D|S|P Housing & Development Consultants

Cambridge City Council

Considering Affordable Housing Financial Contributions – Small sites calculations

Review of potential calculation mechanisms

March 2014

FINAL REPORT

DSP Ref: 14240

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Quick guide to key terms – Glossary

AH – Affordable Housing. Essentially this is housing made available to those who are unable to meet their needs through the market. Through its strategies and policies, the Council further explains what is meant in the Cambridge City Council (CCC) context);

CIL – Community Infrastructure Levy. For more information and guidance on CIL, see for example http://www.planningportal.gov.uk/uploads/cil/cil_guidance_main.pdf where the Government's (DCLG) latest (February 2014) Guidance can be found – based on the CIL (Amendment) Regulations 2014.
For CCC's latest information on its proposals for and work on the local CIL for the City see: https://www.cambridge.gov.uk/community-infrastructure-levy).

Policy 45 – The Council's reference number for the affordable housing policy basis proposed within its current stage Cambridge Local Plan 2014: Proposed Submission as amended through the Addendum to the Cambridge Local Plan Proposed Submission (July 2013) Proposed Changes Following Proposed Submission Consultation, the key planning policy document as referenced at 1.3 of this report and which provides the basis for the affordable housing provision / contributions to be sought from housing developments. More information on the Council's Local Plan review progress can be viewed on its web-site at https://www.cambridge.gov.uk/about-the-local-plan-review ;

Policy 50 – The Council's reference number for the 'residential space standards' as contained in the Cambridge Local Plan 2014: Proposed Submission. The assumed dwelling sizes applied throughout DSP's study work are consistent with these; pitched either at or above the minimum standards set out.

DSP – Dixon Searle Partnership - Housing & Development Consultants;

Financial Contribution (AH £ contribution / AH FC) – Part of the Council's approach to seeking affordable housing provision from a wide range of developments. This means a financial contribution (payment) made by the planning applicant (usually a developer / house-builder) under the terms of a planning agreement (section.106 – 's.106' - agreement). This is sought in cases where CCC policy requires a contribution towards meeting local affordable housing needs from smaller sites (providing between 2 and 9 dwellings) in accordance with Policy 45, as above. However, for practical reasons that contribution in

most cases involving sites of this scale is best achieved by way of securing funds to enable affordable housing provision off-site. This adds a valuable enabling tool to the Council's overall approach and in DSP's experience provides a more suitable and more workable approach than rigidly seeking on-site affordable housing on the smallest schemes; especially on developments that provide fewer than 5 new dwellings in total.

GDV – Gross Development Value; meaning the total value achieved on sale of the completed development. Might also be referred to through the use of terms meaning the same - such as 'total sales value', 'total sales revenue', 'sales receipt' 'market sales value' or similar. It is shown before the deduction of any costs or allowances and is simply the total of funds realised on the sale of the completed development.

RLV – Residual Land Value; meaning land value and referred to as a residual because it is the amount remaining after a calculation that deducts from the GDV (as above) the various costs of development (e.g. usually comprising of costs including build costs and contingencies, professional fees, site purchase costs, finance costs, developer's profit, marketing and sales expenses). The amount left over (hence 'residual') indicates the land price that can be justified by the calculation and the assumptions used within it.

RP – A 'Registered Provider' of affordable housing – usually a Housing Association or similar body, or group of Housing Associations – formerly known as 'Registered Social Landlords' ('RSLs'). Generally involved in the direct provision of affordable housing either integrated within market-led housing developments through section 106 (s.106) planning agreements working in partnership with developers / house-builders; or on their own affordable housing –led developments. Depending on circumstances, RPs may also be involved with CCC in the best use of affordable housing financial contributions collected – as considered by this report where CCC policy requires affordable housing but that may not be provided direct on-site – i.e. from smaller developments in accordance with the Council's policy 45 (as above and discussed in the report).

SPD – Supplementary Planning Document – as prepared by Councils to further guide the delivery of development and the principles as set out in the Development Plan; in this case CCC's Cambridge Local Plan 2014: Proposed Submission as amended through the Addendum to the Cambridge Local Plan Proposed Submission (July 2013) Proposed Changes Following Proposed Submission Consultation (as noted above re Policy 45) – see again: https://www.cambridge.gov.uk/about-the-local-plan-review . The Council is in the process of reviewing its Affordable Housing SPD, the previous version having been adopted in 2008.

The 2008 version and the Council's work towards a renewed Affordable Housing SPD can be viewed at https://www.cambridge.gov.uk/affordable-housing-spd . This report about affordable housing financial contributions, uses thinking and assumptions that are consistent with DSP's previous and related work on development viability for the Local Plan Review and CIL, the 'Cambridge City Council Local Plan Review – Viability; Community Infrastructure Levy Viability Assessment (February 2013), including the Supplementary Report – 'Small sites – Affordable Housing Viability' (June 2013). See:
https://www.cambridge.gov.uk/public/ldf/CIL/Cambridge%20City%20Council%20CILViability%20Study%20Final%20Report%20%26%20Appen.pdf
and
https://www.cambridge.gov.uk/sites/www.cambridge.gov.uk/files/documents/DS%20Supplementary%20Report%20Small%20Sites%20Affordable%20Housing%20Viability.pdf)

The Council has also drafted a revised version Planning Obligations SPD (see https://www.cambridge.gov.uk/planning-obligations-strategy-spd), to be used in conjunction with its CIL and Affordable Housing SPD.

VL(s) – Value Level(s) – used by DSP in its viability work for CCC and a range of other Councils to describe points within the overall range of market sales values (GDVs – as above) that are relevant in the Council's area and various localities within that. Usually expressed as a '£ /sq. m.' (£ per square metre) or '£/sq. ft.' (£ per square foot) indication that can be applied to varied dwelling floor areas and provides a more consistent and useful comparison basis for considering sales values (GDVs) and the viability impacts of those varying alongside other viability factors.

CCC – Cambridge City Council – the statutory housing and planning authority in this instance. Commissioned this document and the other related reports referred to; all carried out through close working between CCC (planning and housing functions) and DSP. CCC is also the 'Charging Authority' for the purposes of 'CIL' as above.

1 Brief introduction – purpose of this report

1.1 This note aims to supplement and build on previous work undertaken by Dixon Searle Partnership (DSP) for the Cambridge City Council (CCC) Local Plan Review Community Infrastructure Levy (CIL) viability assessment (February 2013) and Supplementary Report, 'Small Sites Affordable Housing Viability' (June 2013).

1.2 In reviewing the viability scope for residential developments in Cambridge to provide contributions towards supporting affordable housing (whether through direct on-site provision or via financial contributions), as targets, the above mentioned previous viability work factored-in assumptions to allow for the cost of these contributions.

1.3 The emphasis here is to review the way that the financial contributions might be calculated (given there are no fixed rules or guidance sources on this) and in doing so give further consideration to the level at which they could be considered for setting, based on the scope of the previous viability study assumptions and findings. This note aims to consider alternative approaches to the calculation basis used to generate the financial contributions and, from overviewing the range of potential routes and the sums those produce, to provide the Council with more information to support the development of its new Affordable Housing Supplementary Planning Document (SPD) or similar CCC guidance note on this area. The purpose of that SPD or guidance will be to inform planning applicants and the Council's discussions with them.

1.4 At the time of writing, the Council's Cambridge Local Plan 2014: Proposed Submission affordable housing policy 45 includes provisions for affordable housing required through planning obligations (to continue to be secured through s.106 agreements) as follows:

No. of dwellings	Minimum percentage of affordable housing required
2 -9 units	10%
10-14 units	25%
15 or more units	40%

'On sites capable of delivering between 2 and 9 dwellings, financial contributions towards the provision of affordable housing off-site are considered acceptable. This does not prohibit on-site provision of affordable housing on sites of this scale, but recognises that circumstances may often not allow for delivery on-site.'

1.5 The developments providing fewer than 10 dwellings are the focus for the consideration of affordable housing financial contributions, therefore. CCC has asked DSP to reconsider and put forward potential mechanism(s) (i.e. calculation methodologies) through which it might consider seeking these financial contributions, noting that for sites of 2 to 9 dwellings an on-site provision route is not ruled-out and may be appropriate. It should be noted that in respect of larger sites where in exceptional circumstances an affordable housing contribution in-lieu of on-site provision may be considered, the Council already operates principles around the differences in values created with and without affordable housing. This report does not set out to replace the approach to those larger site exceptional circumstances, which the Council expects to continue considering and, where appropriate, negotiating case by case. Instead, this report focusses on the smaller sites where a pro-active approach to seek financial contributions (but not rule-out on-site provision) is proposed by the Council; those new smaller site scenarios need to be guided.

