Worcestershire
CIL Viability Study

Jointly commissioned by Worcestershire County Council for Bromsgrove, Malvern Hills, Redditch, Worcester, Wychavon and Wyre Forest Councils

Final - January 2013

Planning & Development

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Final 1st February 2013

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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^2 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^2)																	
		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
Bromsgrove	£/m^2	45	0	233	340	275	43		148	218	523	326	0	53	428	613	657
Malvern Hills	£/m^2	56	54	276	344				190	89	564	422	359	168	390	538	467
Redditch	£/m^2		0	68	181	204				0	296	138	0	53	277	613	657
Worcester	£/m^2				159	87	0	0	295	0	391	458	406	0	183		
Wychavon	£/m^2	0	0	119	182	422	228		394	0	65	338	140	343	912	913	1,036
Wyre Forest	£/m^2			350	111	165	176	0	134	0	588	416	335	200	535	462	657

Source: Table 12.1 Worcestershire CIL Viability Study. HDH 2012

Table S2 Worcestershire Non-Residential Development Viability Appraisals
Additional Profit at Current Prices (£/m^2)

	Large industrial	Small industrial	Large office	Small office	Super-markets	Retail Warehouse	Shops	Leisure	Hotel	Student Halls
Greenfield										
North Eastern Worcestershire	0	0	0	0	511	766		0	270	
Wider Worcestershire	0	0	0	0	523	774		0	270	
Brownfield										
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

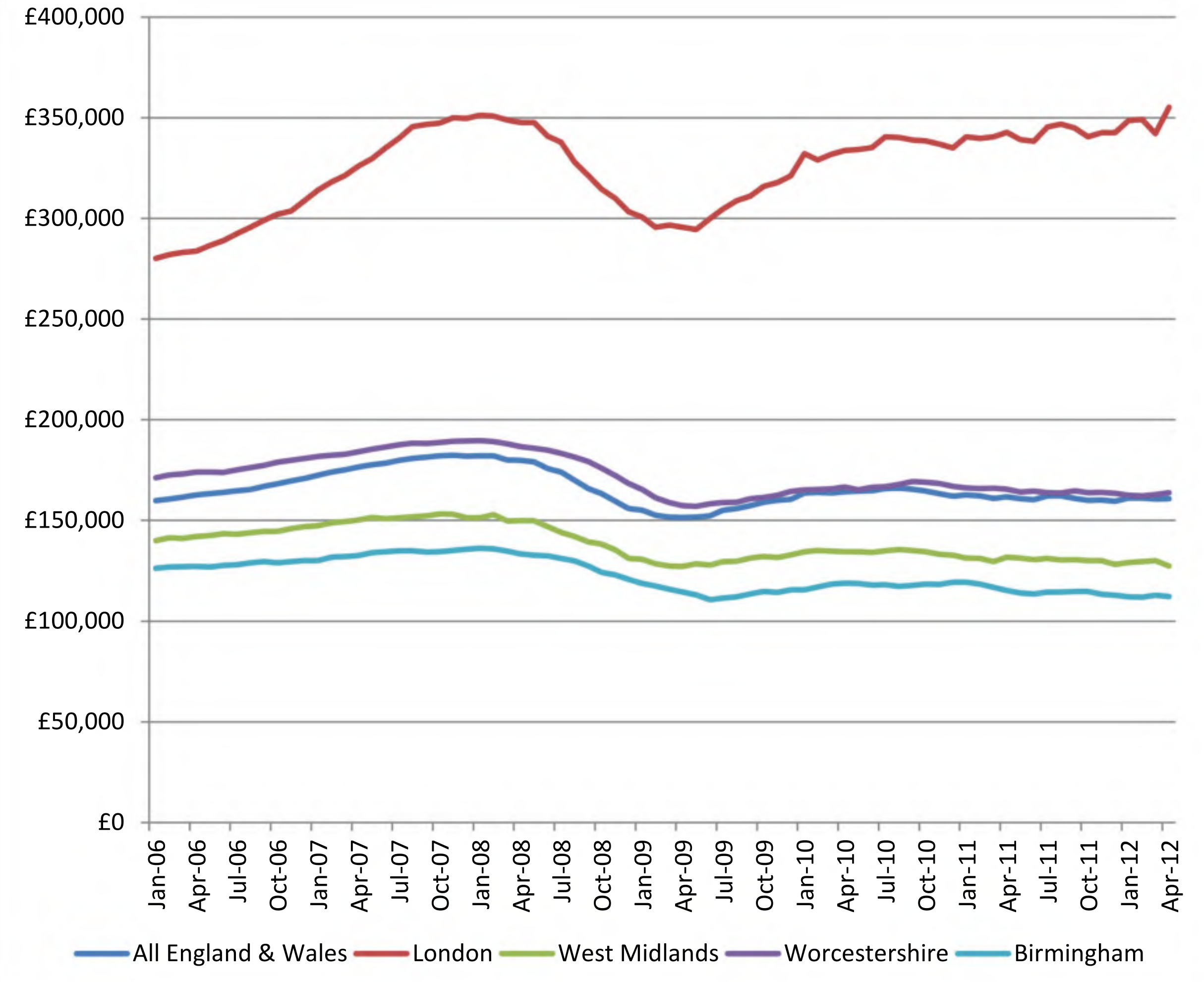
S.16 An important part of the process of preparing this report has been engagement with the development industry. Some of the comments made were technical and about the specific inputs and assumptions used in the viability appraisals, however a range of more general comments were also made. In particular, 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.

Figure S1 Average House Prices (£)



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).

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

Table S4 Amounts per dwelling (Estimated)	
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^2 and being set at £60/m^2. 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:

Table S5 Uncommitted Housing Numbers

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

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.

Table S6 Wyre Forest CIL Projection (£m)				
Indicative CIL rate per m^2		*Low (m^2)*	*Med (m^2)*	*High (m^2)*
		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

Table S7 Redditch CIL Projection (£m)				
Indicative CIL rate per m^2		*Low (m^2)*	*Med (m^2)*	*High (m^2)*
		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

Table S8 Bromsgrove CIL Projection (£m)				
Indicative CIL rate per m^2		*Low (m^2)*	*Med (m^2)*	*High (m^2)*
		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

Table S9 South Worcestershire CIL Projection (£m)				
Indicative CIL rate per m^2		*Low (m^2)*	*Med (m^2)*	*High (m^2)*
		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.

Table of Contents

1. Introduction

Scope

1.1 The Local Planning Authorities that make up the county of Worcestershire[1] are working with Worcestershire County Council to introduce CIL. In due course, dependant 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 will also be able to set rates in the context of those being set in the wider area.

1.2 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*'.

1.3 This document sets out the methodology used, the key assumptions adopted, and suggests the approach that Councils should take when setting CIL – although it stops short of recommending actual rates. In setting rates, the Councils will draw on a range of *existing available evidence*[2] that will include and not be limited to the contents of this report. This process will include the Councils continuing engagement with stakeholders[3]. The consultation process has made a good start with two meetings having taken place. These were used to introduce the development industry to CIL, to test the assumptions used in the report, and to put the report into context. The first consultation event took place before rates of CIL were discussed and formulated, and had the purpose of ensuring that future discussions about the actual rates were from a sound basis, and that the debate was about what was the appropriate rate rather than the evidence used by the Councils. At the second event the evidence was presented and the main factors to be considered when setting rates were set out.

1.4 It is important to stress that the Authorities are at an early stage of preparing CIL Charging Schedules – not all have yet decided to introduce CIL. This study, together with evidence

[1] Bromsgrove, Malvern Hills, Redditch, Worcester, Wychavon and Wyre Forest Councils
[2] Paragraphs 25 and 26 of the CIL Guidance December 2012
[3] Paragraphs 46 to 50 of the December 2012 CIL Guidance requires stakeholder engagement – particularly with members of the development industry.

about the requirements for infrastructure and other available evidence, will be used by the Councils to inform their decisions, including the rate at which CIL should be set.

1.5 In March 2010 CLG published Community Infrastructure Levy Guidance, *Charge setting and charging schedule procedures* to support the CIL Regulations. This has now been replaced by Community Infrastructure Levy, Guidance (December 2012). This Guidance requires the Authorities that wish to introduce CIL to publish a 'Charging Schedule'. This study will inform the preparation of the Charging Schedule. The Charging Schedule will sit within the Local Development Framework; however, it will not form part of the statutory development plan nor will it require inclusion within a Local Development Scheme.

1.6 This paper is concerned with development viability which is just one element of the evidence that informs the rates of CIL. This report concludes with a suggested strategy for the Councils to set rates of CIL. In due course, each Authority will use this information to strike the balance between deterring development either through adversely impacting on development viability or, conversely, through being unable to fund the infrastructure required to service and support new development. This judgement will be made in the context of Paragraphs 9 and 20 of the December 2012 CIL Guidance and against the 'test' to ensure that CIL '*would not threaten delivery of the relevant Plan as a whole*'.

Metric or imperial

1.7 During the consultation process (see below) there were a number of comments about the use of imperial or metric data. The property industry does use both – often working out costings in metric (£/m^2) and values in imperial (acres and sqft). This is confusing so we have used metric measurements throughout this report. The following conversion rates may assist readers.

1m	=	3.28083ft (3' and 3.37")
1ft	=	0.3048m
1m^2	=	10.7639 sqft (10 sqft and 110.0 sqin)
1sqft	=	0.092903m^2

1.8 A useful rule of thumb to convert m^2 to sqft is simply to add a zero.

Report Structure

1.9 This report examines the viability of development across Worcestershire and is structured as follows:

Chapter 2 We have set out the reasons for, and approach to, viability testing, including a short review of the requirements of the CIL Regulations and NPPF.

Chapter 3 We have set out the methodology used.

Chapter 4	An assessment of the housing market, including market and affordable housing with the purpose of establishing the worth of different types of housing (size and tenure) in different areas.
Chapter 5	An assessment of the non-residential markets with the purpose of establishing the worth of different types of housing (size and tenure) in different areas.
Chapter 6	An assessment of the costs of 'development' land to be used when assessing viability.
Chapter 7	We have set out the cost and general development assumptions to be used in the development appraisals.
Chapter 8	We have summarised the various policy requirements and constraints that influence the type of development that come forward in each area.
Chapter 9	We have set out the range of modelled sites used for the financial development appraisals.
Chapter 10	The results of the development appraisals for residential development sites.
Chapter 11	The results of the development appraisals for non-residential development sites.
Chapter 12	We have set out the maximum rates of CIL that various modelled development sites could bear in the context of the Councils' current planning policies and requirements.
Chapter 13	We have set out the factors for the Councils to consider when setting their rates of CIL.

Maximum Potential for CIL

1.10 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.[4]

Recommendations and Conclusions

1.11 This report does not recommend rates of CIL. It is for each Charging Authority to weigh up its own priorities in the context of the CIL Regulations and CIL Guidance and to 'strike the

[4] The details of the modelled sites are set out in Chapter 9.

balance' between funding infrastructure and raising CIL. The report concludes by recommending a strategy for setting CIL, but we stress that this is a 'consultant's view' and there is considerable scope to adopt a different approach – much will depend on each Council's priorities and the importance that they put on different parts of their Development Plan.

Next Steps

1.12 The recommendations in this study are 'a consultant's view' and do not reflect the particular priorities and emphasis which each Authority may put on different parts of their development plan.

1.13 The next stage of the process will be for officers to engage with elected members and to prepare a Preliminary Draft Charging Schedule (PDCS). The PDCS will set out how each Council has brought the range of evidence together, set out rates and will form the basis for a final round of consultation.

1.14 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 and other existing evidence must also be considered.

2. Viability Testing

CIL Economic Viability Assessment

2.1 In March 2010, CLG published Community Infrastructure Levy Guidance, *Charge setting and charging schedule procedures* to support the CIL Regulations[5]. This has now been replaced by Community Infrastructure Levy, Guidance (December 2012). This Guidance requires the Authorities wishing to adopt CIL to publish a 'Charging Schedule'. This study will inform the preparation of the Charging Schedule. The Charging Schedule will sit within the Local Development Framework; however, it will not form part of the statutory development plan, nor will it require inclusion within a Local Development Scheme.

Regulations and Guidance

2.2 Regulation 14 of the CIL Regulations 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'.

2.3 The purpose of this study is assess the 'effects' on development viability of the imposition of CIL – it should be noted that whilst the financial impact of introducing CIL is an important factor, the provision of infrastructure (or lack of it) will also have an impact on the ability of the Councils to meet their objectives through development and deliver their Development Plan. The process of assessing the effect of CIL on viability will not determine the rates of CIL – it will however inform the CIL setting process and provide the Councils with the information to allow them to '*strike the balance'*. CIL Guidance says:

What is meant by the appropriate balance?

8. By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In

[5] SI 2010 No. 948. COMMUNITY INFRASTRUCTURE LEVY, ENGLAND AND WALES
The Community Infrastructure Levy Regulations 2010 *Made 23rd March 2010, Coming into force 6th April 2010*
And update
SI 2011 No. 987. COMMUNITY INFRASTRUCTURE LEVY, ENGLAND AND WALES
The Community Infrastructure Levy (Amendment) Regulations 2011 *Made 28th March 2011, Coming into force 6th April 2011*

meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened.

