

# Executive Summary

- S.1 Bromsgrove, Malvern Hills, Redditch, Worcester, Wychavon and Wyre Forest Councils are working with Worcestershire County Council to introduce CIL. In due course, dependent on the Councils' evidence and priorities, each Council will make their own decision as whether or not to adopt CIL and what rates to charge; however, through co-operating they will not only gain economies of scale, but also be able to set rates in the context of those being set in the wider area.
- S.2 HDH Planning and Development (with subcontractors URS Infrastructure and Environment UK Ltd) have been appointed to advise the Councils in connection with the introduction of Community Infrastructure Levy (CIL) – particularly in the context of viability testing as required by CIL Regulation 14. Regulation 14 says '*councils must aim to strike what appears to the charging authority to be an appropriate balance between (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability*'.

## Methodology

- S.3 In the study we have modelled a set of 16 residential, and a set of non-residential development sites, to represent those developments that are likely to come forward in Worcestershire in the future and therefore may be able to contribute to infrastructure through the payment of CIL. From this set of sites, we have selected those particular site types that are most representative within each local authority area. For each site a high level, financial development appraisal has been carried out to assess the site's ability to pay CIL and the effect that CIL may have on development viability.
- S.4 In order to assess whether or not a contribution to CIL can be made, a calculation needs to be undertaken to establish the '*additional profit*'. *Additional profit* is the amount of profit over and above the *normal profit* made by the developers having purchased the land (alternative land value plus uplift), developed the site and sold the units (including providing any affordable housing that is required). The *additional profit* provides a measure of the scope for contributing to CIL without impairing development viability. CIL contributions can viably be paid out of this additional profit. The following formula was used:

**Gross Development Value**

The combined value of the complete development

LESS

**Cost of creating the asset, including a profit margin**

(land + construction + fees + finance charges + developers' profit)

=

**Additional Profit**

S.5 In this formula the cost of land value is its worth in its current use plus a uplift of 20% to incentivise the owner to sell the land. To recognise that this would not be sufficient in some situations we have increased this by a further £250,000/ha on greenfield sites (being those in agricultural and paddock uses). We have used alternative land prices of:

Agricultural Land		£25,000/ha
Paddock Land		£50,000/ha
Industrial Land	North East Worcestershire	£450,000/ha
	Wider Worcestershire	£350,000/ha
Residential Land		£750,000/ha

S.6 The approach we have used is in line with the two main sources of guidance *Viability Testing in Local Plans – Advice for planning practitioners. (LGA/HBF – Sir John Harman) June 2012* and *Financial viability in planning, RICS guidance note, 1st edition (GN 94/2012)*.

**Maximum Potential for CIL**

S.7 The results of the appraisals, summarised in the tables below show the maximum amount of CIL, expressed in £/m<sup>2</sup> that the modelled sites could bear and still sustain a sufficient land price to provide the landowner and the developer with a 'competitive return'.

**Table S1 Worcestershire Residential Development Viability Appraisals  
Additional Profit at Current Prices and Current Affordable Housing Targets (£/m<sup>2</sup>)**

		Site 1	Site 2	Site 3	Site 4	Site 5	Site 6	Site 7	Site 8	Site 9	Site 10	Site 11	Site 12	Site 13	Site 14	Site 15	Site 16
		SUE 1	SUE 2	Greenfield 1	Greenfield 2	Greenfield 3	wnfield redev. L	Urban Flats	wnfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	vn centre flats	Ex garage site	vn Village Infill	Small Village Scheme	Village House
Gross Site Area	ha	14.17	13.33	6.25	4.17	3.00	0.60	1.40	0.42	0.40	0.57	0.30	0.20	0.12	0.10	0.10	0.10
Net Site Area	ha	8.50	8.00	3.75	2.50	1.80	1.40	0.60	0.42	0.40	0.57	0.30	0.20	0.12	0.10	0.10	0.10
Units		314	250	133	88	81	70	60	30	24	24	12	10	5	4	3	1
<b>Bromsgrove</b>	£/m <sup>2</sup>	45	0	233	340	275	43		148	218	523	326	0	53	428	613	657
<b>Malvern Hills</b>	£/m <sup>2</sup>	56	54	276	344				190	89	564	422	359	168	390	538	467
<b>Redditch</b>	£/m <sup>2</sup>		0	68	181	204				0	296	138	0	53	277	613	657
<b>Worcester</b>	£/m <sup>2</sup>				159	87	0	0	295	0	391	458	406	0	183		
<b>Wychavon</b>	£/m <sup>2</sup>	0	0	119	182	422	228		394	0	65	338	140	343	912	913	1,036
<b>Wyre Forest</b>	£/m <sup>2</sup>			350	111	165	176	0	134	0	588	416	335	200	535	462	657