1.6 The intention in putting forward this thinking is that all affordable housing policies should continue to be operated practically; whether around on-site provision or financial contributions to help enable provision on other sites as part of the Council's overall affordable housing enabling. In any event, the acknowledged role for negotiation is likely to be relevant in this context in our experience – where viability issues related to particular schemes are robustly and openly demonstrated.

1.7 This report is intended only to provide the Council with an indication of some of the main routes / principles that might be considered by CCC for use in calculating affordable housing contributions. It follows that none of these need to be used. Indeed there are many variations and options possible around these; including alternatives beyond the principles and ideas outlined in this report. We aim to focus on and draw from our experience as consultants in reviewing, suggesting and using in practice affordable housing financial contributions calculations. At this stage the focus is on suggesting an approach that we consider to be workable, based on a range of practice and studies which DSP consultants have led and been closely involved in; encompassing our previous, recent and current workload.

1.8 In putting this together, we have been mindful of consistency with the Council's wider evidence base. For the Local Plan CIL viability assessment and the smaller sites

supplementary report, the same principles were used. In terms of overall viability, given that the CIL charging will be fixed (non-negotiable) once the Charging Schedule is adopted, it is important that the levels of financial contributions now considered do not exceed the levels used as assumptions within that work. Again, we will come back to this in the following section as we consider some of the principles and options available for the Council's use.

1.9 At Appendix I to the rear of this report, the figures associated with the use of residual land value percentages (RLV %s) expressed as a proportion (%) of the gross development value (i.e. as a estimated market sales value total for the scheme) have been considered with respect to the Council's currently proposed CIL charging rate of £125/sq. m. The RLV %s around the key value areas (VLs) for the City – in the centre of the VLS range – do not vary considerably. DSP considers that a single appropriate RLV% could be used in the event of the Council selecting a calculation approach that uses this indication. For application City-wide our view is that this would be an RLV% of 29.9% GDV (as used in the smaller sites supplementary report); and at this level it would also suitably reflect the impact of CIL at the Council's proposed charging rate alongside the affordable housing contributions. It is important to note that, should the charging rates details for the Cambridge City CIL change, the affordable housing financial contributions mechanism would not be affected. The figures used within the selected formula could be reviewed if necessary, as may be relevant over time with changing values and costs in any event. There is no prescribed or fixed review period envisaged. The consideration of a review could be prompted by significant changes to market circumstances and/or development costs, and may be informed by the Council's monitoring of those and of the financial contributions approach in operation.

1.10 Fitting with CIL principles and based on emerging practice that DSP has been involved with, in addition we give consideration to the level of affordable housing financial contributions also being expressed as a £/sq. m rate based on the (gross internal) floor area of the market housing development generating the requirement.

2 Assumptions and outline of potential alternative methods for calculating affordable housing financial contributions

2.1 There is no Government or other formal requirement, or widely recognised guidance, as to how affordable housing contributions of this type should be calculated or set out.

2.2 In essence, the precise calculation method and accompanying text is a means to an end in that the important aspects are to arrive at a suitable figure or figures which can be clearly explained and which do not unduly affect development viability so that site supply is not restricted by the implementation of the approach. This then provides an appropriate balance with the high levels of housing need and the Council's obligation to do all possible with enabling activities that make as much progress as possible towards meeting that need.

2.3 Although there is also no strict requirement to link the contribution level to a stated proportion (%) or equivalent proportion of affordable housing, we have found that it is usually appropriate to align the requirements to a "equivalent proportion" (i.e. % target equivalent), at least in the background to considering the sum levels, because for example this helps to:

- establish a consistent basis – links to the other aspects of the affordable housing policy (as affects larger developments);
- consider the sliding-scale type approach to affordable housing requirements, and the implications of the approach;

2.4 We find that on most occasions involving developments of this scale these calculations arrive at a fraction of an affordable dwelling equivalent (the product of the total number of units in the scheme multiplied by the equivalent % target – usually of 10 – 20%, not more) and the contribution is ultimately expressed as a sum in £s. In Cambridge City's case we are working with a 10% equivalent proportion, subject, as is always the case, to the Council continuing to operate its policies in an adaptable way where necessary. It is not necessary for this report to revisit the viability implications of developing the financial contributions approach; those considerations have been reviewed in detail in the related studies.

2.5 Other considerations include our understanding that the Council wishes to implement a method which is reasonably straight-forward to explain and calculate; and not too punitive for smaller developments.

2.6 Each of the following potential methods / principles (outlined at 2.14 'A' to 'E' below) requires different inputs and assumptions/judgments. We stress that these are examples only – as guides purely to illustrate the types of calculation approaches that could be considered by the Council. This section is not exhaustive – there are many potential routes to calculating contributions; and variations on those themes.

2.7 Common to each of the potential calculation routes, and for consistent context to enable thinking about this area by considering the sums levels produced, we need to establish a basic set of assumptions on:

- market sales values (MV – market value);
- land (plot) values as an approximate proportion of those (i.e. land value as % of GDV (gross development value));
- affordable housing revenue levels ('payment to developer' / 'transfer payment' in an on-site AH provision scenario);
- build costs.

2.8 Given the currency of the evidence, and accepting that such assumptions would always move around to a degree depending on the specific timing of review, for this report we are using the CCC Local Plan Review CIL Viability Assessment basis, together with the smaller sites supplementary report, as prepared by DSP.

2.9 Therefore we are now using again the same property type and size assumptions, together with the same values (MVs / VLs / schemes revenues / GDVs as they may be referred to). This provides us with a general picture of the dwelling sizes and the MVs, as expressed through the Local Plan CIL study's range of Value Levels (VLs) as and as set out in the overview tables below for the purpose of providing us with consistent figures with which the drive the example calculations. The purpose of this is not in any way to fix the dwelling types or sizes; it is simply to help illustrate broadly a feel for the VLs when applied to various dwelling sizes. The assumed dwelling sizes are consistent with (i.e. either match or exceed) the City Council's Cambridge Local Plan 2014: Proposed Submission Policy 50 ('residential space standards') and therefore also with the work carried out to inform and support the Local Plan and Community Infrastructure Levy development and detail. The assumptions are also considered to be reflective of typical affordable homes sizes as

guided by HCA (Homes & Communities Agency) led requirements and typically adopted by RPs; and typical of ordinary new housing development that is likely to provide most affordable housing through s.106 agreements. In this context they meet or exceed the dwelling size ranges set out within the HCA's Housing Quality Indicators ('HQIs'). The Government (DCLG) has recently consulted upon 'Housing Standards' in a wide sense, so that we may see included within the outcome of that review developments in the use of space standards or guidance on these on a national basis, although the outcome could also be a locally evidenced and variable approach. More information on the consultation can be viewed at:

https://www.gov.uk/government/consultations/housing-standards-review-consultation

There the illustrative technical standards can also be viewed. The Consultation period ended on 22nd October 2013 and a ministerial statement was issued on 13 March 2014, setting out the direction that the Government wishes to take including the aim to draft regulations and technical standards by Summer 2014. The Council will no doubt wish to monitor how this develops and whether it will become necessary to adjust any aspects of its wider approach to these matters as the review outcomes become known. In the meantime, this report simply takes a practical view on illustrating the factors and comparisons that we discuss, by reference to example dwelling sizes and other factors. The principles and recommendations are unaffected by the particular assumptions noted here.