2.4 The Councils have considerable flexibility when it comes to setting CIL. The 'test is set out in paragraphs 9 and 10 of the Guidance is that '*the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole*'. This could either be through setting CIL so high that development is rendered unviable, or so low that, with other sources of funding, the infrastructure required to support new development cannot be delivered.

9. The independent examiner should establish that:

- *the charging authority has complied with the requirements set out in Part 11 of the Planning Act 2008 and the Community Infrastructure Levy Regulations*
- *the charging authority's draft charging schedule is supported by background documents containing appropriate available evidence*
- *the proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and*
- *evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole.*

10. The examiner should be ready to recommend modification or rejection of the draft charging schedule if it threatens delivery of the relevant Plan as a whole.

2.5 Regulation 13 of the CIL Regulations says:

A charging authority may set differential rates - (a) for different zones in which development would be situated; (b) by reference to different intended uses of development…

2.6 This study will consider whether it is appropriate to levy different rates on different types of development in different areas. As set out in Paragraph 34, the CIL Guidance differential rates can only be set with regard to viability. This is reinforced in paragraphs 35 and 36:

35. Regulation 13 also allows charging authorities to articulate differential rates by reference to different intended uses of development provided that the different rates can be justified by a comparative assessment of the economic viability of those categories of development. The definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point.

36. An authority could set differential rates by reference to both zones and the categories of development within its area. For instance, an authority might choose to divide its area into a higher and lower value zone and set differential rates by reference to those zones. It could go further and set differential rates for residential and commercial development within both the higher and lower value zones. However, charging authorities should be mindful that it is likely to be harder to ensure that more complex patterns of differential rates are State aid compliant, so for example, charging authorities need to be consistent in the way that appropriate available evidence on economic viability informs the treatment of a category of development in different zones.

2.7 At the start of this project there was some uncertainty about setting differential rates. Some of the early adopters of CIL (such as Newark and Sherwood) have set differential rates where different uses are defined by the size of the scheme being developed. Supermarket operator Sainsbury's objected to the Poole Charging Schedule as Poole's Draft Charging Schedule set a separate charge for retail over 3,000m^2. Sainsbury's argued that whilst the CIL regulations allow charging authorities to set differential rates for different geographical areas or different uses, they do not permit differential rates within different uses. The CIL Regulations and Guidance neither specifically permit nor prohibit development types to be divided and differential rates applied. In several areas differential rates within a sector have been approved by CIL examiners.

2.8 Some clarity has been provided by CIL Examiner, Geoff Salter, in his report (September 2012) following the Wycombe District Council CIL examination. He decided that differential rates can be set within a general use but these should not be set by unit size alone. He set out how differential rates could be set for different uses such as supermarkets and retail warehouses and he provided definitions of these. We suggest that, for now, a cautious approach is taken and that evidence is collected to inform the charge setting process and to enable a judgement to be made as to whether differential rates are appropriate and can be supported.

2.9 The CIL Guidance provides a framework to assist Charging Authorities to introduce CIL. We have followed this Guidance in this study. The following paragraphs are particularly relevant to the approach that we have taken.

6. The initial stage of preparing a charging schedule focuses on determining the CIL rate(s). When a charging authority submits its draft charging schedule to the CIL examination, it must provide evidence on economic viability and infrastructure planning….

2.10 This study concentrates on the viability element of the evidence. The Councils are preparing evidence of the requirements for infrastructure. On preparing the evidence base on economic viability, the Guidance says:

21. Charging authorities should be able to show and explain how their proposed Community Infrastructure Levy rate (or rates) will contribute towards the implementation of their relevant Plan and support development across their area. It is likely, for example, that charging authorities will need to summarise evidence as to economic viability in a document (separate from the charging schedule) as part of their background evidence that shows the potential effects of their proposed levy rate (or rates) on the economic viability of development across their area.

23. Charging authorities should use an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging authorities will need to be able to show why they consider that the proposed levy rate(s) sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area.

2.11 In this study we have looked at the area by the appropriate market areas to allow the Councils to take a joined up approach across the charging authority boundaries when setting CIL. We have however recommended that where a council is relying on a few very large strategic sites to deliver a large proportion of their overall housing target that it would be appropriate to carry out site specific viability testing, working with the site owner(s)[6]. This is important, as if for example a very large site has a different set of economic circumstances to the norm, the requirements for improvement to the infrastructure are higher. If CIL is set without specific reference to that site, the plan could be put at risk by making that one site unviable.

Economic valuation

24. There are a number of valuation models and methodologies available to charging authorities to help them in preparing evidence on the potential effects of the levy on the economic viability of development across their area. There is no requirement to use one of these models, but charging authorities may find it helpful in defending their levy rates to use one of them.

2.12 We have used models developed over the last five or so years, since the Blyth Valley decision (2007) that clarified the requirement for area wide viability testing. This has been updated over time as and when new guidance has been produced (see below). This methodology was found sound at the Shropshire CIL Examination.

Appropriate available evidence

2.13 *25. The legislation (section 211 (7A)) requires a charging authority to use 'appropriate available evidence' to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.*

2.14 This study has drawn on the existing available evidence, including the Affordable Housing Viability Studies and site specific appraisals.

26. A charging authority should draw on existing data wherever it is available. Charging authorities may consider a range of data, including:

- *values of land in both existing and planned uses; and*
- *property prices (e.g. house price indices and rateable values for commercial property).*

27. In addition, a charging authority should sample directly an appropriate range of types of sites across its area in order to supplement existing data, subject to receiving the necessary support from local developers. The focus should be in particular on strategic sites on which the relevant Plan relies and those sites (such as brownfield sites) where the impact of the levy on economic viability is likely to be most significant. In most instances where a charging authority is proposing to set differential

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[6] This Harman Guidance that says (Page 23):
Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.

rates, they will want to undertake more fine-grained sampling (of a higher percentage of total sites), to identify a few data points to use in estimating the boundaries of particular zones, or different categories of intended use. The sampling should reflect a selection of the different types of sites included in the relevant Plan, and should be consistent with viability assessment undertaken as part of plan-making.

2.15 This is particularly important for large sites that are vital to the delivery of the Development Plan. This site specific testing falls outside the scope of this project.

34. Charging authorities may want to consider setting differential rates as a way of dealing with different levels of economic viability within the same charging area (see regulation 13). This is a powerful facility that makes the levy more flexible to local conditions. Differences in rates need to be justified by reference to the economic viability of development. Charging authorities can set differential levy rates for different geographical zones provided that those zones are defined by reference to the economic viability of development within them. In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability.

2.16 This report will form one part of the evidence that the Councils will use to inform the CIL setting process. They will also consider other 'existing available evidence', the comments of stakeholders, the need for infrastructure, and their wider priorities.

2.17 It is clear from the above that there is much in common between the Guidance and the National Planning Policy Framework (NPPF) requirement to assess the viability of the delivery of the Development Plan, and the impact on development of policies contained within it[7]. The NPPF includes the following requirements:

173. Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

2.18 The duty to test in the NPPF is a 'broad brush' one saying '*plans should be deliverable*'. It is not a requirement that every site should be able to bear all of the local authorities' requirements – indeed there will be some sites that are unviable even with no requirements imposed on them by the local authority. The typical site should be able to bear whatever target or requirement is set. Some sites within the area will not be able to do so, but developers have scope to make specific submissions at the planning applications stage; similarly some sites will be able to bear considerably more than the policy requirements.

[7] The NPPF was published on 27th March 2012 and the policies within it apply with immediate effect.

2.19 The viability testing under the CIL is different. CIL, once introduced, is mandatory on all developments (with a very few exceptions) that fall within the categories and areas where the levy applies, unlike other policy requirements to provide affordable housing or to build to a particular environmental standard over which there can be negotiations. This means that CIL must not prejudice the viability to such an extent that the Development Plan is put at ‘serious risk’.

Limitations of Viability testing in the context of CIL

2.20 The high level and broad brush viability testing that is appropriate to be used to set CIL (and required by CIL Regulation 14) and in the context of the NPPF, does have limitations. The purpose of the viability testing in this report is to assess the ‘effects’ of CIL. Viability testing is a largely quantitative process based on financial appraisals – however, there are types of development where viability is not at the forefront of the developer’s mind, and they will proceed even if a ‘loss’ is shown in a conventional appraisal. By way of example, an individual may want to fulfil a dream of building a house and may spend more that the finished home is actually worth; a community may extend a village hall even through the value of the facility in financial terms is not significantly enhanced; or the end user of an industrial or logistics building may extend or build a new factory or depot that will improve its operational efficiency even if, as a property development, the resulting building may not seem to be viable.

2.21 This sets a Charging Authority a challenge when it needs to determine whether or not the introduction of CIL will have an impact on development coming forward and threaten Development Plan – will introducing CIL on a development type that may appear only to be marginally viable have any material impact on the rates of development or will the developments proceed anyway?

Viability Testing

2.22 There is no statutory guidance on how to actually go about viability testing and assessing when a site is or is not viable. The availability and cost of land are matters at the core of viability for any property development. The format of the typical valuation, which has been standard for as long as land has been traded for development, is:

Gross Development Value
(The combined value of the complete development)

LESS

Cost of creating the asset, including a profit margin
(Construction + fees + finance charges)

=

RESIDUAL VALUE

2.23 The result of the calculation indicates a land value, the Residual Value, which is the top limit of what a bidder could offer for a site and still make a satisfactory profit margin. In this study, we have adapted this procedure a little. We ask, given the likely land values, how much CIL can be payable whilst the developer still makes a reasonable profit?

2.24 The 'likely land value' is a difficult topic since a landowner is unlikely to be entirely frank about the price that would be acceptable, always seeking a higher one. This is one of the areas where an informed assumption has to be made about the 'uplift': the margin above the 'existing use value' which would incentivise the landowner sell.

2.25 This study does not attempt to assess the specific price that could or should be paid for each site. The appraisal calculates what a typical site may be worth if a range of scenarios (such as different amounts of affordable housing) were to occur, and then compares that amount with the land's value in some other use to which it could be put. The methodology used is therefore to calculate the residual value of a scheme and then compare it to either the existing use value (EUV), or an alternative use value (AUV), plus an appropriate uplift to incentivise a landowner to sell. This 'EUV plus' approach is in line with *Viability Testing in Local Plans – Advice for planning practitioners. (LGA/HBF – Sir John Harman)* and was endorsed by the Planning Inspector who approved the London Mayoral CIL Charging Schedule in January 2012[8]. It is recognised that the approach set out in August 2012 RICS Guidance *Financial viability in planning, RICS guidance note, 1st edition (GN 94/2012)* advocates a different approach. In his report, the London Inspector dismissed the theory that using historical market value to assess the value of land was a more appropriate methodology than using EUV plus a margin.

2.26 There is no specific guidance on how to test the viability in the CIL Regulations or Guidance. Paragraph 173 of the NPPF says: '…… *To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable……*' This is quite straightforward – although '*competitive returns'* is not defined.

2.27 The amount of the uplift over and above the existing use value is absolutely central. It must be at a level to provide 'competitive returns' to the landowner, as if it does not, the landowner will not sell their land for development. There does not seem to be any intention in the NPPF, in the supporting guidance, nor in any of the statements made by ministers and officials at CLG, for a new test of viability to be introduced; indeed the NPPF says '*Evidence supporting the assessment should be proportionate, using only appropriate available*

[8] Paragraphs 7 to 9 of REPORT ON THE EXAMINATION OF THE DRAFT MAYORAL COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE by Keith Holland BA (Hons) DipTP MRTPI ARICS an Examiner appointed by the Mayor Date: 27th January 2012

evidence' and the CIL Guidance says[9] '*The legislation (section 212 (4) (b)) requires a charging authority to use 'appropriate available evidence' to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole*'.

Relevant Guidance

2.28 There are several sources of guidance and appeal decisions[10] that support the methodology we have used. The Homes and Communities Agency (HCA) good practice manual '*Investment and Planning Obligations: Responding to the Downturn*' (2009) has a definition of viability: '*a viable development will support a residual land value at level sufficiently above the site's existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner*'.

2.29 The planning appeal decisions, and the HCA good practice publication suggest that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared with the existing use value, plus a premium.

2.30 There are two more recent sources of guidance; *Viability Testing in Local Plans – Advice for planning practitioners. (LGA/HBF – Sir John Harman) June 2012*[11] (known as the Harman Guidance) and *Financial viability in planning, RICS guidance note, 1st edition (GN 94/2012)* during August 2012 (known as the RICS Guidance). Additionally, the Planning Advisory Service (PAS)[12] also provide viability guidance and manuals for local authorities.

