites (depending upon their location, proposed dwelling mix and site specific constraints).

  The current market trend is for predominately two storey traditional housing schemes that provide in the main a mix of 2, 3 and 4 bedroom houses, with a strong preference for detached and semi-detached properties. Indeed, research carried out by Gladman Developments – involving the appraisal of 48 recently approved residential development schemes, on sites of 25 dwellings and / or larger than 0.4 ha – suggests the average site development density was just 23.15 dwellings per gross hectare.

  Only Site 1 in the HDH Planning and Development work has a gross development density of 23 dwellings – with all of the other modelled sites having a higher gross development density.

  It is a weakness of the HDH Viability Study that no lower development densities have been tested. All things being equal, lower development densities will deliver lower Gross Development Values.

Conclusions

To conclude, in summary:

- We are concerned that the combined impact of the proposed residential CIL Charge Rates and Affordable Housing Policy requirements will render many schemes unviable. As a consequence, sites will either not come forward (impacting on the delivery rates of new housing in Maldon District), or a lower percentage of affordable housing will need to be negotiated (again, potentially slowing the rate of new housing delivery, and as importantly, impacting on the delivery of affordable housing – a key Local Development Plan objective).
- We have identified a number of issues with the assumptions used in the HDH Planning and Development Viability Study – which in combination undermine the conclusion that a £70 per sq m residential CIL charge rate can be sustained. We would recommend that the viability work is revisited, addressing the matters raised in this representation. A

lower residential CIL Charge Rate, potentially along the lines of that first recommended by HDH Planning and Development in August 2013, would ensure that the new requirement to ensure an appropriate balance is struck 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, is met.

Please let me know if you have any queries in relation to the above.

Yours faithfully

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