Figure 1 – Dwelling size assumptions (used purely for illustrative purposes):

Unit Sizes (sq. m)	Affordable	Market
1-bed flat	50	50
2-bed flat	70	70
2-bed house	83	83
3-bed house	96	96
4-bed house	107	125

Figure 2 – Values overview

(Market Values – MVs as expressed by the range of value levels (VLs)

Value Level	Value (£ / sq. m)	1-bed flat	2-bed flat	2-bed house	3-bed house	4-bed house	Indicative Settlement Relationship to Value Level		
VL1	**£2,500**	£125,000	£175,000	£207,500	£240,000	£312,500		**Falling Market from typical current lower-end**	
VL2	**£3,000**	£150,000	£210,000	£249,000	£288,000	£375,000	**Cherry Hinton / Kings Hedges**	**Arbury / Abbey / East Chester-ton / Romsey**	**Coleridge / West Chester-ton**
VL3	**£3,500**	£175,000	£245,000	£290,500	£336,000	£437,500	**Trumpington / Petersfield**		
VL4	**£4,000**	£200,000	£280,000	£332,000	£384,000	£500,000		**Queen Ediths / Castle**	
VL5	**£4,500**	£225,000	£315,000	£373,500	£432,000	£562,500	**Improving market from current typical / mid-range**		
VL6	**£5,000**	£250,000	£350,000	£415,000	£480,000	£625,000	**Market / Newnham**		
VL7	**£5,500**	£275,000	£385,000	£456,500	£528,000	£687,500		**Upper end (noting that some instances exceed this) / improving market higher values**	

2.10 The build costs assumptions were are follows:

- For houses - £1,036/sq. m (including preliminaries and external works, but excluding contingencies, sustainability enhancements, lifetime homes assumption, surveys, professional fees, finance and other costs).

- For smaller flatted schemes where applicable (low-rise, appropriate to small schemes) - £1,178/sq. m (same basis as above).

2.11 Where it forms part of the calculation, for comparison with other approaches an assumption of affordable housing revenue at around 50% of market value (MV) is appropriate at this level of consideration (affordable housing revenue level means

the payment made by the registered affordable housing provider ('RP' – usually a Housing Association; formerly known as 'RSL') to a developer). In practice payments made by RPs to developers can vary considerably. For affordable / social rent this could be as low as 20-40% of MV, but could be at up to around 60% MV for affordable rent in DSP's experience; for shared ownership this could be up to approximately 65-70% of MV. We commented on a similar overall range in the previous study work. 50% MV, purely for the current review purposes, provides a reasonable assumption given that the affordable housing provided on a small site is unlikely to be always in the form of rented tenure at the lower revenue levels within this overall range. In fact, were it to be provided on-site, the tendency might be towards shared ownership or similar in terms of management and marketing aspects within smaller schemes. A 50% MV affordable revenue assumptions takes a blended tenure view and is therefore an appropriate assumption for use within a formula that involves the use of a figure for that. Shared ownership or a similar tenure form would most likely play a part in any on-site affordable housing provision within smaller developments (a rigid approach based on affordable or social rent only may not be appropriate); so that any financial contribution calculation being considered should broadly reflect the developer subsidy levels that would be relevant to that flexible approach to the affordable tenure.

2.12 The development costs noted above are assumed to be factored-in alongside the Council's proposed CIL charging rate, land values assumptions, developers' profits, site acquisition, sale and marketing costs, etc. – all as per the Local Plan CIL study and supplementary report bases. The purpose of this report is not to re-run viability scenarios, but to consider further the affordable housing contributions sums detail and levels with the assumptions used for and outcomes of the Local Plan CIL study and supplementary report.

2.13 Looking at a very high level at house price trends since carrying out and completing the CIL viability assessment, the Land Registry Index latest available figures for Cambridgeshire January 2014 indicate that the index had increased by around 3.3% (DSP calculation) from 277.4 to 286.69 since February 2013 (the point of completing the Local Plan CIL study). However, consistent experience shows the market in Cambridge City generally to significantly out-perform the wider County area in terms of house prices and trends in those. We reviewed a range of reporting that reinforced this view and suggested Cambridge House prices ran overall at an annual circa 10% increase at an average price in excess of £350,000 (compared with around 7% and approximately £240,000 nationally). Within the worked examples provided below (at

2.14 – for illustration) we have used for now and purely for illustration VL3, which at sales values of £3,500/sq. m (approx. £325/sq. ft.) represents lower-end of the mid-range values for new-builds in the City - see the table at Figure 2, section 2.9 above. This is because if the Council seeks to apply a simple "one size fits all" type approach to these financial contributions across the City, this will need to be workable across a range of scenarios; including with the lower values where applicable. A check of the latest house price trends information, as widely reported in the media, suggests that, at the least, viability positions and the workability of the previously assessed (2013) and considered affordable housing positions is highly unlikely to have deteriorated.

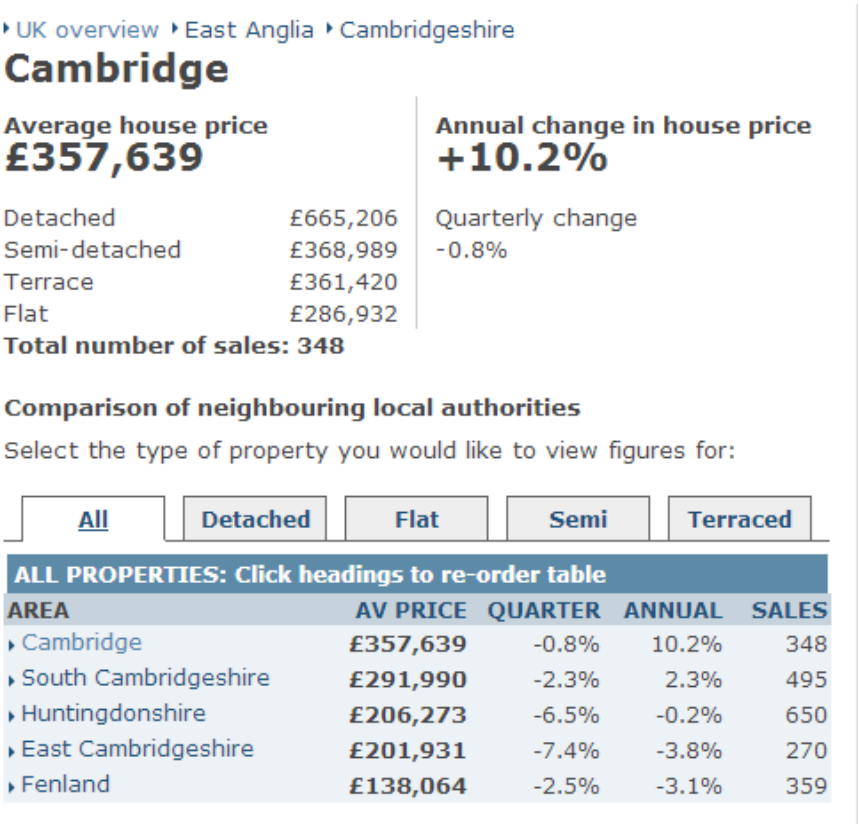
Figures 3a, b and c (follow) - Land Registry House Prices Index (3a), BBC House prices and Zoopla reporting extracts below – In the Land Registry case figures are from a Cambridgeshire view only (noting above comments about Cambridge City relative trends). Note that this information relates to the overall market offer, for indications generally of positive house price trends only, rather than to the local new-build offer:

Figure 3a

Month	Average price (£)	Monthly average	Yearly average
February 2013	178,663	0	1.6
March 2013	178,325	-0.2	1.7
April 2013	178,881	0.3	1.5
May 2013	179,217	0.2	1.5
June 2013	178,841	-0.2	1.2
July 2013	180,555	1	1.4
August 2013	181,465	0.5	1.7
September 2013	181,893	0.2	2
October 2013	183,850	1.1	2.9
November 2013	183,376	-0.3	3.1
December 2013	184,025	0.4	3.2
January 2014	184,647	0.3	3.3

(Source – Land Registry House Prices Index January 2014)

Figure 3b



UK overview ▸ East Anglia ▸ Cambridgeshire

Cambridge

Average house price
£357,639

Annual change in house price
+10.2%

Detached	£665,206
Semi-detached	£368,989
Terrace	£361,420
Flat	£286,932

Quarterly change
-0.8%

Total number of sales: 348

Comparison of neighbouring local authorities

Select the type of property you would like to view figures for:

All | Detached | Flat | Semi | Terraced

ALL PROPERTIES: Click headings to re-order table

AREA	AV PRICE	QUARTER	ANNUAL	SALES
Cambridge	**£357,639**	-0.8%	10.2%	348
South Cambridgeshire	**£291,990**	-2.3%	2.3%	495
Huntingdonshire	**£206,273**	-6.5%	-0.2%	650
East Cambridgeshire	**£201,931**	-7.4%	-3.8%	270
Fenland	**£138,064**	-2.5%	-3.1%	359

(Source – BBC House Prices - http://news.bbc.co.uk/1/shared/spl/hi/in_depth/uk_house_prices/html/12ub.stm)

Figure 3c - Zoopla.co.uk - provides a similar overall picture on pricing and a lower house price increase view of the very buoyant local housing market (see below).