2.31 Unfortunately the RICS and the Harman Guidance are not consistent. It is clear that whilst the RICS Guidance is not mandatory a surveyor should follow it. The RICS Guidance is recommending against the 'current/alternative use value plus a margin' (i.e. the one endorsed in London):

One approach has been to exclusively adopt current use value (CUV) plus a margin or a variant of this, i.e. existing use value (EUV) plus a premium. The problem with this singular approach is that it does not reflect the workings of the market as land is not released at CUV or CUV plus a margin (EUV plus). The margin mark-up is also arbitrary and often inconsistently applied in practical application as a result. Figure 3 illustrates how EUV plus a premium can over-value and under-value

[9] Paragraph 25
[10] *Barnet: APP/Q5300/A/07/2043798/NWF,* Bristol: APP/P0119/A/08/2069226, Beckenham: APP/G5180/A/08/2084559, Woodstock: APP/D3125/A/09/2104658"

[11] Viability Testing in Local Plans has been endorsed by the Local Government Association and forms the basis of advice given by the, CLG funded, Planning Advisory Service (PAS).
[12] PAS is funded directly by DCLG to provide consultancy and peer support, learning events and online resources to help local authorities understand and respond to planning reform.

sites compared to market value with an assumption, and the resultant impact on planning obligations that can be viably afforded. Appendix E sets out further detail on why a CUV approach is not recommended. It is of course possible to show how Site Value (as defined in the guidance), when it has been established, can be disaggregated and expressed in terms of 'CUV plus a premium'.

2.32 The Harman Guidance advocates an approach based on Threshold Land Value. Viability Testing in Local Plans says:

Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values (noting the exceptions below).

2.33 The RICS dismisses a Threshold Land Value approach as follows.

Threshold land value*. A term developed by the Homes and Communities Agency (HCA) being essentially a land value at or above that which it is assumed a landowner would be prepared to sell. It is not a recognised valuation definition or approach.*

2.34 Threshold Land Value may not be recognised by the RICS – however bearing in mind the RICS guidance was published some time after the Harman Guidance, this is a surprising statement. On face value these statements are directly contradictory.

2.35 The approach taken in this report is to compare the Residual Value generated by the viability appraisals for the modelled sites with the existing use value (EUV) or an alternative use value (AUV) plus an appropriate uplift to incentivise a landowner to sell. The amount of the uplift over and above the existing use value is central to the assessment of viability. It must be set at a level to provide 'competitive returns' to the landowner. To inform the judgement as to whether the uplift is set at the appropriate level we have made reference to the market value of the land both with and without the benefit of planning.

2.36 This approach is in line with that recommended in *Viability Testing in Local Plans* (as endorsed by LGA, PAS and the London CIL Examiner) – but also broadly in line with the main thrust of the RICS Guidance of having reference to market value.

2.37 Finally, Chris Hill of Turner Morum, undertook a study research paper for the Department for Communities and Local Government titled '*Cumulative impacts of regulations on house* *builders and landowners*' that was published in 2011[13]. This paper provides a useful discussion of this topic and also supports the methodology used here.

Existing Available Evidence

2.38 The CIL Regulations and CIL Guidance (and NPPF) are clear that the assessment of the potential impact of CIL should, wherever possible, be based on existing available evidence rather than new evidence. We have reviewed the evidence that is available from the Councils. This falls into three broad types:

2.39 The first is that which has been prepared by the Councils to inform their Local Development Frameworks (LDF) and, in particular, their Core Strategies. The most useful parts of this are the SHLAA and the Affordable Housing Viability Study, but also includes more specific reports and assessments to do with smaller geographical areas and development types.

2.40 Secondly, the Councils hold a substantial amount of evidence in the form of development appraisals that have been submitted by developers in connection with specific developments – most often to support negotiations around the provision of affordable housing or s106 contributions.

2.41 This study is over a wide geographical area that includes six Charging Authorities so there is an inevitable diversity of evidence that is not consistent. Some of this inconsistency is because the evidence was prepared at different dates, but some is different because it is very site specific, or prepared by different consultants. Our approach has been to draw on this existing evidence and to consolidate it into a single evidence base that can then be tailored to each individual authority's circumstances (such as local affordable housing targets). We have taken broad cost and price assumptions over the whole area as commercial and residential property markets operate across local authority boundaries.

2.42 Thirdly, the Councils also hold evidence of what is being collected from developers under the s106 regime. We have considered the Councils' policies for developer contributions (including affordable housing) and the amounts that have actually been collected from developers. This is important, as if a council has a consistent record of collecting contributions under s106 and delivering an affordable housing target, it is unlikely that the introduction of CIL at a level close to the amount currently being collected will have a significant effect on the viability of development in an area.

Stakeholder Engagement

2.43 The CIL Guidance requires stakeholder engagement – particularly with members of the development industry. On 18th July 2012, a consultation event was held in Pershore.

[13] http://www.communities.gov.uk/documents/corporate/pdf/1923450.pdf

Residential and non-residential developers (including housing associations), landowners and planning professionals were invited and there was an excellent turnout with about 70 attending. In addition, representatives from neighbouring authorities attended. **Appendix 1** includes a list of those who were invited to and a list of those who attended the event. The event was divided into four parts, **Appendix 2** includes copies of presentation from the first consultation event.

a. An introduction to CIL and the purpose of viability evidence in the CIL charge setting process. This included a summary of the relevant parts of the Regulations and Guidance.

b. An introduction to viability testing in the context of the CIL regulation 14 and paragraph 173 of the NPPF.

c. Viability Assumptions. The methodology and the main assumptions for the viability assessments were set out including development values, development costs, land prices, developers' and landowners' returns.

d. Workshops. The consultees divided into groups, each led by a planning officer, and talked through the main cost and price assumptions used in the analysis. The feedback from these sessions was carefully recorded.

2.44 A lively, wide ranging and informative discussion took place. The comments of the consultees are reflected through this report and the assumptions have been adjusted where appropriate. There was not agreement on all points, although there was a broad consensus on most matters. Where there was disagreement, we have made a judgement, and set out why we have used the assumptions we have used. The main points from the consultation event were:

a. The assumptions around developers' profit did not reflect the workings of the market as many housebuilders assume a 20% profit on Gross Development Value (GDV).

b. The alternative land values for residential property may be too low.

c. The use of uplift in assessing viability was not appropriate and reference should be made to market value.

d. The substantial difference between total site area (the gross area) and developable area (the net area) must be reflected in the study.

2.45 In addition to these main points, considerable concern was expressed about the delivery mechanisms for the infrastructure, and how developers would know that the infrastructure required to enable their site to be developed would actually be provided. This aspect of CIL is beyond the scope of this piece of work, however, we take this opportunity to highlight this to the Councils. If there is going to be a move from requiring developers provide their own infrastructure through s106, to the Councils delivering it via CIL, then if development is to come forward, there must be a mechanism for delivery of that infrastructure.

2.46 Following the event, copies of the presentation were circulated to all those invited and the attendees were asked to make any further representations by email. These further comments were broadly reflective of those already made at the event and have been reflected in this report.

2.47 A second consultation event was undertaken on 30th October 2012. At this event the results and outputs of the viability study were reported and discussed before the range of factors to be considered when setting CIL (see Chapter 13) were presented. Whilst rates of CIL were not presented, the range in which they may fall were.

2.48 We take this opportunity to thank the many developers, landowners and their representatives who have made valuable contributions to this piece of work.

3. Viability Methodology

Outline Methodology

3.1 CIL is not set through a calculation or formula. The purpose of this study is to assess the effect of CIL on development viability so that a judgment can be made as to whether the Development Plan will be put at 'serious risk'. The basic viability methodology is summarised in Figure 3.1 below. It involves preparing financial development appraisals for a representative range of sites and using these to assess whether sites are viable, and if they are how, much CIL can be paid. The sites were modelled based on discussions with Council officers, the existing available evidence supplied to us by the Councils, and on our own experience of development. This process ensures that the appraisals are representative of typical development.

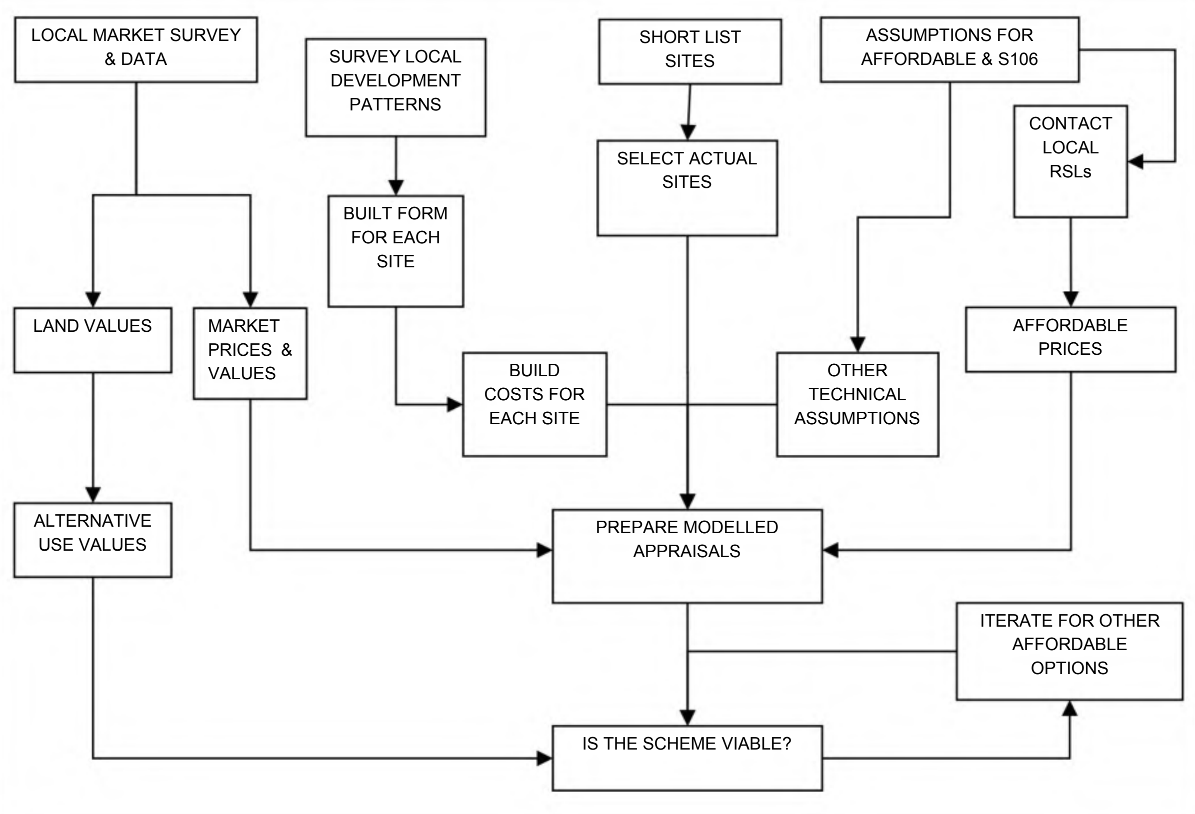
3.2 The appraisals tested a range of scenarios including different levels of affordable housing provision and different development requirements such as building to a higher Code for Sustainable Homes (CfSH) level.

3.3 We surveyed the local housing and commercial markets, in order to obtain a picture of sales values. We also collected land values to assess alternative use values. Alongside this, we considered local development patterns (based on planning policies) in order to arrive at appropriate built form assumptions for those sites where information from a current planning permission or application was not available. These in turn informed the appropriate build cost figures. A number of other technical assumptions were required before appraisals could be produced. The appraisal results were in the form of £/ha 'residual' land values, showing the maximum value a developer could pay for the site and still return a target profit level.

3.4 The residual value was compared to the alternative use value for each site. Only if the residual value exceeded the alternative figure, and by a satisfactory margin, could the scheme be judged to be viable.

3.5 We have used a bespoke viability testing model designed and developed by us specifically for area wide viability testing as required by the NPPF and CIL Regulation 14. The purpose of the viability model and testing is not to exactly mirror any particular business model used by those companies, organisations and people involved in property development. The purpose is to capture the generality and to provide high level advice to assist the Councils in the setting of CIL.

Figure 3.1 Viability methodology



Source: HDH 2012

Additional Profit

3.6 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*'.

3.7 *Additional Profit* is a concept that we have developed[14] and 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). In this case, '*normal profit*' is the 20%[15] of costs we used in the appraisals. Our approach to calculating this was to complete the appraisals using the same base cost and price figures, and other financial assumptions, as used to establish the Residual Value – but instead of calculating the Residual Value, the cost of the land (being alternative use value plus uplift – see Chapter 2 above for more details) is incorporated into the cost side of the appraisal to show the resulting profit (or loss).

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[14] This methodology was found sound at the Shropshire CIL Examination
[15] It should be noted that the assumptions around developers' profit were not agreed with the consultees – see paragraph 7.31 below.

3.8 The amount by which the resulting profit exceeds the target level of profit, represents the *additional profit* on that site, and provides a measure of the scope for contributing to CIL without impairing development viability to such an extent as to render the site unviable. CIL contributions can viably be paid out of this additional profit.

3.9 The starting point of these calculations is to base them on the Councils' current affordable housing target and development requirements. The following formula was used:

Gross Development Value
(The combined value of the complete development
Including X% affordable housing)

LESS

Cost of creating the asset, including a profit margin
(land* + construction + fees + finance charges + developers' profit)

=

Additional Profit

* Where 'land' is the Alternative Use Value and uplift'

3.10 The model used in this study has been developed specifically for broad area viability testing and allows multiple appraisals to be run on multiple sites.