Source: Table 12.1 Worcestershire CIL Viability Study. HDH 2012

<b>Table S2 Worcestershire Non-Residential Development Viability Appraisals Additional Profit at Current Prices (£/m<sup>2</sup>)</b>										
	Large industrial	Small industrial	Large office	Small office	Super-markets	Retail Warehouse	Shops	Leisure	Hotel	Student Halls
<b>Greenfield</b>										
North Eastern Worcestershire	0	0	0	0	511	766		0	270	
Wider Worcestershire	0	0	0	0	523	774		0	270	
<b>Brownfield</b>										
North Eastern Worcestershire	0	0	0	0	111	537	0	0	192	
Wider Worcestershire	0	0	0	0	226	617	0	0	192	204

Source: Table 12.2 Worcestershire CIL Viability Study. HDH 2012

- S.8 In isolation these rates do not simply translate into the rates of CIL. These rates are the absolute maximum that the modelled sites could bear in the current market. In the following sections we have set out the other factors that the Councils may consider when setting CIL.

### **Charge Setting**

- S.9 The purpose of this work is to assess the effect that CIL may have on the viability of development, and has been prepared to assist the Councils with the development of CIL, to engage with stakeholders, and to inform the CIL setting process. The findings of this report do not determine the rates of CIL, but are one of a number of factors that the Councils may consider when setting CIL. In setting CIL, there are three main elements that need to be brought together:

- a. Evidence of the infrastructure requirements
- b. Viability evidence
- c. The input of stakeholders.

- S.10 It is beyond the scope of this study to set the rates of CIL. The Councils will need to consider a wide range of factors including those set out below. The Councils will draw on a wider range of evidence than just this report. This will, in particular, be the case in relation to the larger strategic sites such as sustainable urban extensions, that are important to the overall delivery of the Plan.

- S.11 In setting CIL the Councils will have to weigh up various policy priorities – particularly those that are ‘paid’ for and delivered by the development industry. The payment of CIL, the delivery of affordable housing, and the construction of development to improved environmental standards are all costs to a developer and are closely related. If a council wishes to introduce a new charge such as CIL, or increase an existing requirement on developers, there will be a knock on effect on the other requirements. A council that puts different weight and importance on one requirement – say the delivery of affordable housing – is likely to set CIL at a different rate to one that puts less weight on affordable housing.

### **CIL v s106**

- S.12 Councils are not required to introduce CIL; however, from April 2014, councils will be unable to pool S106 contributions from more than five developments. This is a new restriction and will encourage councils to adopt CIL – particularly where there are large items of infrastructure to be delivered that will relate to more than one site. This restriction on pooling CIL will have the effect of bringing to an end s106 tariff policies for items like open space, education and transport.

- S.13 It is important to note that councils that have adopted CIL will still be able to raise additional S106 funds for infrastructure, provided this is not for infrastructure specifically identified to be funded by CIL (through the ‘Regulation 123 List’). It is our firm recommendation that the

Councils give careful consideration to preparing a Regulation 123 List and thus maintain the option of agreeing further payments over and above CIL under the s106 regime.