Area guide for Cambridge, Cambridgeshire

Cambridge Zed-Index
£338,218
stats for All properties

Value change
£14,671 (4.53%)
from 1 year ago

Avg. price paid: **£325,731**
No. of property sales: 3,404
over Last 1 year

Avg. asking price in Cambridge: £398,535
No. of properties for sale in Cambridge: 583

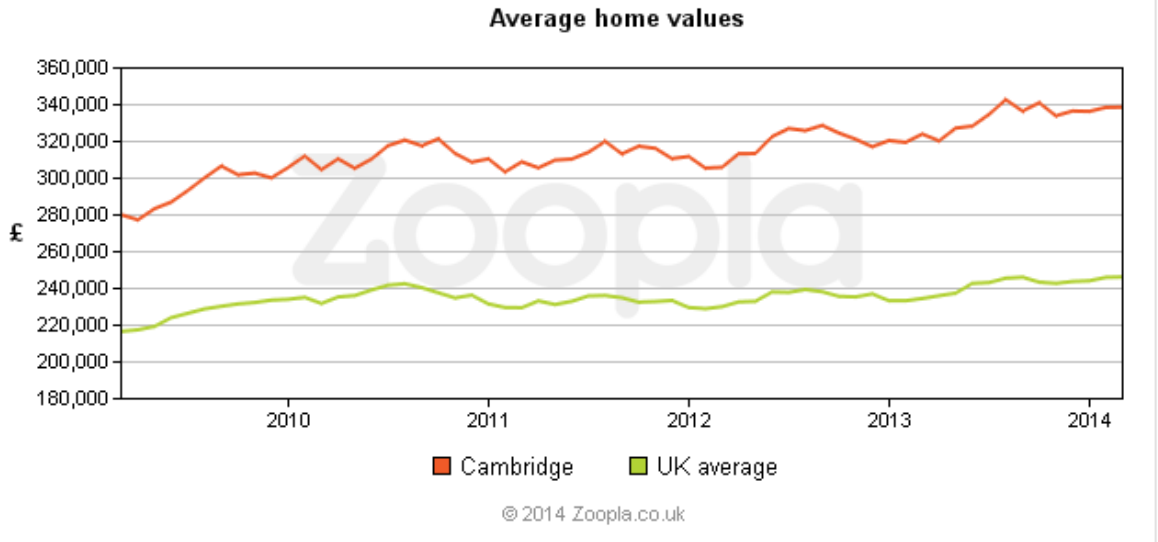
Avg. asking rent in Cambridge: £1,189 pcm
No. of properties to rent in Cambridge: 623

Property value data/graphs for Cambridge, Cambridgeshire

Property type	Avg. current value	Avg. £ per sq ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	**£460,503**	£300	4.0	£444,235
Semi-detached	**£305,789**	£303	3.2	£300,286
Terraced	**£292,994**	£333	2.9	£287,465
Flats	**£223,785**	£366	1.8	£254,265

Average values | Value trends | Value ranges | Home values

Compare to another area



Note: The information above, including at Figures 3a, b and c in no way replaces the research and assumptions applied for the main 2013 viability study work (as translates into the VLs also used in this report); it merely indicates the positive local market and the recent / current market trends that, on the whole, are underpinning viability here.

2.14 **Outline of potential principles / alternative methods for calculations**

2.14.1 **POTENTIAL METHOD 'A' – DSP main suggestion for consideration - Land value based contribution**

2.14.2 This is based on the land subsidy (cost benefit) that would be provided on-site if the developer were reimbursed reasonable build costs for the on-site affordable homes provision but had to make the land for the affordable housing (relevant plot(s) or, in the case of a financial contribution, part plot(s)) available to the RP / Council at nil cost. This is a method which the authors of this report have devised and supported. It uses principles that are in operation at some level in other local authority areas; either through SPD or through the use in practice of an approach that includes or is informed by this or by very similar thinking. Direct examples are Mole Valley District and Elmbridge Borough. Similar principles have also informed the approaches that DSP has been involved in at Reigate & Banstead BC, Chiltern DC and others; where this has either been considered as part of wider strategic level viability studies or more directed consideration has also been given to affordable housing contributions, as here in Cambridge. This potential method involves estimating broadly the value of the land plot(s) or part plot(s) on which affordable housing would be provided were it being provided on-site.

2.14.3 To date, when using this approach we have provided a land value RLV %. This, as above, is a guide, and is the approximate proportion of the GDV that represents the land value available after normal development costs have been met (outline of costs areas as noted at 2.10 and 2.12 above). With reference also to Appendix I (also found in the June 2013 report), the RLV% put forward for use on an averaged basis and potential application across Cambridge City is 29.9%. This could be rounded to 30% for simplicity. In practice, and as can be seen at Appendix I, it also varies by VL so that variety could also be reflected in the Council's approach ultimately adopted if more complexity were accepted. Here the 'RLV' refers to Residual Land Value. It is arrived at by carrying out a series of small site appraisals using fairly simple residual land valuation and on the basis of schemes providing no affordable housing on-site.

2.14.4 To this broad land value estimate, we add a 15% uplift. This is to reflect a contribution that the RP / Council normally also benefits from (also costs the developer) in the scenario of the developer being reimbursed for reasonable build costs; because the developer will also have committed expense to make the site available and ready for development – i.e. acquisition and servicing costs. It is reasonable to consider that an allowance should be made for these costs, again to

"replace" the land value and related subsidy that that would have been provided in an on-site affordable housing scenario. We have found that generally this principle has been accepted and has provided a reasonable approach as part of applying the principles discussed here.

2.14.5 The Affordable housing equivalent proportion (% target) is then applied, and often these types of scenarios generate contributions that are equivalent to less than a single full affordable dwelling. Whilst it should be noted that the policy approach also leaves open the possibility of on-site provision, the contributions approach copes well with the fractions of dwellings / numbers rounding difficulties and practical issues that tend to arise with seeking on-site provision integrated within the smallest schemes (certainly those of fewer than 5 dwellings in DSP's experience). In Cambridge City's case, the approach is proposed for application to sites providing 2 to 9 dwellings at an equivalent proportion of 10% AH, in accordance with our June 2013 report. Nevertheless, regardless of the adopted approach details, the Council will need to continue to negotiate where genuine and clearly demonstrated viability issues exist. In this respect our understanding is that the Council is also giving consideration to including within an Affordable Housing SPD further information on such points.

2.14.6 Potential method A - example scenario:

Step1 (market sales value (GDV) starting point):

2 unit market scheme:
1 x 4 bed house at 125 sq. m @ CIL study VL 3 i.e. MV (market value) £437,500, and
1 x 3 bed house at 96 sq. m @ VL 3 i.e. MV £336,000

GDV total therefore £773,500 (based on 221 sq. m new housing).

Step 2 (estimate the land value associated with that by using the RLV% calculation, then add acquisition and servicing allowance):

Residual land value (RLV) before affordable housing say 30% of MV (guide – as per 2013 study work for consistency; rounded from 29.9% for ease of illustration here. See also Appendix I at the end of this report).

MV (sale value of 2 houses) £773,500 x 30% (0.30) = market plot value estimate (with no affordable housing) £232,050.

Add 15% (£34,808) for land acquisition & preparation costs = £266,858.

Step 3 (consider the affordable housing (AH) % and application of the sum):

Assuming a 10% equivalent proportion = 0.1 x £266,858 = £26,685 financial contribution level.

= contribution equivalent to £120.74/sq. m (say £120/sq. m).

The approach could then be altered by value level, so that switched to a VL4 assumption (sales values (MV) of £4,000/sq. m) for example, the above would produce instead:

MV £884,000 x 0.30 (RLV %) = plot value estimate £265,200.

Add 15% = £304,980

x 0.1 (10% equivalent AH) = £30,498 financial contribution level. Produces a contribution equivalent to £138/sq. m.