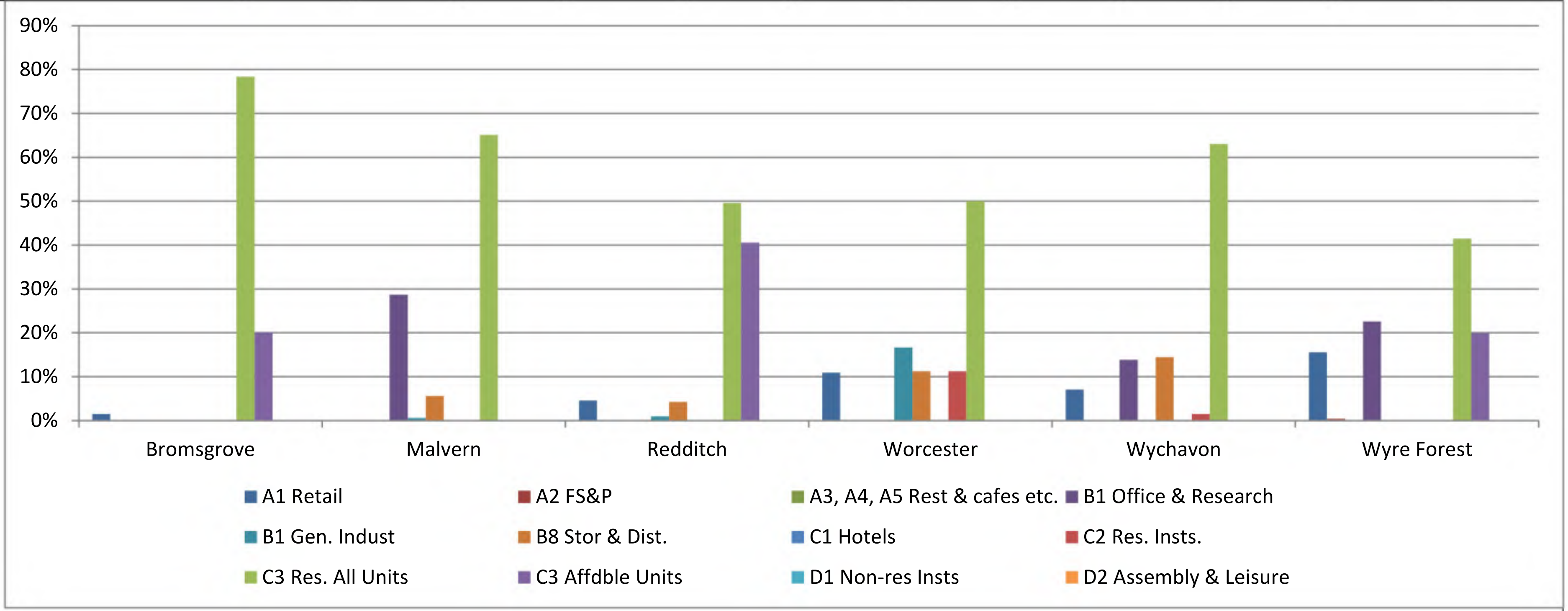
Development Patterns and Types

3.11 It is important that in a study of this type, which is to assess the effect of CIL on viability, that the type of development assessed is that which is likely to come forward and thus be subject to CIL as and when it is introduced. This study does not look at all types of development that could conceivably come forward; we have only assessed those development types that have a reasonable prospect of yielding CIL. To inform this, the Councils' past rates of development have been looked at and are set out in Table 3.1 below.

3.12 This data needs to be treated with caution as the methods of collecting data across the Councils is not consistent and some Councils collect more data than others – and some is on a gross development basis and others on a net development basis. The figure in Table 3.1 shows the data presented as a proportion of overall development assuming the housing targetis met. It is clear that residential development is the predominant type of development in all areas.

Table 3.1 Total Development 08/09 TO 10/11

	A1 Retail	A2 FS&P	A3, A4, A5 Rest & cafes	B1 Office & Research	B1 Gen. Indust	B8 Stor & Dist.	C1 Hotels	C2 Res. Insts.	C3 Res. All	C3 Affdble	D1 Non-res Insts	D2 Assembly & Leisure
	m^2	m^2	m^2	m^2	m^2	m^2	m^2	m^2	m^2	m^2	m^2	m^2
Bromsgrove	489								24,905	6,375		
Malvern Hills				6,484	133	1,263			14,705			
Redditch	692				148	644			7,480	6,120		
Worcester	6,490				9,900	6,666		6,666	29,750			
Wychavon	3,094			6,075		6,351		666	27,625			
Wyre Forest	4,307	100		6,257					11,475	5,525		



Source: Information supplied by Charging Authorities

4. Residential Property Market

4.1 This chapter sets out an assessment of the housing market, providing the basis for the assumptions on house prices to be used in the financial appraisals.

4.2 Although development schemes do have similarities, every scheme is unique to some degree, even schemes on neighbouring sites. Market conditions will broadly reflect a combination of national economic circumstances, local supply and demand factors. However, even within a town there will be particular localities, and ultimately site specific factors, that generate different values and costs.

4.3 Worcestershire is a diverse county that runs into the edges of the Birmingham conurbation in the Northeast and is deeply rural in the South and West. The housing market across the Worcestershire area reflects national trends, but there are local factors that underpin the market including:

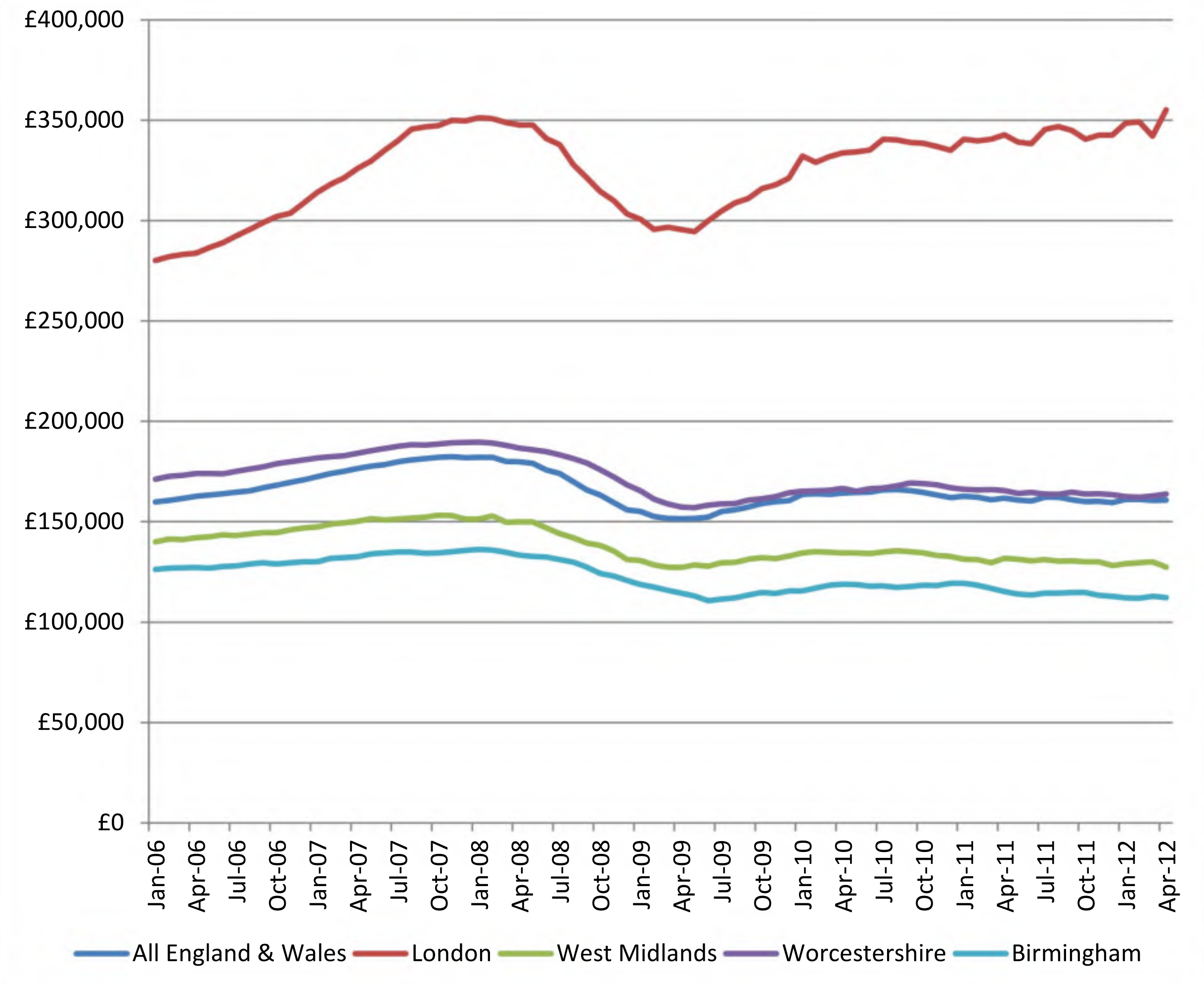
i. Attractive landscape across virtually the whole County.
ii. Many attractive settlements, in a range of sizes, containing buildings of character and heritage.
iii. Worcester City, providing a high quality offer based on shopping and a range of commercial, leisure, cultural and education facilities.
iv. Settled and attractive residential areas, providing housing within commuting distance of either the commercial centres to the North or South.
v. North/south routes providing good transportation links to Birmingham and the North and to Bristol and the West Country.

Worcestershire's Relationship to the UK Housing Market

4.4 The current direction and state of the housing market is unclear, and the future is uncertain. The housing market peaked late in 2007 (see the following graph) and then fell considerably in the 2007/2008 recession during what became known as the 'Credit Crunch'. Up to the peak of the market, the long term rise in house prices had, as least in part, been enabled by the ready availability of credit to home buyers. Prior to the increase in prices, mortgages were largely funded by the banks and building societies through deposits taken from savers. During a process that became common in the 1990s, but took off in the early part of the 21st Century, many financial institutions changed their business model whereby, rather than lending money that they had collected through deposits, they entered into complex financial instruments and engineering through which, amongst other things, they borrowed money in the international markets, to then lend on at a margin or profit. They also 'sold' portfolios of mortgages that they had granted. These portfolios also became the basis of complex financial instruments (derivatives etc).

4.5 During 2007 and 2008, it became clear that some financial institutions were unsustainable, as the flow of money for them to borrow was not certain. As a result, several failed and had to be rescued by governments. This was an international problem that affected countries across the world – but most particularly in North America and Europe. The first of the major banks to fail was Lehman Brothers in America. In the UK the high profile institutions that were rescued included Royal Bank of Scotland, HBoS, Northern Rock and Bradford and Bingley. The ramifications of the recession were an immediate and significant fall in house prices, and a complete reassessment of mortgage lending with financial organisations becoming adverse to taking risks, lending only to borrowers who had the least risk of default and those with large deposits.

Figure 4.1 Average House Prices (£)

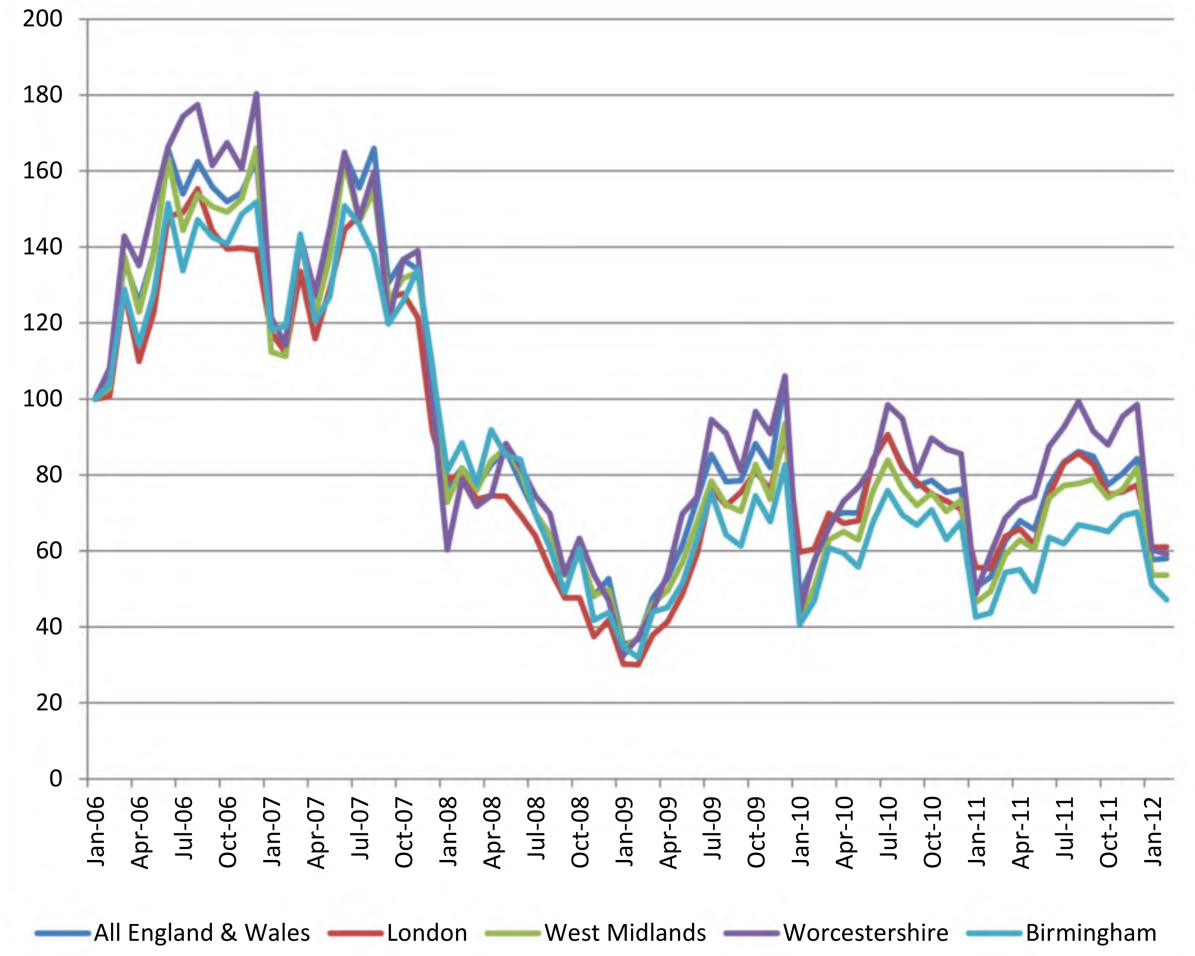


Source: Land Registry June 2012

4.6 Whilst there are various commentators talking about a recovery in house prices, there is very little actual evidence to support such a view outside of central London. The previous figure shows the various different average prices. Whilst it is difficult to pick out any trend in this, it is safe to say that there is no clear sign of recovery in the study area and that it is appropriate to take a cautious view.