### **Infrastructure Delivery**

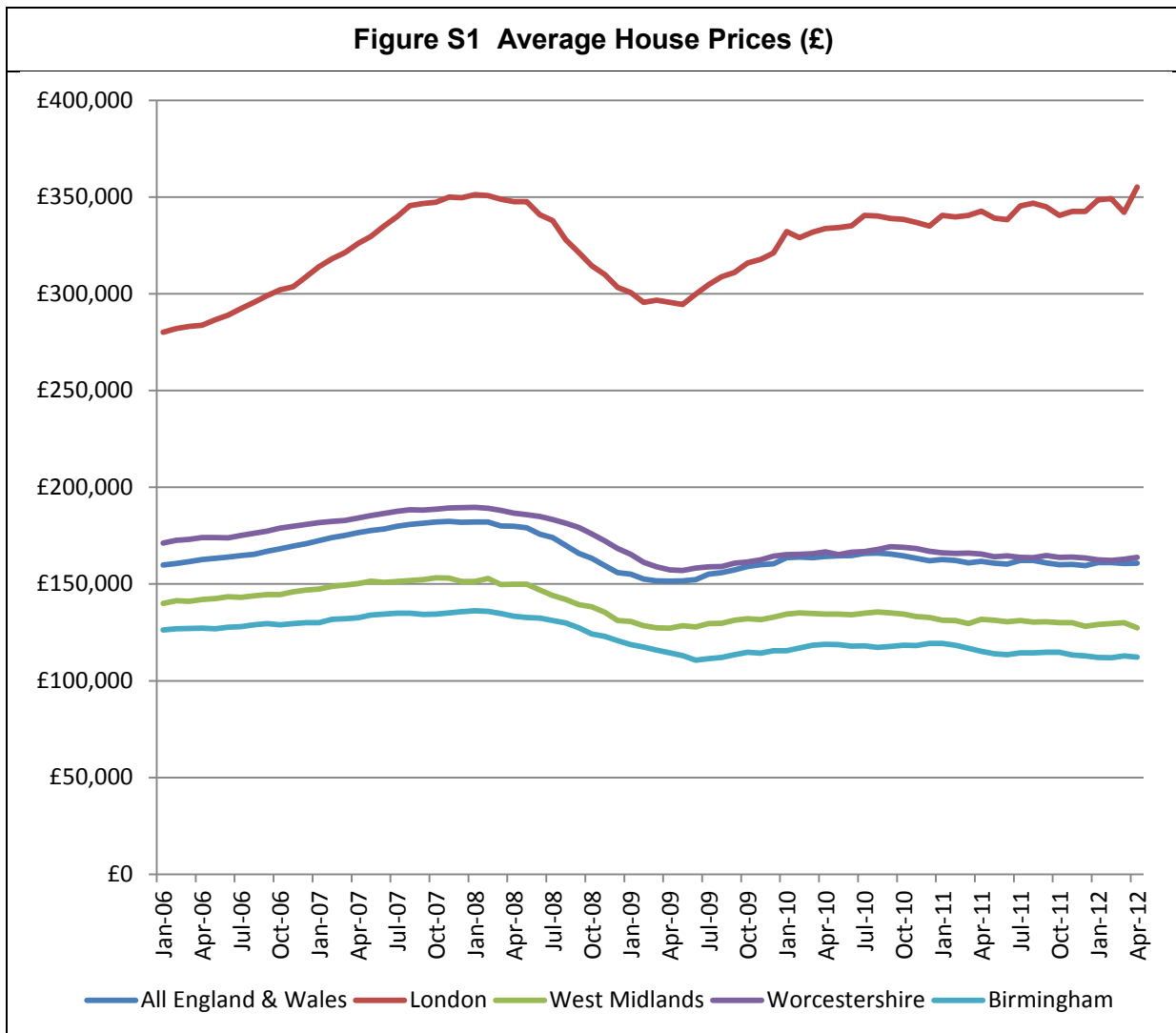
- S.14 Under the current s106 regime, the delivery of site specific infrastructure largely falls to the developer of a site. If improvements to the infrastructure are required, then normally it is for the developer to procure and construct those items – albeit under the supervision of the appropriate part of the Council. The exception to this is in relation to education and public open space, where some councils have developed tariff systems for contributions to be made into a central pot.
- S.15 The advantage of this current system is that the developer has control of the process and can carry out (directly or indirectly) improvements that are required to enable a scheme to come forward. If the Councils are to move to a system whereby they are to deliver large items of infrastructure, they will need to consider the practicalities of this, such as how they will manage and fund whether, and if this a risk that they want to take on?