2.14.7 The above example is based on straight use of the market house floor area (unadjusted). Instead, CCC could consider adjusting the calculation slightly so that the VL is multiplied by the affordable housing unit size assumption (based on the dwelling size(s) that would be suitable in an on-site provision scenario) rather than using the market property size. The table at Figure 1 above provides the two sets of size assumptions (we reiterate that they are simply assumptions and could change without effecting the principles here, or the overall recommendations). Either way, the approach should provide a proportional effect. Based on experience of this calculation approach in operation in other Council areas and given the potentially large sums that could arise from the direct use of the market floor areas within some schemes, however, DSP's recommendation (if this or a similar calculation approach is selected) is to consider the use of the appropriate affordable unit sizes rather than applying straight to the market housing floor areas. On this point, it should be

remembered that this is about fairly reflecting the cost of suitable affordable housing provision as would otherwise have been sought on-site had that been practical. Affordable homes need to fall within certain size ranges. This is to ensure that appropriate space standards are met and yet also make sure that they can be made available at affordable rents / shared ownership prices because they do not cost too much to construct; the sizes are selected based on an optimal mix of these requirements and the homes should not be over-provided in terms of sizes that drive excessive cost. An approach to secure financial contributions, rather than direct provision, should also follow these principles and should therefore seek broadly equivalent levels of subsidy rather than be viewed potentially as a "tax" on value that departs from the principles that would be applied on-site. This works both ways, as it is also possible that for some smaller dwelling types the affordable homes size expectations (for the calculation) may well exceed the sizes relevant to the market provision. These relationships will vary, but this link back to an equivalent on-site approach should be kept in mind in order to achieve a more proportionate and consistent approach.

2.14.8 For illustration, if we change just the unit size within the calculation so that the assumed property size is adjusted to the AH unit size (e.g. reflecting say a 107 sq. m 4-bed affordable dwelling size, compared with the 125 sq. m market size in this example), then the contributions above indicated in £/sq. m terms applied to the market floor area fall to approximately:

- £111/sq. m at VL3;
- £127/sq. m at VL4;

  …..and for other higher VLs within the Cambridge City range:
- £143/sq. m at VL5 (£4,500/sq. m);
- £158/sq. m at VL6 (£5,000/sq. m);
- £174/sq. m at VL7 (£5,500/sq. m).

(The above bullet points show the equivalent figures to those at 2.14.6 but this time following adjustment for the use of affordable unit sizes to produce the GDV within the formula. The calculation commences with the affordable unit sizes (in this case 203 sq. m total in place of 221 sq. m) to produce the MV and then the land value estimate; the result then still being considered against the market sized dwellings at 221 sq. m. It can be seen that this slightly moderates the scale of financial contribution in this illustrative example).

2.14.9 The tables below provide the full range of potential method A calculations as used in the CIL viability study – based on the market housing floor area assumptions (Figure 4) and on the adjusted to affordable alternative basis (Figure 5) as follows:

Figure 4 (below) – Potential method 'A' (land value based) affordable housing financial contributions indications – unadjusted – market unit sizes assumptions based.

Scenario	Total Floor Area (market unit size - unadjusted)	Value Level (VL - as LP CIL study)	Value (£/sq. m)	Market Value (MV / GDV)	Affordable Housing Contribution	Affordable Housing Financial Contribution (Viewed in £/sq. m of market accomm.)	Average (£/sq. m based on market floor area)
2 Units: 1 x 4B House; 1 x 3B House @ 10% AH FC	221	VL1	£2,500	£552,500	£19,061	£86	£138
		VL2	£3,000	£663,000	£22,874	£104	
		VL3	£3,500	£773,500	£26,685	£120	
		VL4	£4,000	£884,000	£30,498	£138	
		VL5	£4,500	£994,500	£34,310	£155	
		VL6	£5,000	£1,105,000	£38,123	£173	
		VL7	£5,500	£1,215,500	£41,935	£190	
4 units: 4 x 3B Houses @ 10% AH FC	384	VL1	£2,500	£960,000	£33,120	£86	£138
		VL2	£3,000	£1,152,000	£39,744	£104	
		VL3	£3,500	£1,344,000	£46,368	£120	
		VL4	£4,000	£1,536,000	£52,992	£138	
		VL5	£4,500	£1,728,000	£59,616	£155	
		VL6	£5,000	£1,920,000	£66,240	£173	
		VL7	£5,500	£2,112,000	£72,864	£190	
5 units: 2 x 2B Houses; 3 x 3B Houses @ 10% AH FC	454	VL1	£2,500	£1,135,000	£39,158	£86	£138
		VL2	£3,000	£1,362,000	£46,989	£104	
		VL3	£3,500	£1,589,000	£54,821	£120	
		VL4	£4,000	£1,816,000	£62,652	£138	
		VL5	£4,500	£2,043,000	£70,484	£155	
		VL6	£5,000	£2,270,000	£78,315	£173	
		VL7	£5,500	£2,497,000	£86,147	£190	

9 units: 4 x 2B Houses; 5 x 3B Houses @ 10% AH FC	646	VL1	£2,500	£1,615,000	£55,718	£86	£138
		VL2	£3,000	£1,938,000	£66,861	£104	
		VL3	£3,500	£2,261,000	£78,005	£120	
		VL4	£4,000	£2,584,000	£89,148	£138	
		VL5	£4,500	£2,907,000	£100,292	£155	
		VL6	£5,000	£3,230,000	£111,435	£173	
		VL7	£5,500	£3,553,000	£122,579	£190	

Figure 5 (below) – potential method 'A' (land value based) affordable housing financial contributions indications – adjusted – i.e. affordable unit sizes assumptions based.

Scenario	Total Floor Area (market)	Total Floor Area –adjusted route (Assuming AH unit sizes)	Value Level (VL - as LP CIL study	Value (£/sq. m)	Assumed Value based on market floor areas	Equivalent Affordable Housing Value (AH floor areas based)	AH Financial Contribution - Adjusted for Affordable Housing House sizes (floor area) assumption	AH units sizes adjusted Affordable Housing Contribution (Viewed in £/sq. m of market accomm.)	Average (£/sq. m)
2 Units: 1 x 4B House; 1 x 3B House @ 10% AH FC	221	203	VL1	£2,500	£552,500	£507,500	£17,509	£79	£127
			VL2	£3,000	£663,000	£609,000	£21,011	£95	
			VL3	£3,500	£773,500	£710,500	£24,512	£111	
			VL4	£4,000	£884,000	£812,000	£28,014	£127	
			VL5	£4,500	£994,500	£913,500	£31,516	£143	
			VL6	£5,000	£1,105,000	£1,015,000	£35,018	£158	
			VL7	£5,500	£1,215,500	£1,116,500	£38,519	£174	

Note: Figures 4 & 5 source – DSP, using method 'A' formula.
In the case of the particular unit size assumptions used, as the 2 and 3-bed house sizes are the same for both market and affordable homes, for the 4, 5 and 9 unit examples there is no difference between the Figure 4 content and the adjusted Figure 5 version – hence, duplicate figures not shown. In practice, in some cases the 3+ bed market units will be larger than affordable so that the floor area adjustment (use of affordable unit sizes to produce the GDV within the formula) would reduce the financial contribution figures as seen comparing the 2 unit examples between Figure 4 and Figure 5.

2.14.10 In summary, over the central most relevant part of the VLs range (VLs 3 to 5 – see Figure 2 above), potential method 'A' produces affordable housing financial contributions in the range approximately £111 to £143/sq. m based on a 10%

equivalent target and assuming the use of the affordable unit floor areas to drive the GDV starting point of the formula.

2.14.11 Irrespective of the final positions, the selected approach should be monitored and kept under review in any event. This applies to of any of the alternatives discussed. In any event, we suggest that the Council monitors the market conditions and values trends that are running alongside its operation of the approach to affordable housing financial contributions and affordable housing in general; so that there is a wider appropriate context for the review of how the approach has been performing over time rather than data built-up in an isolated way. Our understanding is that the Council would monitor the outcomes of the SPD along with its annual monitoring of delivery of the Core Strategy policies.