4.7 As well as looking at national data, we have engaged with professionals in the local market. Discussions with estate agents suggest that prices in all areas across Worcestershire have stabilised and are no longer falling and there is now a little more confidence in the market with a return of first time buyers. This is reflected in the gradual increase of the number of sales taking place – although, as shown in the following figure this remains far below the 2007 peak:

Figure 4.2 Sales per month – Indexed to January 2006



Source: Land Registry April 2012

4.8 There is clearly uncertainty in the market, and it is not for this study to try to predict how the market may change in the coming years, not whether or not there will be a recovery in house prices. The troubles in the Euro-zone are continuing and there is no clear end to them in sight. This sets the Councils a particular challenge when it comes to setting a rate of CIL that will prevail for several years.

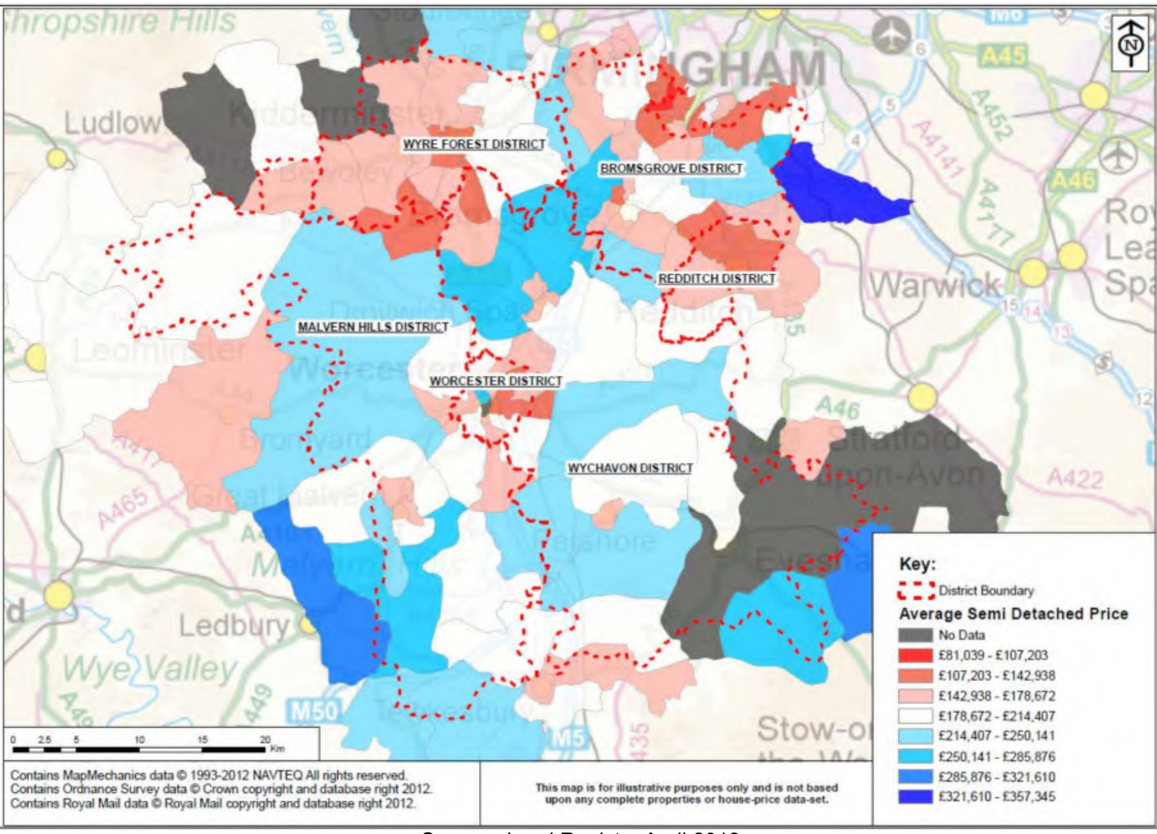
4.9 To assist the Councils to 'strike the balance' in an informed way, we have run two further sets of appraisals to show the effect of a 5% increase, and a 5% decrease in house prices, with all other matters remaining unchanged. The Harman Guidance does provide some assistance as to what approach to be taken, suggesting that for the first five years of a plan period that current values and costs form the basis of the testing. This approach is in line with the recommendations of the Harman Guidance[16].

4.10 We would recommend that the Councils take a cautious view when setting CIL and make allowance for falls in the values of new build houses. We would suggest that the Charging Schedules should incorporate a mechanism for review at least every three years (well within the 5 years implied by the Harman Guidance) with an additional trigger should prices change by more than 10%[17]. It should be noted that a simple change in prices may not give rise to a change in CIL, as other factors affecting development viability may also change – the 10% guide is a useful, and easy to monitor, reference.

The Worcestershire Market

4.11 The Land Registry collects house price information by postcode areas. This is shown on the map below.

Map 4.1 Average Semi-Detached Price



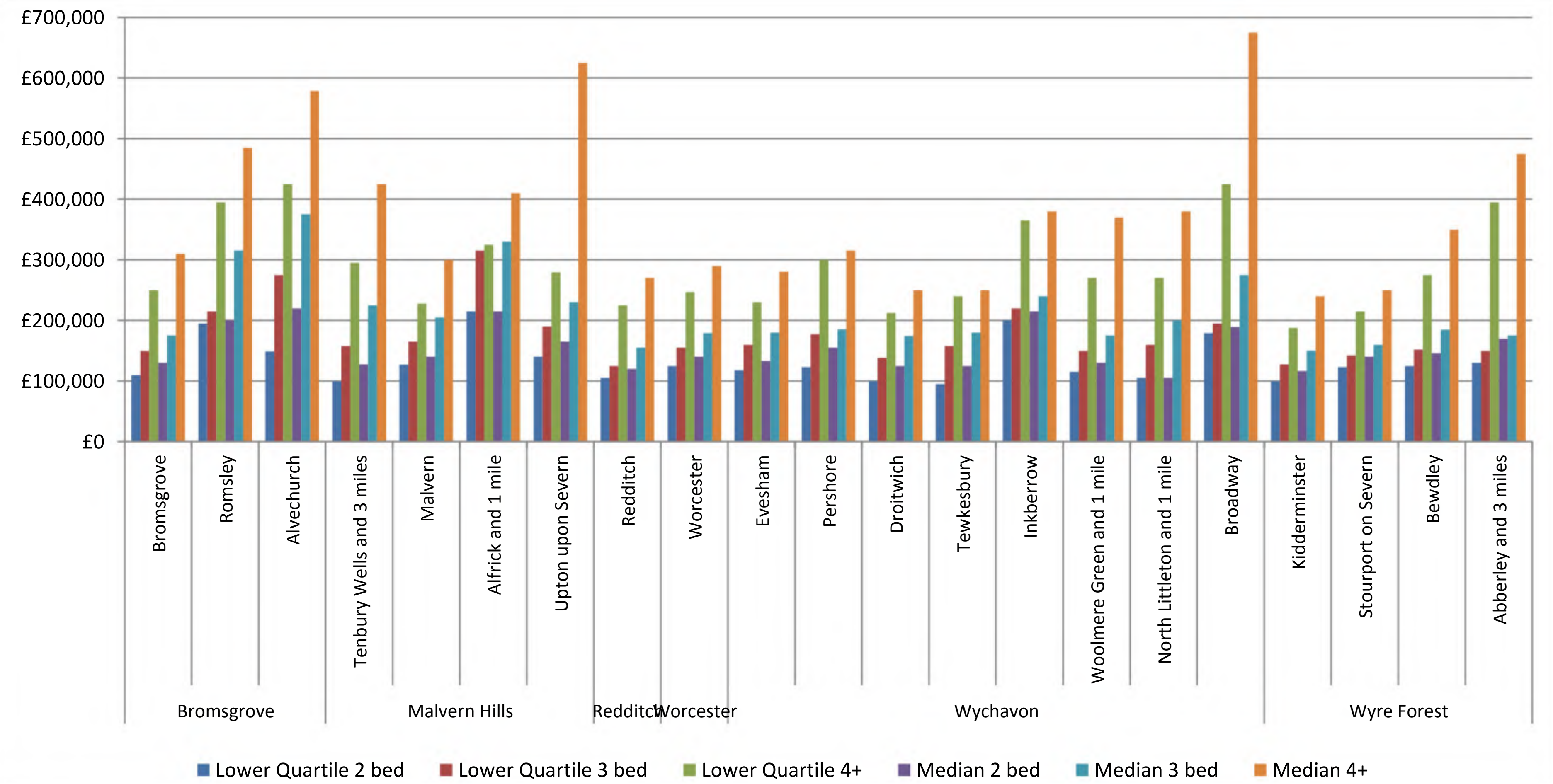
Source: Land Registry April 2012

[16] The Harman Guidance says (page 26) 'The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values'.

[17] If this approach is adopted then the Draft Charging Schedule should set out the procedure and make reference to a widely available published index such as the Land Registry or the Halifax Price Index

4.12 We carried out a survey of asking prices by house size by settlement. Through using online tools such as rightmove.com, zoopla.co.uk and other resources we estimated the lower quartile and median asking prices for the main settlements. These are shown in the following figure:

Figure 4.3 Asking Prices by Settlement – June 2012



Source: Market Survey 2012 (Note: the above figure includes some settlements that lie beyond the boundaries of Worcestershire (e.g. Tewksbury). These have been included to provide context, they have a strong influence on the Worcestershire housing market).

New Build Sales Prices.

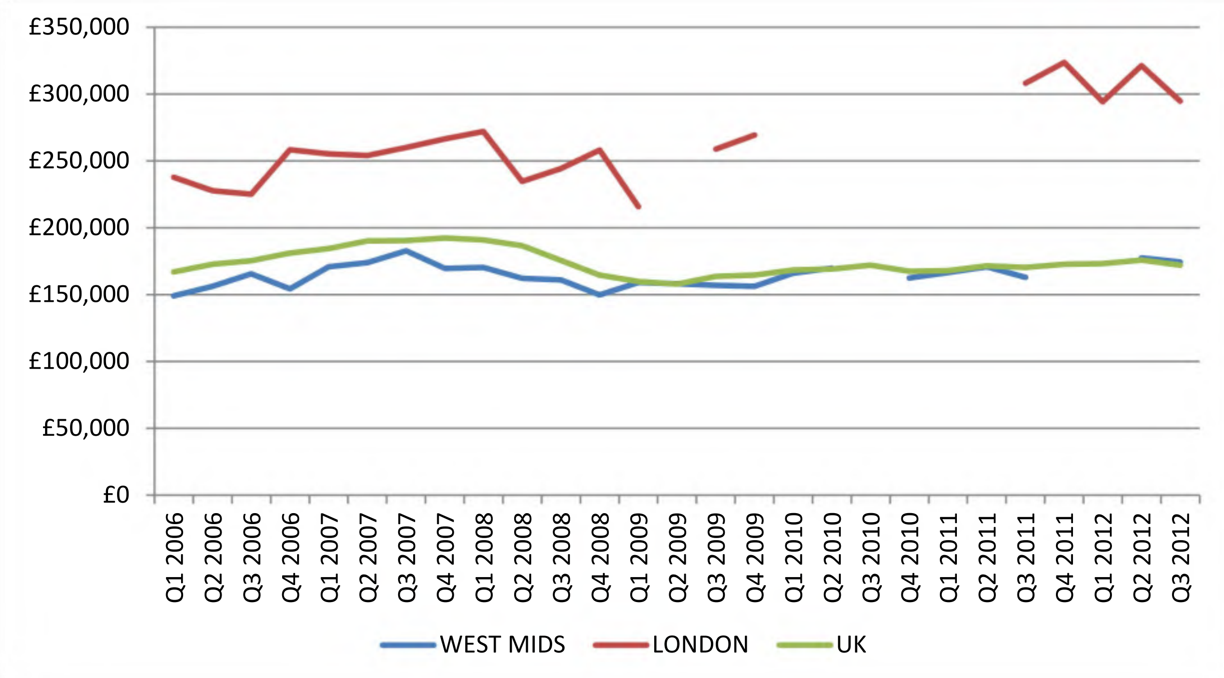
4.13 This price information is useful in setting the scene and context for the assessments but this study is concerned with the viability of new build residential property so the key input for the appraisals are the prices of units on new developments. We conducted a survey of new homes for sale during March 2012. A list setting out details of relevant new developments in the area is provided in **Appendix 3**. We identified about 160 new homes for sale on 50 different sites. The information collected was not comprehensive as different developers and agents make different levels of information available.