### **Developers' Comments**

- S.16 An important part of the process of preparing this report has been engagement with the development industry. Some of the comments made were technical and about the specific inputs and assumptions used in the viability appraisals, however a range of more general comments were also made. In particular, concern was expressed, in relation to the larger development sites, as to how infrastructure would be delivered. The industry is generally happy to pay for and deliver the infrastructure that is needed, and under s106 there is certainty about delivery as the developer not only pays for, but normally procures, the infrastructure (i.e. builds a new school or carries out highways improvements under the supervision of the appropriate authority). There was concern as to whether the authorities can actually deliver – most councils are not skilled at delivering large infrastructure projects.

### **Uncertain Market**

- S.17 There is no doubt that the future of the British economy is uncertain. Whilst the general fall in house prices seems to have stopped, it seems inevitable that there are still ups and downs in prices to come.
- S.18 Confidence is low, so a new high level of CIL, set close to the limits of viability could have an adverse impact on development coming forward. We recommend that a cautious approach is taken.



Source: Land Registry June 2012 Source (Figure 4.1 Worcestershire CIL Viability Study. HDH 2012)

### Neighbouring Authorities

- S.19 The rates of CIL introduced by neighbouring local authorities are going to be a material factor when the Councils come to set their rates of CIL. A very high rate may be viable, however if a neighbouring authority has set a low rate, then the Development Plan could be put at risk, as developers may prefer to develop in an area with a lower rate of CIL.
- S.20 At the time of writing only five Councils have introduced CIL, one of these is adjacent, Shropshire. The following rates have been adopted or are currently subject to consultation in the vicinity. (We have included Newark and Sherwood in this list. Newark and Sherwood is clearly many miles away, however the area does have some similarities in terms of price).

<b>Table S3 Adopted and Emerging Rates of CIL</b>		
<b>Shropshire</b> Adopted	Residential	£40 - £80
<b>Bristol</b> Adopted	Residential	£50 - £70
	Hotel	£70
	Student	£100
	Retail	£120
<b>Newark and Sherwood</b> Adopted	Large retail	£100 - £125
	Small retail	£75 - £100
	Residential	£0 - £70
<b>Birmingham</b> Consultation	Large retail	£380
	Small retail	£150
	Residential	£55 - £115
	Hotel	£25 - £45
	Student	£115
	Office	£15 - £55

Source: Table 13.1 Worcestershire CIL Viability Study. HDH 2012

S.21 We would urge caution about getting out of line in introducing CIL rates.

### **S106 History**

S.22 The Councils have existing policies requiring developers to contribute to infrastructure through the s106 regime. This information provides important contextual information as to what developers can and cannot afford to pay. The findings of a review of these payments is shown below:

<b>Table S4 Amounts per dwelling (Estimated)</b>	
Bromsgrove	Typically around £10,000 per market unit
Malvern Hill	Typically around £7,500 per unit
Redditch	Range from £1,280 to over £13,000 per unit (market and affordable)
Worcester	Typically just under £1,000 per unit
Wychavon	Typically around £6,200 per unit
Wyre Forest	Often around £4,000 per unit – but many less at around £500 per unit

Source: Based on information supplied by the Councils  
Table 13.2 Worcestershire CIL Viability Study. HDH 2012

S.23 This information must be treated with some caution as a history and track record of a low level of payments may simply be a reflection of a Council's policy and the effectiveness of implementation and collection – rather than a lack of viability.