2.14.12 **Pros – potential method A:**

- There are examples in operation, which are providing important additional affordable housing enabling funds;
- Relates well to (is consistent with) residual land value appraisals basis of the Local Plan CIL or similar development viability study and can be based on same key figures with the formula;
- Also derived from on-site affordable housing thinking;
- Potential to be better understood by landowners and developers compared with some alternative mechanisms (see the following sections for examples);
- Links better to cost of affordable housing provision, particularly where on-site AH policies seek or encourage nil cost land / discounted land or equivalent subsidy levels;
- Avoids the need to understand and keep under review the affordable housing revenue level aspect of the above calculation (for example as is required in potential method 'B' – see below);

- Applied as above, the approach should inform the calculation of an appropriate level of contributions to inform site-specific progression, and where necessary discussion, of developments.

2.14.13 **Cons – potential method A:**

- Can produce large sums from a viability perspective - e.g. if the equivalent AH % is set too high or the RLV % element of the "formula" is too high (subject to how the calculations are applied and negotiated where necessary in practice). The need for discussion and practical application, as may be needed, is acknowledged. This applies as a general principle regarding financial contributions, as it does with on-site affordable housing provision. Following its viability review work, DSP previously recommended using an affordable housing equivalent proportion of not more than 10% for 2 to 9 units, which is used as the basis for this report.

- Needs guiding and (ideally) updating periodically – which, as with most methods, may not be considered straight-forward by some / may need to be considered resourcing wise;

- Again, needs to be carefully judged re impact - % equivalent targets being the main point here;

- Might be viewed as complex by some (but as also applies in the case of other methods);

- As with method 'B' below, has the potential to secure large sums, but could require frequent negotiations if set at too challenging a level.

2.14.14 **POTENTIAL METHOD B - Market revenue less affordable housing revenue level**

2.14.15 This is one of the more common principles applied in the calculation of affordable housing contributions more generally. However, it may be best suited to larger sites where, exceptionally, on-site affordable housing is accepted as unworkable or where an alternative to that – e.g. potentially in place of part of the on-site requirement, is accepted following robust justification and detailed consideration

with the Council. The thinking involves comparing the on and off-site affordable housing routes. Once a developer no longer provides an on-site affordable home, the scheme revenue is increased; the difference being the gap between the market sale price (revenue level) and the affordable housing revenue level. There is usually a significant gap between that and the market sale level of revenue (as noted at 2.11 above, and this is at the heart of the viability impact that affordable housing has. Note that the use of an AH revenue assumption of greater than 50% MV would narrow the gap (and therefore reduce the AH financial contribution compared with the below); and the converse would apply with a lower AH revenue level (increased gap from the MV and therefore increased financial contribution).

Example:

4 x 3 bed houses of 96 sq. m selling at say (VL3) £3,500/sq. m

= £336,000 Market value (MV) each.

Less affordable housing revenue level @ say 50% MV = £168,000 each

Produces an affordable housing contribution per whole dwelling equivalent of £168,000.

4 dwellings x (say) 10% equivalent proportion = 0.4 dwelling x £168,000 = £67,200 contribution.

£67,200 / 4 - equates to a contribution of £16,800/dwelling.

= contribution equivalent to £175/sq. m

2.14.16 **Pros – potential method B:**

- Derived from on-site affordable housing thinking;
- There are examples in operation, although more usually in respect of financial contributions in-lieu on larger schemes where agreed on an exceptional basis instead of on-site affordable housing;
- May be perceived as less complex than potential method 'A'.

2.14.17 **Cons – potential method B:**

- Whilst it may appear less complex than method 'A', that may well not be the case – it requires understanding of affordable housing revenue as well as a clear MV setting basis unless a simple overview approach such as our VLs and 50% MV revenue assumption are used;

- Therefore potentially needs detailed guiding and updating;

- Potentially some criticism because it can be viewed as seeking to extract value gained by removing the requirement off-site, rather than being subsidy (affordable housing cost) based;

- Potentially produces a viability impact too great to be workable across the board in the Cambridge context, unless applied at a low equivalent proportion of affordable housing (e.g. possibly linked to the use of a lower range VL to ensure workability in locations of relatively low value);

- Could relate better to negotiating start point for any larger developments where, exceptionally, a partial or full alternative to on-site provision is agreed as appropriate in the circumstances.

2.14.18 **POTENTIAL METHOD C - Straight % of Market Value (MV) of appropriate dwelling type(s)**.

2.14.19 Amongst our work for a wide range of local authorities, we have come across this approach albeit in a limited way. The method sought to simplify the calculation. The example we reviewed sought AH financial contributions (for each affordable dwelling sought in-lieu of on-site provision) based on 20% of an average 2 bed house (MV) price in the particular district. The thinking was that that type of property represented the typical type of property most in affordable housing need. The 20% factor appeared to be arbitrary, but could be related to the land value or to another element of the cost of provision, amounting to a judgement about the subsidy level that would appropriate to secure.

Example:
As above, say MV of £336,000 (96 sq. m house at VL 3) X 20% = £67,200 contribution per whole dwelling.

Based on 10% AH i.e. applied to 0.4 dwellings from an example scheme of 4 total = contribution equivalent to £26,880 total; £6,720 per dwelling = £70/sq. m

2.14.20 **Pros – potential method C:**

- Simpler to describe and guide than potential methods 'A' and 'B' above, providing that the base value is set, updated and not challenged; and also that the applied % is readily settled.

2.14.21 **Cons – potential method C:**

- The sums produced, and therefore their impact, can be highly variable. The impact can be too large, but the route could also produce inadequate looking sums - depending on how it is applied;

- Sums and therefore viability impact not proportional in any respect unless applied in a more complex way which varies the approach to include either standard contribution levels for a variety of dwelling types (more proportional) or links the approach to the site specifics in terms of dwelling types and values (potential to be fully proportional);

- If linked to site specifics, requires some level of valuation / house price agreement or basis;

- Requires regular updating if based on a standard dwelling type or types, or site specific detailed input on each occasion if approached in that way;

- Appears to rely on some level of arbitrary assumptions setting, rather than assumptions setting based in and consistent with other evidence base work.

2.14.22 **<u>POTENTIAL METHOD D</u> - "Grant replacement" or grant related view – relate or equate the contribution to the amount of public subsidy (grant) that might have been available / be available.**

2.14.23 This is an approach that we have seen used, but not on any regular basis recently given that the industry now has strong nil-grant starting point assumptions to work with. Nevertheless, it is still referred to and in some cases used as a form of marker for gauging what a financial contribution might achieve (i.e. by considering, perhaps alongside other methods, roughly how much subsidy needs to be provided to secure an affordable dwelling).

2.14.24 This might have produced a per whole dwelling sum of circa £60,000-£70,000 being of the order commonly secured for social rented affordable homes in previous funding regimes (HCA Affordable Housing Development Programme 2008-11; but noting large variances by location, scheme, dwelling type, funding cycle point, etc.). It would need to be allied to a target proportion (equivalent) approach as with potential methods 'A' and 'B' above, producing (based on £70,000 per dwelling and 10% target) say 0.4 x £70,000 for the same scenario of 4 dwellings (e.g. as at methods 'A' and 'B' above = £28,000; or £7,000 per dwelling.

= contribution equivalent to say £73/sq. m. approx.

2.14.25 **<u>Pros – potential method D</u>:**

- Simplicity in stating a figure and perhaps reviewing it annually; on an average / typical unit or per person housed basis.
-

2.14.26 **<u>Cons – potential method D</u>:**

- Information for updating basis may be inconsistent / stretched over time – could look at indices or similar, but becoming quite theoretical;

- Arguably has a low level of current relevance - this route not analysed further for this reason.

2.14.27 **<u>POTENTIAL METHOD E</u> - Affordable housing provision / build cost based - Variations based on similar principles to potential method B above**

2.14.28 It is possible to devise calculations that have the potential to be more reflective of affordable housing cost; rather than looking at value gained by the developer through not providing it on-site. However, such calculations can get complex and require a greater levels of input, updating and discussion. The following are just examples and, overall, are unlikely to be suitable in our view, given our understanding of the Council's aims for relative simplicity on these matters. Therefore we will not dwell in detail on these for now, although we could come back to them in discussion with the Council subsequently if required / preferred.

For example**:**

i. **MV less profit and RP payment** (profit @ 20% Gross Development Value - GDV) – Same 4 no. 3-bed houses scenario at VL3.