4.14 Analysis of these and other schemes in the study area shows that asking prices for newbuild homes vary, very considerably, across the area ranging between less than £1,750/m^2 in Northfield in the very North of the County to over £4,000/m^2 in Drakes Cross, also North of the M42. These prices are summarised in **Appendix 3** – note this table only shows values where £/m^2 were available.

4.15 During the course of the research, we contacted many of the sales offices and agents to enquire about the price achieved relative to the asking prices, and the incentives available to buyers. In most cases the feedback was that the units were 'priced to sell' or we were told that as the market was improving the large discounts that were available are no longer offered. When pressed, it appeared that the discounts and incentives offered equated to 2% to 3%, and in one case up to 5% of the asking price. It would be prudent to assume that prices achieved, net of incentives offered to buyers, are 3% less than the above asking prices.

4.16 These prices are consistently higher than those found in the research carried out by Adams Integra in July 2010 for the South Worcestershire Councils (Malvern, Wychavon and Worcester) – although they do show a similar pattern. We do not find this surprising, as shown in the following Figure, new build units largely recovered their falls and are now higher than in 2010. The Wyre Forest SHLAA contains viability evidence which includes house prices that are consistent with the above.

Figure 4.4 New-build average house prices



Source: Nationwide Building Society (Note that the data is not available for all periods)

4.17 We have compared these prices with those submitted by developers in appraisals submitted to the Councils as part of the development control process and in connection with s106 negotiations and in other parts of the planning evidence base. These are summarised below:

Table 4.2 Residential prices from developer appraisals and the wider evidence base

Council	Type	£/m2
Malvern Hills	Semi Detached	2,225
	Detached	2,194 to 2,255
Redditch	Flats	1,588 to 1,968
Worcester	2 bed flat	2,490
	3 bed flat	2,362
	Mixed housing	1,978
Wyre Forest	Flats	1,969
	house	1,400
	Houses	2,770
	Mix	1,689
Wychavon	2 bed house	2,094
	3 bed house	1,940
	2 bed house	1,658
	Low Flats	2,181
	Assisted living	3,227
	Assisted Living	2,870

Source: Development appraisals

4.18 The Map 4.1 above does show a considerable price variance across the County, however when looked at site by site, we have formed the view that a development's situation has a greater influence on price than the general location. Factors such as the view from the site (does it overlook a pretty river or a railway sidings) and the access to schools and the like are the factors that really drive house prices. The variance of new build houses by settlement, postcode area or similar is more difficult to identify definitively.

4.19 It is clear that smaller rural schemes tend to have the highest values and we have assumed that the smaller villages have a price premium.

Price Assumptions for Financial Appraisals

4.20 It is necessary to form a view about the appropriate prices for the schemes to be appraised in the study. The preceding analysis does not reveal simple clear patterns with sharp boundaries.

4.21 Based on the current asking prices from active developments, and informed by the general pattern of all house prices across the study area, we initially set the prices in the appraisals based on this data, which is summarised below. The details of each of the modelled sites are set out in Chapter 9.

4.22 It is important to note at this stage, that this is a broad brush, high level study to inform the setting of CIL as required by CIL Regulation 14. The values between new developments and within new developments will vary considerably. The prices are typical of new build housing in that general geographical area – rather than relating to any specific scheme.

4.23 These prices were presented to the developers at the consultation event on 18th July. On the day there was a general consensus that these prices were representative of the newbuild prices in the various area – with the exceptions of Malvern and Wyre Forest that were thought to be a little high.

Table 4.3 Appraisal Variables by Charging Authority (£/m2) – Pre consultation

	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	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
Bromsgrove	2,150	2,100	2,250	2,300	2,200	2,200	1,950	2,000	2,250	2,350	2,400	1,750	1,800	2,300	2,600	3,000
Malvern	2,100	2,200	2,250	2,175	2,200	1,950	2,750	1,800	2,150	2,150	2,300	3,000	2,000	2,000	2,250	2,500
Redditch	2,000	1,900	2,300	2,400	2,600	2,200	1,700	2,000	2,250	2,600	2,600	1,750	1,800	2,300	2,600	3,000
Worcester	2,000	2,200	2,100	2,100	2,100	2,000	2,500	1,850	2,200	2,300	2,500	2,500	1,900	200	2,600	2,750
Wychavon	2,000	2,200	2,300	2,250	2,700	2,700	1,800	2,000	1,900	2,100	2,600	1,900	2,300	3,000	3,500	3,000
Wyre Forest	2,250	2,200	2,400	2,250	2,350	2,000	1,800	1,900	1,650	2,100	2,250	2,500	2,000	2,600	2,600	2,500

Source: HDH

4.24 Following the event on 18th July, and to reflect the comments made, the prices used in the appraisals were amended, and locally representative sites selected and the following assumptions used. In preparing these assumptions we have referred back to the survey of newbuild sale prices. In addition, we telephoned a selection of the agents and development sales offices to check the asking prices and the incentives currently being offered. We found that the asking prices had not changed significantly, however the firmer line on discounts was noticeable. It is difficult to accurately quantify this type of feedback, but it can certainly be taken as evidence of increased optimism in the housing market, and in the prospects of the house building industry.

Table 4.4 Appraisal Variables by Charging Authority

	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
Ha	8.5	8	3.75	2.5	1.8	1.4	0.6	0.42	0.4	0.57	0.3	0.2	0.12	0.1	0.1	0.1
Units	314	250	133	88	81	70	60	30	24	24	12	10	5	4	3	1
	SUE 1	SUE 2	Greenfield 1	Greenfield 2	Greenfield 3	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
Bromsgrove	2,100	2,050	2,175	2,250	2,200	2,050		1,900	2,250	2,250	2,200	1,800	1,850	2,350	2,600	3,000
Malvern Hills	2,050	2,100	2,200	2,250				1,850	2,100	2,300	2,250	2,251	2,050	2,300	2,500	2,750
Redditch		1,950	1,975	2,100	2,150				2,050	2,050	2,000	1,750	1,850	2,150	2,600	3,000
Worcester				2,150	2,075	1,850	2,300	2,150	2,100	2,225	2,400	2,450	1,750	2,025		
Wychavon	2,025	2,075	2,150	2,200	2,550	2,450		2,300	2,050	1,800	2,250	2,100	2,350	3,000	3,000	3,500
Wyre Forest			2,250	1,950	2,025	2,150	2,300	1,850	1,650	2,300	2,250	2,350	2,000	2,500	2,400	3,000

Source: HDH Note the blank sites are those with no relevance to the particular authority area – see Chapter 9 for further details.

4.25 It is necessary to consider whether the presence of affordable housing would have a discernible impact on sales prices. In fact, affordable housing will be present on many of the sites whose selling prices have informed our analysis. Our view is that, in any case, any impact can and should be minimised through an appropriate quality design solution.

Affordable Housing

4.26 All the Councils have policies for the provision of affordable housing (the requirements are summarised in Chapter 8). In this study we have assumed that such housing is constructed by the site developer and then sold to a Registered Provider (RP). This is a simplification of reality as there are many ways in which affordable housing is delivered, including the transfer of free land to RPs for them to build on, or the retention of the units by a scheme's overall developer.

4.27 There are three main types of affordable housing: Social Rent, Affordable Rent and Intermediate Housing Products for Sale. We consider the values of each in the following sections, These figures reflect the comments of the consultees made at the meeting on 18th July.

Social Rent

4.28 The value of a rented property is strongly influenced by the passing rent – although factors such as the condition and demand for the units also have a strong impact. Social Rents are set at a local level through a national formula that smooths the differences between individual properties, and ensures properties of a similar type pay a similar rent. Social rents vary across the study area:

Table 4.5 Social Rent (£)

		1 Bedroom	2 Bedrooms	3+ Bedrooms
Bromsgrove	per week	£63.42	£78.91	£96.66
	per month	£274.82	£341.94	£418.86
Malvern Hills	per week	£68.54	£81.46	£95.71
	per month	£297.01	£352.99	£414.74
Redditch	per week	£59.10	£67.18	£75.97
	per month	£256.10	£291.11	£329.20
Worcester	per week	£62.60	£75.46	£89.34
	per month	£271.27	£326.99	£387.14
Wychavon	per week	£71.54	£87.15	£102.24
	per month	£310.01	£377.65	£443.04
Wyre Forest	per week	£59.86	£74.68	£85.60
	per month	£259.39	£323.61	£370.93
Worcestershire	per week	£63.67	£78.01	£91.41
	per month	£275.90	£338.04	£396.11

Source: The COntinuous REcording of Letting and Sales in Social Housing in England (CORE) Q3 2012

4.29 The above rents are averages for all social rented homes – new and existing. A typical new social rented units would have a higher rent than these. This study concerns only the value of newly built homes. In spite of the differences in rents, there seems to be relatively little difference in the amounts paid by RPs for such units across the study area, so initially we assumed a value of £800/m^2. Very approximately, this equates to just over £60,000 for a 2 bedroom, and just under about £68,000 for a 3 bedroom home.

4.30 There was some detailed discussion of this at the stakeholder event on 18th July when we received a wide range of, somewhat contradictory, representations. It was suggested that a more appropriate way of putting a value on the social rented property would be to consider a percentage of open market value – in part because the values do vary across the area. A range of values were suggested from 40% to 65% of open market value. Bearing in mind the prices of new build property currently available as set out in earlier in this chapter, this would in fact, on many sites, and assuming 60%, result in higher prices than the £800/m^2 used in the initial appraisals.

4.31 Alternatively it was suggested that plots for social rented units had been traded for around £45,000 per plot – thus providing fully serviced land for a Housing Association to build units on. In our experience this is a less usual model in the current market with few housing associations proceeding on this basis.

4.32 Having considered the above comments, we have assumed social rented housing as a value of 55% of open market value across Worcestershire. This is a cautious assumption that balances the various stakeholders' comments and our own assessment.

Affordable Rent

4.33 The Localism Act has introduced a new form of affordable tenure known as Flexible Tenancies. Under a Flexible Tenancy the rent can be an Affordable Rent, which is a rent of no more than 80% of the open market rent for that unit. One of the key aims of the Coalition Government's policy on affordable housing is to make the much reduced HCA budget go further. The affordable rent that is over and above the social rent will be used by Registered Providers (RPs) to raise capital funding through borrowing or securitisation. This can then be used to build more affordable units – the extra borrowing replacing the grant.

4.34 When Grant Shapps, the then Housing Minister, announced the introduction of Flexible Tenancies and Affordable Rents on the 12th December 2010 he said:

> *Housing associations will be able to let an Affordable Rent property (whether a converted 'void' or newbuild) at <u>up to 80 per cent</u> of market rent for an equivalent property for that size and location.*

4.35 The hope and objective of affordable rent is that, by charging higher rents for the affordable housing, developers would require less grant and subsidy and thus the development of affordable housing would effectively fund itself. The theory being that if the developer could charge a higher rent then it could borrow more money to finance the construction and development process. It should be noted that Affordable Rent can only be charged where the housing association has an agreement with the HCA and is part of the HCA's development programme – having said this, housing associations do still have the scope to charge 'intermediate rents' (being higher than social rents).

4.36 This report does not address whether Flexible Tenancies and Affordable Rent have a place in meeting the housing requirements of those households in housing need and on the Housing Registers in Worcestershire. Flexible Tenancies will be able to be granted for more than just newbuild properties. Some of the relets of existing social rented stock will be able to be at Affordable Rent rather than social rents. The extra income (i.e. that income over and above the social rent) from the relets must also be used to fund further development of new affordable housing.

Grant Funding

4.37 For many years, the HCA and Local Planning Authorities (LPAs) have aspired to ensure that affordable housing is delivered without grant. When LPAs have negotiated with developers during the planning process, about the number and type of affordable housing to be provided through s106 agreements and planning conditions, the initial basis of those discussions has usually been that the affordable units would be made available without any grant. The reality was rather different, with the developer either transferring the serviced land for affordable housing to an RP for no cost, or an RP purchasing the completed units from the developer with grant assistance from the HCA.

4.38 Before the reforms, the amount of grant paid by the HCA was assessed project by project, depending on a site's financial characteristics. The RPs at the 18th July consultation event reported that, typically, RPs received grant of about £35,000 per social rent unit although as grant was assessed project by project, this varied considerably and could be as much as £65,000 per unit – but it was stressed that many projects did not receive any grant at all.

4.39 The aim of affordable rent (new build and re-lets) is that the extra income can be used to borrow and thus to replace the grant. The RP will be able to service new borrowings to make up the gap in grant. Some grant will continue to be available, but it will be restricted to those high priority sites where affordable rent does not improve the viability (such as in low rent areas) or where there is still a funding gap after the extra affordable rent has been allowed for.