## Costs of Infrastructure and Sources of Funding

- S.24 The Councils have established the requirement for infrastructure to support new development and the costs of providing this. They have also considered the amounts of funding that may or may not be available from other sources. All the Councils have a funding gap, that is to say the cost of providing the infrastructure is more than the identified funding.
- S.25 When the Councils strike the balance and set the levels of CIL, the amount of funding required will be a material consideration; however, it should be stressed that CIL should be set with regard to the effect of CIL on development viability.
- S.26 There is no expectation that CIL should pay for all of an area’s infrastructure requirements. There are a range of other sources including New Homes Bonus funding, HCA funding and funding through central and local government sources. The Councils will need to consider the total amount of money that may be received through the consequence of development; from CIL, s106 payments and New Homes Bonus when striking the balance as to the level of CIL that they set.
- S.27 In the following tables we have set out the indicative amount of CIL that each Council may receive from residential property in two possible scenarios – being set at £40/m<sup>2</sup> and being set at £60/m<sup>2</sup>. These figures should be treated with caution as the actual receipts will depend on the actual units started.
- S.28 We have based these projections on the following information. In this and subsequent tables we have combined the three South Worcestershire Councils (Malvern Hills, Worcester, Wychavon) that are working together towards a new Development Plan:

<b>Table S5 Uncommitted Housing Numbers</b>				
	<b>Wyre Forest</b>	<b>Redditch</b>	<b>Bromsgrove</b>	<b>South Worcestershire</b>
<b>Total Housing Requirement</b>	4,000	6,380	7,000	22,200
<b>Completed Units</b>	1,353	63	256	4,909
<b>Approved Units</b>	1,083	680	598	3,788
<b>Uncommitted</b>	<b>1,564</b>	<b>5,637</b>	<b>6,146</b>	<b>13,503</b>

Source Worcestershire County Council 2012

- S.29 In the above table, Approved Units are those that have been consented and therefore will not be subject to CIL. For each Council we have provided a low, a medium and a high scenario. In the low scenario we have assumed that 80% of the housing target is delivered, in the medium that all the housing target is delivered and in the high that 120% of the housing target is delivered. We have taken a high level approach and assumed that 30% of all housing is affordable housing.

S.30 We have only provided a projection based on the development of residential property. CIL may also be collected in relation non-residential development.

<b>Table S6 Wyre Forest CIL Projection (£m)</b>				
<i>Indicative CIL rate per m<sup>2</sup></i>		<i>Low (m<sup>2</sup>)</i>	<i>Med (m<sup>2</sup>)</i>	<i>High (m<sup>2</sup>)</i>
		83,205	104,006	124,807
Low	£40.00	£3.3	£4.16	£4.99
High	£60.00	£5.0	£6.24	£7.49

Source: URS

<b>Table S7 Redditch CIL Projection (£m)</b>				
<i>Indicative CIL rate per m<sup>2</sup></i>		<i>Low (m<sup>2</sup>)</i>	<i>Med (m<sup>2</sup>)</i>	<i>High (m<sup>2</sup>)</i>
		299,888	374,861	449,833
Low	£40.00	£12.0	£14.99	£17.99
High	£60.00	£18.0	£22.49	£26.99

Source: URS

<b>Table S8 Bromsgrove CIL Projection (£m)</b>				
<i>Indicative CIL rate per m<sup>2</sup></i>		<i>Low (m<sup>2</sup>)</i>	<i>Med (m<sup>2</sup>)</i>	<i>High (m<sup>2</sup>)</i>
		326,967	408,709	490,451
Low	£40.00	£13.1	£16.35	£19.62
High	£60.00	£19.6	£24.52	£29.43

Source: URS

<b>Table S9 South Worcestershire CIL Projection (£m)</b>				
<i>Indicative CIL rate per m<sup>2</sup></i>		<i>Low (m<sup>2</sup>)</i>	<i>Med (m<sup>2</sup>)</i>	<i>High (m<sup>2</sup>)</i>
		718,360	897,950	1,077,539
Low	£40.00	£28.7	£35.92	£43.10
High	£60.00	£43.1	£53.88	£64.65

Source: URS

S.31 The above projections should be treated with caution as they are based on a number of high level assumptions.