E.g. MV £336,000 – (£336,000 x 0.2 profit) - £168,000 =
So, £336,000 - £67,200 - £168,000 = £100,800.

x 0.4 dwelling (based on 10% AH from 4 again) = £40,320

Or, divided by 4 = £10,080 per dwelling; equivalent to £105/sq. m.

ii. **Build plus land cost, less RP payment**
[Build: 96 sq. m @ say £1,036/sq. m base plus say 25% allowances (say for this example <u>only</u> £1,295/sq. m all in); land at say 30% MV (as per RLV % i.e. £336,000 x 0.30); assumed RP payment @ 50% MV (£168,000)]

E.g. Say Build @ £124,320 plus land @ £100,800 = £225,120
Less RP payment of £168,000

= £57,120 per whole dwelling contribution.

10% equivalent AH proportion x 4 dwellings = 0.4 dwelling = £22,848.

This equates to £5,712 per dwelling (indicative only; components of calculation approximated for illustration here – e.g. build costs and other elements high level assumptions).

= contribution equivalent to approx. £60/sq. m.

iii. **Build cost gap (left by any short-fall from AH revenue) plus land cost**

We have seen some authorities seeking affordable housing contributions based on a significant contribution to land and build costs.

Although in the above examples we have assumed AH revenue at 50% MV, which is usually a reasonable overview assumption / proxy bearing in mind a mix of affordable housing tenure, in practice this could be as low as 30-35% MV if a more specific approach to calculations were adopted.

As noted at 2.11 and 2.14.16 above, this could be a key point with all such mechanisms – as the affordable housing revenue assumption decreases and/or market value increases, any financial contribution sums based on the gap between the two can become very large. Affordable housing revenue much below 50% MV would leave a shortfall in funding the build costs in many cases.

For example, with affordable housing revenue of 35% MV, this calculation would produce a revenue shortfall of say 65% MV.

Looking at 35% MV, per unit the affordable housing revenue of say £117,600 (£336,000 x 0.35) falls short of the total build cost of say £124,320 (as at 2.14.29 ii – method 'E' - above) by approximately £6,720. That level of subsidy added to a further say 30% MV for land (£100,800 – without any fees / add-ons for this brief example) produces total subsidy of at least £107,520 required per whole affordable dwelling. Multiplied by the 0.1 x 4 dwellings again this would produce a contribution across the scheme of £43,008; or £10,752 per dwelling.

This equates to approximately £112/sq. m at 10% affordable housing equivalent.

We can also see from this approach that the potential method 'B' calculation (market sales value minus affordable housing revenue) could produce a greatly increased contribution level with the latter assumed at 35% MV in place of 50% MV.

Under that method, with these MV assumptions, the gap would be £218,400 rather than £168,000; approximately £50,000 larger. Multiplied by the 0.4 this means a contribution of about £20,000 across the 4 unit scheme - or £5,000 per dwelling - larger. This indicates that based on a 10% equivalent proportion the fall in AH revenue to 35% MV adds approximately £52/sq. m to the contribution level; takes it up to approximately £227/sq. m compared with the £175/sq. m indication at potential method 'B' discussion above.

2.14.29 **Pros – potential method E variations:**

- Potential to produce more workable contribution levels in some instances but depending on the approach and figures used (e.g. varying MV%s for AH revenue, driven by tenure and affordability assumptions);

- However, arguably provides scope to produce a more appropriate outcome than the straight MV less AH revenue approach (potential method B), particularly as the MV minus AH revenue gap increases (as shown in the last example above).

2.14.30 **Cons – potential method E variations:**

- More complex still;

- Potential or even likely debate over which cost elements to allow for in the calculation.

2.14.31 **<u>POTENTIAL METHOD F</u> – align the contribution to the affordable housing build costs**

Same example scenario of 4 x 96 sq. m dwellings:

4 x 0.1 (i.e. 10% AH equivalent proportion assumed again) = 0.4 dwelling.

0.4 dwelling x 96 sq. m = looking to fund 38.4 sq. m affordable build at say £1,295 /sq. m all-in (as at 2.14.29 ii – method 'E' - above)

38.4 sq. m x £1,295/sq. m = £49,728 financial contribution across the scheme; equivalent to (divided by 4) £12,432 per dwelling or to approximately £130/sq. m.

Overview of above and points to consider

2.15 The above is not an exhaustive review by any means. It illustrates that there are many ways in which affordable housing contributions might be calculated.

2.16 Several of the methods in use could be regarded as complex, and they are all likely to require potentially significant resourcing in terms of updating, negotiations and the like.

2.17 In our experience such calculations are essentially a means to an end. Ultimately what tends to matter more is seeking and agreeing an appropriate, proportionate and equitable level of contribution from schemes. In our previous work as consultants for local authorities on these aspects, solutions have often been found successfully through negotiation. This has sometimes included varying the mechanism and/or figures used within a formulaic approach according to scheme specifics and viability outcomes (regardless of the particular mechanism in place). Nonetheless having an adopted mechanism that relates well to the Council's other thinking and wider evidence base provides a clear basis as a starting point for development management and affordable housing enabling considerations. While it depends largely on the particular local authority approach, in our experience, therefore, a specified mechanism often acts simply (but very positively) as a starting point or framework and provides clarity rather than necessarily being the precise route through which final contributions are rigidly calculated and agreed.

2.18 In practice there tends to be a number of ways of reaching and justifying particular figure(s), as can be seen from the above example workings. Usefully, however, from the above a number of outcomes can be seen – covering a range of financial contribution levels equivalent to approximately £60 to £175/sq. m overall in the main. Some assumptions combinations are considered to produce contribution figures which may be too high in some cases, as we have commented. An appropriate contribution level for seeking is likely to be around the middle of this range, best represented by the £120 to 140/sq. m area of these figures potentially (for example see Figures 4 and 5 at 2.14.9 above – method 'A' - applied across the market housing floor area).

2.19 **DSP's suggestion to Cambridge City Council is that method 'A' here (a land value based approach to calculation as used in the DSP June 2013 smaller sites supplementary report) is considered for use in informing its affordable housing contribution levels sought as part of the more comprehensive affordable housing approach that the draft Local Plan (review) seeks to set out – Policy 45.** The principles that this is based upon have been put to and are also in use to positive effect by other Councils. Linked to this, if pursued, DSP recommends that this approach be used in conjunction with (i.e. is adjusted for) the appropriate affordable unit sizes rather than applied straight to the market units floor area of a scheme. This is because with increasing size of market dwellings, the generated AH financial contributions can get very large and become disassociated with the type of affordable housing provision that would normally be sought on a development. The suggested consideration of a link to the affordable dwelling(s) floor area would in our view help to maintain a more proportional approach that better reflects equivalence to an on-site affordable housing scenario.

2.20 If progressed for SPD / similar guidance drafting purposes initially, this need not tie the Council to that method or any other specific approach that emerges following the Council's further Plan and SPD development work. It can be seen that a number of approaches are capable of producing similar appropriate contribution levels, subject to the details used in setting them up. This in itself provides a useful wider check of the methodology in terms of the figures it produces, as set out above.

2.21 The formula (and most likely an alternative approach if selected in preference) is suggested for use with not more than a 10% equivalent AH target; a recommendation continued and reinforced from our previous work.

2.22 The Council could express the targets/ sums requirements differently, however. Thinking of the CIL type principles, DSP has done some work elsewhere looking at fixing the level of affordable housing financial contributions – i.e. at a £ / sq. m rate or £ per dwelling level. Using similar principles here, we have seen that it is possible to derive these approaches and figures from the calculation principles and formulae as per the examples included above. The methodology behind the £ contribution level / rate would need to be shown and the formula figures periodically updated etc., all as above. A £ / sq. m rate has the potential to be proportional (like CIL), however a £ per dwelling contribution would need to be varied by dwelling type / size in order to remain proportional. So the attraction of a simple approach to the involved stakeholders and "users" of the contributions approach (landowners / developers / CCC planning, housing and administrative teams, etc.) still needs to be considered with and accompanied by supporting background information and explanation.

2.23 If pursued by the Council, the use of the formula should suffice as a basis. It can be used in various ways; for example:

- at a single selected VL, applied for a simple approach City-wide or by aligning;
- with reference to the closest representative VL of a site-specific case;
- simply by setting out the (method 'A') formula for use with site specific figures.