4.40 At this early stage of the new funding regime, it is difficult to estimate the amount on a per unit basis (as the HCA fund an overall programme rather than individual schemes). However, it is expected that grant of about £10,000 per affordable unit will be available in Worcestershire. As there is some uncertainty around this we have assumed that no grant will be available in the appraisals.

Development Economics of Affordable Rent

4.41 In the development of affordable housing for rent, the value of the units is the worth of the income that the completed let unit will produce. This is the amount an investor or another RP would pay for the completed unit. This will depend on the amount of the rent, the cost of managing the property (letting, voids, rent collection, repairs etc.), and other uses to which it may be able to be put at some time in the future. If, for example, the unit could be sold on the open market in the future, then a buyer may be willing to pay more to take into account the long term value (known by valuers as the reversion).

4.42 The HCA's *2011-15 Affordable* Homes *Programme – Framework* contains the 'rules' and guidance around Flexible Tenancies and Affordable Rents. It says:

*3.24 There will be a presumption that new Affordable Rent properties which receive funding under the new programme will be **permanently available for letting**. Flexible tenancies have been* *introduced to meet the differing needs of prospective tenants – but the homes themselves are expected to be available to meet need over the long-term, and it is on that basis that funding will be made available. We recognise that circumstances may change over time and any future disposal of properties will require TSA[18] consent in the usual way, including consultation with the relevant local authority.*

4.43 Based on this we know that the reversionary period is worth no more as the new property can only be used for Affordable Rent. This only applies to new properties and not relets.

4.44 What is the rental stream worth – either to the RP or to somebody else? There are two aspects to this:

i. How much additional borrowing the additional income from the Affordable Rent income will support.

ii. What a unit let on Affordable Rent is actually worth.

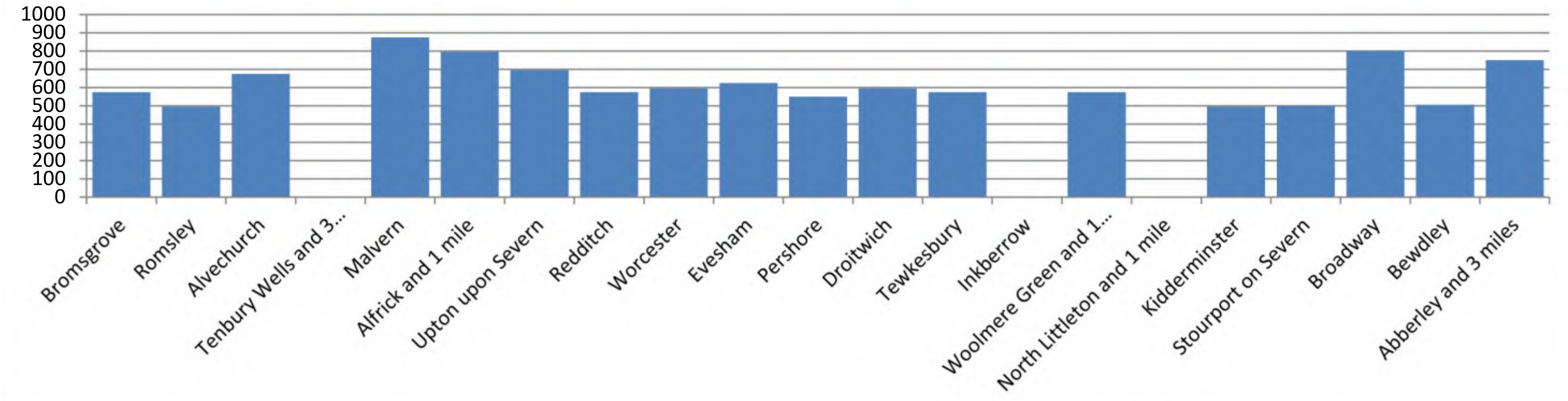
4.45 This figure depends, in a large part, on the level at which Affordable Rent is set, the terms of the lease and the tenant (are they reliable and will they pay their rent).

4.46 Currently, financially sound RPs can borrow at interest rates between 5% and 6% (depending on the details of the proposal). On this basis, to make up for £35,000 of lost grant, a little under £35 per week of extra rent needs to be collected. The current social rents in the area are shown above (Table 4.5) and, by way of an example, to make up the lost grant on a 2 bedroom home, the rent will need to be increased by about 45% (from £75/week to £110/week).

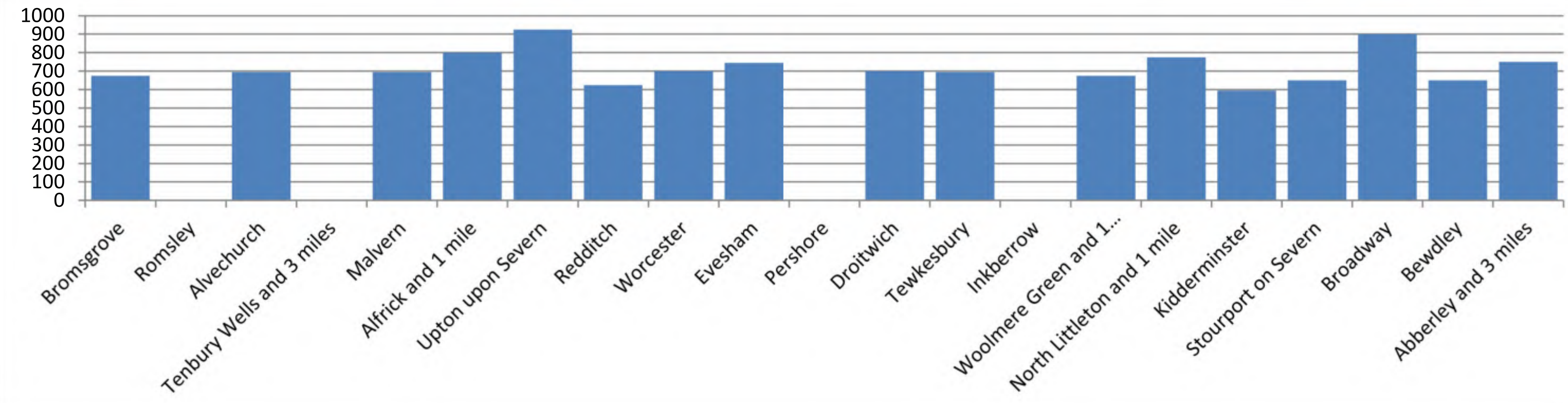
4.47 The amount of the affordable rent is the principal factor determining the value of the units. We have assumed that it is be set at 80% of the full open market rent of the properties in question. We have assumed that, because a typical affordable rent unit will be new, it will command a premium rent that is a little higher than equivalent older private sector accommodation. In estimating the level of affordable rent, we have undertaken a survey of rents across Worcestershire. As can be seen in the figure below these vary across the County (those settlements without rents are those where there were no or insufficient properties on the market to form a view as to current rents).

[18] Tenant Services Authority

Figure 4.5 2 Bedroom Rents by Settlement – June 2012 (£/month)



3 Bedroom Rents by Settlement – June 2012(£/month)



Source: Market Survey 2012

4.48 As part of the reforms to the social security system, housing benefit/local housing allowance is capped at the 3rd decile of open market rents for that property type, so in practice affordable rents are unlikely to be set above these levels. The cap is set by the Valuation Office Agency by Broad Housing Market Area (BHMA), however these BHMAs do not follow local authority boundaries – see the table below.

<table>
<tr><th colspan="4">Table 4.6 Worcestershire Broad Housing Market Areas</th></tr>
<tr><th>Local Authority</th><th>Broad Housing Market Areas</th><th>Local Authority</th><th>Broad Housing Market Areas</th></tr>
<tr><td rowspan="4">Bromsgrove</td><td>Birmingham</td><td>Worcester</td><td>Worcester South</td></tr>
<tr><td>Black Country</td><td rowspan="4">Wychavon</td><td>Cheltenham</td></tr>
<tr><td>Solihull</td><td>Warwickshire South</td></tr>
<tr><td>Worcester North</td><td>Worcester North</td></tr>
<tr><td rowspan="4">Malvern Hills</td><td>Cheltenham</td><td>Worcester South</td></tr>
<tr><td>Gloucester</td><td rowspan="5">Wyre Forest</td><td>Worcester North</td></tr>
<tr><td>Worcester North</td><td>Worcester South</td></tr>
<tr><td>Worcester South</td><td></td></tr>
<tr><td rowspan="2">Redditch</td><td>Worcester North</td><td></td></tr>
<tr><td>Worcester South</td><td></td></tr>
</table>

Source VOA

4.49 The LHA Cap is set by BHMA as follows. Where this is below the level of Affordable Rent at 80% of the median rent, we have assumed that the Affordable Rent is set at the LHA Cap.

Table 4.7 Worcestershire Broad Housing Market Areas LHA Caps £/week (£/month)

	Birmingham	Black Country	Solihull	Worcester North	Cheltenham	Gloucester	Worcester South	Warwickshire South
One Bedroom	£96.00 (£416.00)	£86.54 (£375.01)	£114.23 (£495.00)	£91.15 (£394.98)	£109.62 (£475.02)	£91.15 (£394.98)	£98.08 (£425.01)	£114.23 (£495.00)
Two Bedrooms	£115.38 (£499.98)	£103.85 (£450.02)	£144.23 (£625.00)	£114.23 (£495.00)	£140.77 (£610.00)	£121.15 (£524.98)	£126.92 (£549.99)	£144.23 (£625.00)
Three Bedrooms	£126.92 (£549.99)	£115.38 (£499.98)	£167.31 (£725.01)	£126.92 (£549.99)	£167.31 (£725.01)	£144.23 (£625.00)	£150.00 (£650.00)	£173.08 (£750.01)
Four Bedrooms	£161.54 (£700.01)	£150.00 (£650.00)	£230.77 (£1,000.00)	£173.08 (£750.01)	£230.77 (£1,000.00)	£183.46 (£794.99)	£184.62 (£800.02)	£229.62 (£995.02)

Source VOA

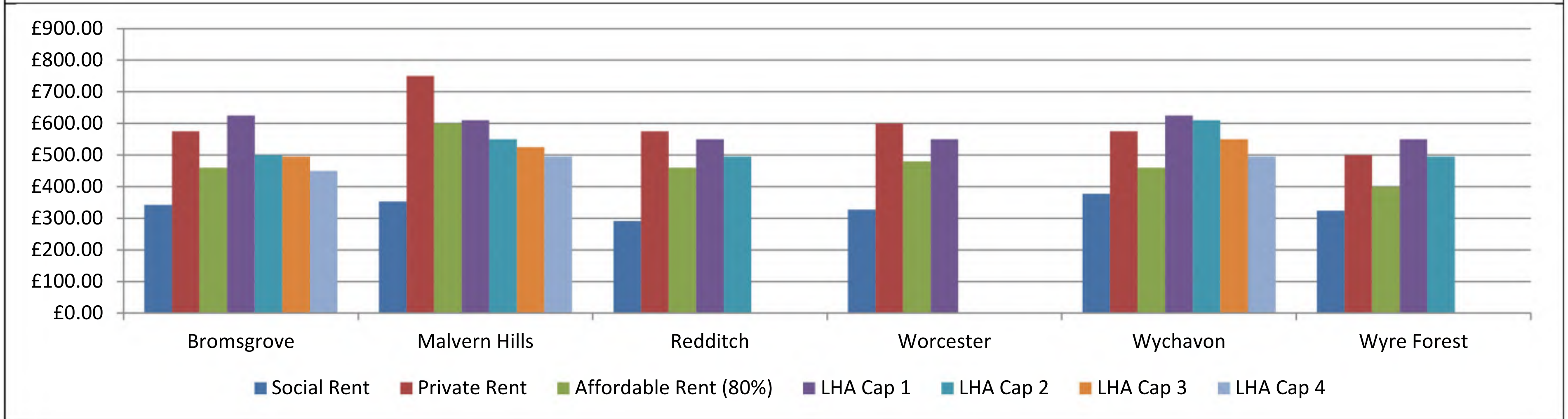
4.50 The prevailing rents in the main settlements (i.e. where the development will take place) are summarised in the following table and illustrated in Figure 4.6, and form the basis of the appraisals. In several areas Affordable Rent at 80% of the median open market rent will be over the LHA cap. In these instances the LHA Cap is assumed to be the affordable rent and forms the basis of the appraisals.