## **A Strategy for Setting CIL**

- S.32 Our recommended strategy for setting CIL is to set well within the band of viability and to develop a limited Regulation 123 list. This will reflect the current uncertain market. Importantly, this will also allow the developers to maintain control of the delivery of infrastructure for large sites – thus giving more certainty of delivery. The limited Regulation 123 List will enable the Councils to develop and implement a strategy of further site specific s106 payments.
- S.33 This advice is pragmatic and will ensure that the Development Plans are delivered. The ability of a Council to achieve its affordable housing target varied – if a higher rate of CIL was charged then even less affordable housing would be delivered, thus threatening the delivery of the Development Plan.
- S.34 This approach will maximise the overall contribution of developers, but allow the flexibility to negotiate on a site by site basis. CIL will be paid on all sites and then the Councils will be able to ensure that each site contributes to the maximum possible extent – be that through s106 payments, or through the delivery of affordable housing.

## **Payment of CIL**

- S.35 The CIL Regulations sets out when CIL is payable. The 2011 amendment to the CIL Regulations introduced the ability for Charging Authorities to adopt an Instalment Policy. If an Instalment Policy is not adopted, then payment is due near the commencement of the project. To require payment, particularly on large schemes in line with the Regulations could have a dramatic and serious impact on the delivery of projects. It is our firm recommendation that the councils introduce an instalment policy. Not to do so could put the Development Plan at risk.

## **Recommended Rates**

- S.36 It is not the purpose of this study to set individual rates of CIL – or even to recommend them. In due course, the Councils will decide whether to proceed with adopting CIL and then weigh up the factors set out in this report. It is unlikely that two authorities will settle on the same rates of CIL, even if they are geographically close and subject to similar market conditions, as the members are likely to put different levels of importance on different parts of the development plan, and on the assessments made as to what they may be prepared to put at risk.
- S.37 We have assumed that differential, site-specific rates cannot be charged for the large strategic sites and other large urban extensions, as this is our understanding of the CIL Guidance. It would be preferable to be able to set site-specific rates and, if this is allowed in the future, we recommend that the Councils reconsider this.

- S.38 We have assumed that differential rates can be set within different use classes such as B1 or retail. We recommend that this is kept under continued review, bearing in mind rates that are emerging elsewhere.
- S.39 As is evident from the viability evidence in the body of this report, there is, in most cases, evidence to support differential rates. The recommended strategy of setting CIL low and then maximising the developers' total contribution through managing the Regulation 123 List and ensuring developers make further contributions through a well-developed s106 strategy and the delivery of affordable housing, means that we are not recommending trying to maximise CIL receipts – rather to develop a strategy to ensure that development continues. This strategy will ensure that the development plan is not put at risk and the required infrastructure is delivered through a range of funding mechanisms. This strategy has been developed in response to the consultation process and with particular attention to the concerns over the direction of markets, to meet the developers' concerns over the actual delivery of site-specific infrastructure.

### **Review**

- S.40 The development environment will change over time, and the profitability of development will increase or decrease depending on how prices and costs alter. It is notoriously difficult to predict how these may change and when. We recommend that the Councils build into their Charging Schedules a provision to review CIL at least every three years, or in the event of house prices changing by more than 10% from the date of adoption.
- S.41 This will allow developers to be able to plan new development but also ensure that additional CIL is captured to contribute to infrastructure should the markets improve. This is, of course, a simple approach based only on house prices, however this is an easy to monitor trigger.

### **Next Steps**

- S.42 The recommendations in this study are 'a consultant's view' and do not reflect the particular priorities and emphasis each Authority may put on different parts of their development plan. We stress that the information in this report is an important element of the evidence for setting CIL, but is only one part of the evidence; the wider context needs to be considered.