2.24 In any event using this approach (potential method 'A' calculation steps as described at report sections 2.14.1 to 2.14.9 above), and looking at the range of figures set out in Figures 4 and 5 there, we suggest that if the Council is to consider expressing its affordable housing contributions levels in a £/sq. m format then this / these should be based on mid-range DSP figures of not exceeding say £120 to £140/sq. m applied to the market housing floor area within the planning proposal.

Other points

2.25 To expand a little on 2.23 above, with each of the potential calculations approaches, and with any others, it is possible to operate these (usually with increasing degrees of complexity involved moving down the following list) either by:

- aiming for a "one size" fits all type approach and stating, for example, a £/sq. m contribution rate to be applied to all scenario, City-wide (across the locations and values range);

- using a formulaic approach rather than a £/sq. m approach, but guided by the VLs or aligned to particular localities, as well as to the varying development / unit types, to generate a range of contribution sums that best fit what is considered to be the most typical range of circumstances;

- using a more limited range of guide inputs to the formula (e.g. perhaps just the RLV % (put forward at 30% GDV, but subject to periodic review) together with the % uplift for site acquisition / servicing (put forward at 15%), and leave all other inputs for the site-specific level;

- relying entirely on a site-specific approach – i.e. use the selected approach / formula as a blank framework - with no pre-set assumptions / inputs / guides. This essentially means looking at the sales valuation, land value, affordable housing revenue, build cost or other assumptions in a bespoke way with detailed consideration given to particular input and influence on the scheme. This may be necessary in scenarios where the developer needs to prove insufficient viability to support the full contribution in any event, but a site-specific level of detail approach could be used universally.

2.26 There is no single right or only appropriate approach to this. The Council will need to assess the right one for it having considered the opposing tensions of:

- the need to do all possible to secure maximum achievable enabling contributions towards meeting the severe affordable housing needs in such an area of very high house prices, and:

- development viability – the need to ensure that schemes continue to come forward, linked to the practical application of the approach rather than a rigid one that allows no room for flexibility by all parties involved in delivering development.

Viability considerations

2.27 As with the % targets for on-site affordable housing (as likely to be firmly sought from developments 10 or more dwellings in accordance with Cambridge Local Plan 2014: Proposed Submission policy 45, as amended through the Addendum to the Cambridge Local Plan Proposed Submission (July 2013) Proposed Changes Following Proposed Submission Consultation), any approach to seek affordable housing financial contributions would also need to be regarded and operated, where necessary, as a target.

2.28 This means that in some cases it may be necessary to accept reduced contributions compared with the formula derived levels or to accept a nil contribution where a scheme is found to be struggling for viability in any event. In these cases, DSP's experience so far is usually that these schemes are problematic or marginal before considering AH contributions and / or CIL / other planning obligations – so that normally it is not these elements causing the issues; non-viability inherent with the scheme circumstances is more usually the case in those instances. This may be as a result of factors or combinations of factors, including for example:

- Historic site purchase / traded sites with land value expectations beyond those currently supportable;

- Inherently weak relationship between scheme values and costs – e.g. in case where a particular scheme supports only relatively low values in the Cambridge City context;

- Abnormal costs;

- More extensive than usual wider planning obligations costs;
- Market / economic / funding uncertainties – timing;
- Planning policy and obligations / CIL costs inadequately factored into to site purchase discussions;
- Changed requirements / unforeseen circumstances;
- Scheme / site selection – again, difficulties associated with the strength of the values / cost relationship in particular cases.

2.29 Therefore, there is no low level at which an AH financial contribution can be set to guarantee that it will be deliverable in full on every occasion. These are very similar to our usual findings on CIL, except the CIL charging rate will always have to be paid at its fixed level and the expectation is that not all schemes will be viable with it in place (the high level test is that the delivery of the plan as a whole will not be prejudiced by CIL.

Wider points for noting

2.30 The suggested formula based method (or indeed any other calculation route) could also be used in exactly the same way in any situations (usually exceptionally only) where the Council considers financial contributions either part or fully in-lieu of the usual on-site requirements in respect of larger developments (involving 10 or more dwellings). However this has not been considered in terms of further similar worked examples, as it is understood that the Council has an established approach to those scenarios, which is likely to be continued.

2.31 Similarly, there is good potential to use the suggested method 'A' formula as a means to calculating any part-dwelling top-up financial contributions that may be sought as part of delivery discussions where the numbers rounding would normally mean a rounding-down to the nearest whole number affordable housing units provision (e.g. 14 units x 25% = 3.5; rounded down to 3 AH units plus potential 0.5 unit equivalent top-up financial contribution). Numbers rounding can make quite a difference to the affordable housing product and to the scheme outcomes. In any event, if this type of

approach is to be considered by the Council then all the above and previously stated principles on viability and target application apply. We suggest that the Council may also wish to give consideration to providing clarity on any such requirements – e.g. through the Plan policy and / or SPD wording as may be appropriate.

A purely indicative worked example of a top-up financial contribution, reflecting these potential circumstances, is as follows:

> Example scenario: 14 no. 2 bed. houses total (mix of market and affordable (AH)) @ 83 sq. m. Assumed market value at VL3 i.e. £3,500/sq. m (£290,500 per dwelling). Total example scheme floor area 1162 sq. m. Market floor area (assuming 3 no. on-site AH units, as below) is 11 x 83 = 913 sq. m.
>
> 14 x 25% AH = 3.5 AH dwellings required on-site (integrated within the market housing); 3 no. on-site plus top-up AH financial contribution in place of the 0.5 AH dwelling;
>
> Market value £290,500 x 0.30 (RLV %) x 1.15 = £100,223 per whole AH dwelling;
>
> x 0.5 = £50,112 representing the 0.5 AH dwelling contribution.
>
> While this could be converted into a £/sq. m "rate", viewed across the whole scheme floor area in this instance at approximately £43/sq. m or across the market housing only floor area at approximately £54/sq. m, in practice this appears likely to need calculation depending on the scheme mix and applicable AH % target, the part AH dwelling in question, etc. We also assume that, in practice, a rounding-up of the on-site AH provision may be arrived at in certain circumstances in any event; that would not be precluded by the Council's approach. Similarly, the usual viability criteria apply; as in the case of applying the policy across the wider range of scenarios.

2.32 The introduction of CIL as a fixed cost to developments means that inevitably the scope for other obligations may be squeezed to some extent, because the financial scope within which a negotiation may take place will be reduced by CIL being fixed. This has been dealt with so far as possible by the CIL study assumptions (by testing the indicative AH contribution level alongside CIL at varying ("trial") rates, but will

need to be kept in mind in the implementation stages. Nevertheless, the Council will be aware that, coming alongside CIL, it will involve and affect a range of landowners, developers and house builders who have been operating outside the affordable housing scope until recently.

2.33 We need to reiterate that at this stage all figures / examples presented in this note are illustrative only. Detailed aspects of the calculations, or the figures used within them, may alter. However, the aim of the above is to enable the Council to continue considering principles and potential mechanisms, so as to inform its SPD development and the operation of the Local Plan policies in practice.

FINAL REPORT – Small Sites Affordable Housing Contributions Study report March 2014 - ends.

Appendix I (RLV as % GDV guides) follows.

Appendix I

Guide to RLV %s (% of GDV) for use within suggested ('Method A') calculation formula.

Source: DSP – Smaller housing site scenarios – assuming 0% AH on-site
(Cambridge City Council Local Plan Review - Supplementary Viability Report - June 2013)

Cambridge City Council - RLV as % of GDV - Small Sites Study - 0% AH basis							
	VL1	VL2	VL3	VL4	VL5	VL6	VL7
2 Houses	13.8%	22.5%	28.8%	33.5%	37.2%	39.1%	41.4%
4 Houses	14.0%	22.8%	28.3%	32.8%	36.4%	39.2%	41.5%
5 Houses	13.8%	22.6%	28.1%	32.7%	36.3%	39.1%	41.5%
9 Houses	13.0%	21.1%	27.2%	31.7%	35.2%	38.0%	40.3%
10 Houses	13.0%	21.1%	27.1%	31.7%	35.2%	38.0%	40.3%
14 Houses	12.0%	20.3%	26.2%	30.7%	34.1%	36.9%	39.2%
Average	13.3%	21.7%	27.6%	32.2%	35.7%	38.4%	40.7%
Overall Average	29.9%						

Recommend 29.9% (rounded to 30%) for formula use; taking an overview approach to apply City area-wide

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