Table 4.8 Worcestershire Broad Housing Market Areas LHA Caps £/week (£/month)

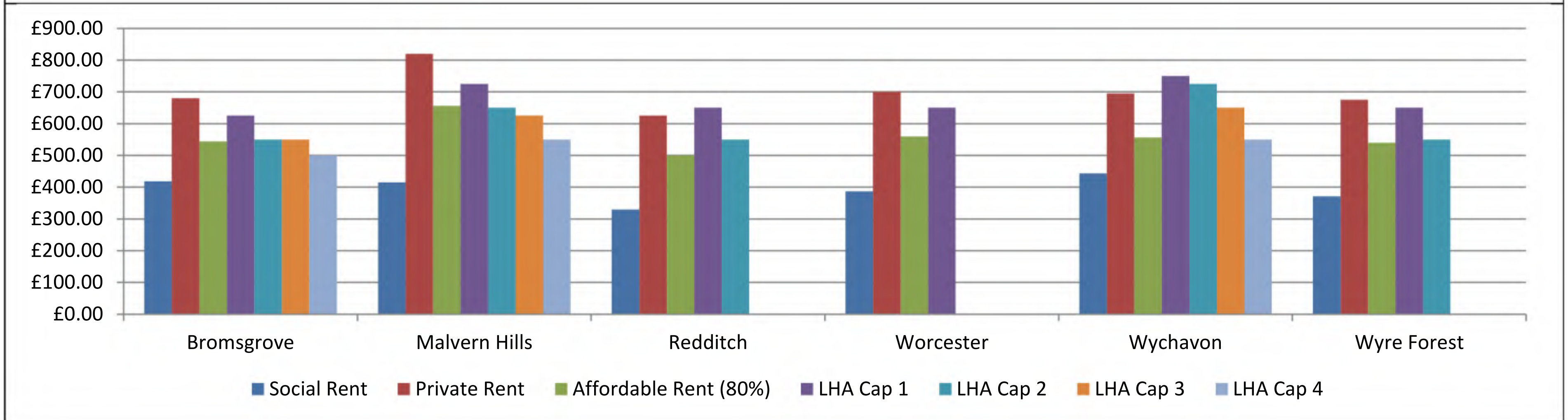
2 Bed	Bromsgrove	Malvern Hills	Redditch	Worcester	Wychavon	Wyre Forest
Social Rent	£341.94	£352.99	£291.11	£326.99	£377.65	£323.61
Private Rent	£575.00	£750.00	£575.00	£600.00	£575.00	£500.00
Affordable Rent (80%)	£460.00	£600.00	**£460.00**	**£480.00**	**£460.00**	**£400.00**
LHA Cap 1	£499.98	£610.00	£495.00	£549.99	£610.00	£495.00
LHA Cap 2	**£450.02**	£524.98	£549.99		£625.00	£549.99
LHA Cap 3	£625.00	**£495.00**			£495.00	
LHA Cap 4	£495.00	£549.99			£549.99	
3 Bed	Bromsgrove	Malvern Hills	Redditch	Worcester	Wychavon	Wyre Forest
Social Rent	£418.86	£414.74	£329.20	£387.14	£443.04	£370.93
Private Rent	£680.00	£820.00	£625.00	£700.00	£695.00	£675.00
Affordable Rent (80%)	£544.00	£656.00	**£500.00**	**£560.00**	£556.00	**£540.00**
LHA Cap 1	£549.99	£725.01	£549.99	£650.00	£725.01	£549.99
LHA Cap 2	**£499.98**	£625.00	£650.00		£750.01	£650.00
LHA Cap 3	£625.00	**£549.99**			**£549.99**	
LHA Cap 4	£549.99	£650.00			£650.00	

Source: HDH June 2012

Figure 4.6 Rents by Tenure. 2 Bedrooms. £/month



Rents by Tenure. 3 Bedrooms. £/month



Source: HDH June 2012

4.51 In calculating the value of affordable rents we have allowed for 10% management costs, 4% voids and bad debts and 6% repairs, and capitalised the income at 5.5%. This is summarised in the table below.

Table 4.9 Worth of Affordable Rent (£)

2 Bed	Bromsgrove	Malvern Hills	Redditch	Worcester	Wychavon	Wyre Forest
Private Rent	575	750	575	600	575	500
Affordable Rent (80%)	460	600	460	480	460	400
Net Rent pa	4,416	5,760	4,416	4,608	4,416	3,840
Worth	80,291	104,727	80,291	83,782	80,291	69,818
£/m2	1,071	1,396	1,071	1,117	1,071	931
3 Bed	**Bromsgrove**	**Malvern Hills**	**Redditch**	**Worcester**	**Wychavon**	**Wyre Forest**
Private Rent	680	820	625	700	695	675
Affordable Rent (80%)	544	656	500	560	556	540
Net Rent pa	5,222	6,298	4,800	5,376	5,338	5,184
Worth	94,953	114,502	87,273	97,745	97,047	94,255
£/m2	1,091	1,316	1,003	1,124	1,115	1,083

Source: HDH June 2012

4.52 One of the Housing Associations that attended the Consultation event commented that rather than using 5.5% yield, a 6% yield was more appropriate, and a 20% allowance should be made to cover reactive and planned maintenance – although it is unclear if this includes normal management. Whilst we note these comments we do feel that they are not the norm.

4.53 We have used a midpoint between the worth of the two and three bedroom homes for the value of affordable rent in the appraisals. We invited comments from stakeholders about this approach and the only comment made was to link the price to that of open market housing at 80%. Having considered this, we have not altered the assumption as in our opinion it would result in an inflated price.

The Treatment of Relets and Other Funding Sources

4.54 Before the reform, affordable housing funding a 3 bedroom / 4 person home was receiving, very approximately, about £35,000 of grant. Whilst the additional affordable rent over and above the social rent will make up a sizable contribution towards leveraging finance to replace the affordable housing grant, it may not make up the shortfall.

4.55 Housing associations that have an HCA funded development programme, are permitted to convert some of the existing Social Rented units to Flexible Tenancies and charge Affordable Rent – but only if the increased rent is used to leverage extra finance to enable the delivery of more affordable homes. It is very difficult to estimate with any accuracy to how many units this may apply.

4.56 The other source of funding that will be available to subsidise new units coming forward will be from sales (into the market and shared ownership staircasing) and from recycled grant being returned to new schemes. As mentioned above, there may also be some grant available.

4.57 With this in mind we believe that approximately £15,000 per unit (about £750/m^2) of 'external' funding from relets, sales, recycled grant and fresh grant may be available in the future. Due to the uncertainty about this, we have assumed that no external funding will be available in the analysis in this report – an approach endorsed at the consultation with housing officers.

Intermediate Products for Sale

4.58 Intermediate products for sale include shared ownership and shared equity products. The market for these is very difficult at present and we have found little evidence of the availability of such products in the study area. Having discussed this with stakeholders we have assumed that, in some cases, that shared ownership will be provided. It was suggested at the consultation event that it would be appropriate to assume that such units have a value of 70% of the open market value across Worcestershire. We have followed this assumption.

5. Non Residential Property Market

5.1 This chapter sets out an assessment of the markets for non-residential property, providing the basis for the assumptions on prices to be used in financial appraisals for the sites tested in the study.

5.2 Although development schemes do have similarities, every scheme is unique to some degree, even schemes on neighbouring sites. Market conditions will broadly reflect a combination of national economic circumstances and local supply and demand factors, however, even within a town there will be particular localities, and ultimately site specific factors, that generate different values and costs.

Key Commercial Property Markets in Worcestershire

5.3 The CIL Regulations and CIL Guidance require the use of existing available evidence for the viability testing to be appropriate to the likelihood of raising CIL. There is no need to consider all types of development in all situations – and there is certainly no point in testing the types of scheme that are unlikely to come forward – nor those unlikely to be viable.

5.4 As with the housing market, the various non-residential markets in Worcestershire area reflect national trends, but there are local factors that underpin the markets. There are several distinct market areas, these were discussed at the 18th July consultation event. Whilst these are distinct market areas, the rents and values within them are not necessarily different:

a. **North East Worcestershire.** The north eastern area is strongly influenced by Birmingham and includes Bromsgrove and Redditch.

b. **Central Worcestershire**. This area includes Worcester and Droitwich focused on the M5 and A449. There was considerable uncertainty about the boundaries of the area particularly as to whether or not Droitwich should be included. On balance, as values in Droitwich are relatively close to those in Worcester, it was decided that these centres should be grouped.

c. **South and East Worcestershire**. All the area south of the A44, to the west of Worcester round to east of the M5 to include Malvern, Pershore and Evesham.

d. **North West Worcestershire**. The area to the north of the A44 and west of the A449, including Stourport-on-Severn. This deeply rural area has little commercial development but is considered to be distinctly different.

5.5 Commercial activity takes place outside the main commercial centres – the majority of the area (by land use) is actively and commercially farmed. There is, however, little evidence of significant non-residential development happening much beyond the main centres of Kidderminster, Bromsgrove, Redditch, Worcester, Malvern and Evesham.

Market Survey

5.6 We undertook a market survey of new and recent deals for commercial properties for sale and to let by reference to agents advertising and the Propertylink property website (a commercial equivalent of Rightmove). Additionally we have made use of EGI[19] data that records past transactions in the non-residential sector.

5.7 We have concentrated on newer property and not surveyed the wider market of older units and buildings. This study is concerned with development viability – there is, in nearly all situations, some space that is available at rents and values that are substantially lower than these amounts, particularly commercial space above retail units and near town centres that have limited car parking and facilities.

5.8 We surveyed the following commercial property categories:

Industrial Office Retail Leisure Other / Land

5.9 The first and overriding finding is that there is very little non-residential development taking place – and the little that there is, is not speculative development by developers, rather being development for specific end users. The second finding is that there is a significant amount of empty space that is available for let or for sale. These two points are important and they suggest that the development of commercial property remains difficult.

5.10 **Appendix 4** includes the details of a selection of properties that are currently available. We have drawn the following assumptions on which to base the financial development appraisals:

Industrial

5.11 The industrial property market in Worcestershire is quiet at present. Average rents achieved for industrial properties across the whole area are typically in the range of £40/m^2 to £50/m^2, although the full range was from as little as £20/m^2 to over £70/m^2. Rents for large properties (500m^2 and over) are around £50/m^2 and small industrial properties (100m^2 to 500m^2) around £55/m^2. There is relatively little deviation from the average within the towns – although the rents in the North East of the County are slightly higher, by £5/m^2 or so. Whilst the rents for the larger units are slightly lower, the yields are a little higher.

5.12 These values are in line with the VOA Property Report[20] which reported rents of £50/m^2 for smaller units (less than 200 m^2) and £45 /m^2 for larger units in Birmingham in January 2011.

[19] EGI is a property information service provided by the Estates Gazette
[20] Valuation Office Agency Property Market Report 2011, The annual guide to the property market across England, Wales and Scotland.

Offices

5.13 Research found that office rents vary widely across the County – largely dependent on factors that relate to each individual unit. The highest rents are close to Birmingham at up to about £160/m^2 but more typically are around £100/m^2. Generally, average rents achieved for high quality offices across the whole area were £110/m^2 for large units (250m^2 and over) and £120/m^2 for small units (100m^2 to 250m^2), with a premium of about £20/m^2 in the Bromsgrove and Redditch areas.

5.14 We have referred to the various appraisals submitted by developers in connection to specific developments. Rents of £130/m^2 are suggested in Worcester.

Retail

5.15 The retail sector has several distinct parts, each with rents (and therefore values) which vary considerably not only across Worcestershire, but also across very short geographical distances. In this high level study we have taken a relatively simplistic approach and drawn on a variety of sources – including the responses of stakeholders.

5.16 There are a number of large, relatively modern, non-food retail units that are vacant and available around the County for modest rents – the sector has been facing challenging times in the downturn, and in some areas this has led to units becoming available following store closures. Our discussions with agents and professionals involved in the market indicated that large (over 500m^2) convenience units (i.e. supermarkets), in a good location would achieve rents of between £130/m^2 and £145/m^2, and large non-food stores would achieve rents around £100/m^2.

5.17 The agents we spoke to were clear that the only large retail that was coming forward was operator led, or where a tenant or buyer was identified before the schemes was started. We are not aware of any speculative retail development in Worcestershire at the moment.

5.18 All the larger supermarket operators were invited to attend the consultation event on 18th July but only one attended. The operator that did attended provided details of their business model (whilst they appear to be a supermarket they classify themselves as a 'deep discounter' – Lidl, Aldi and others are in this group). They confirmed that they assume that rents of the range £118/m^2 to £129/m^2 are the norm.

5.19 The rents for town centre shops vary greatly – to the extent that where there are vacant shops the owners are willing to make them available to occupiers on very advantageous terms, including rent free for extended periods[21]. There is evidence of historic rents and the very best locations achieving rents of up to £300/m^2 in the town and city centres and around £200/m^2 in the market towns – however these are not now the norm. The norm is for rents to be at a little over half these levels, at £120/m^2. In this study we have assumed shop rents

[21] This is partially due to the requirement for landlords to pay business rates on empty properties.

at £200/m^2 on the basis that any new development is likely to be of a description than much of the existing secondary stock that is currently available.

5.20 We have referred to the various appraisals submitted by developers in connection to specific developments. Rents of £150/m^2 are suggested in Worcester but there is no information for other parts of the county.

Leisure

5.21 Average rents achieved for general leisure units across the whole area are relatively low and can be broken down into the following leisure categories:

- Bar/ restaurants: £180/m^2
- Pubs: £135/m^2

5.22 There is little current available evidence in relation to the hotel sector. Based on our wider experience we have assumed a rental of £3,750/ room/ year for budget hotels to apply across the area.

Market Areas

5.23 We had expected to find a number of distinct market areas where rents were significantly different across the Worcestershire areas – we would have expected these to correspond with the market areas set out at 5.4 above. There are differences, however, on investigation we concluded that these were more to do with the specific characteristics of the location in question (access to transport network, environment, etc.) rather than the geographical location, and that new development that is well located would attract broadly similar rents and values in most of the area. The Market areas set out in 5.4 relate to areas of search and not necessarily price. Bearing in mind that the CIL Guidance advises against site specific CIL Charging Zones – which we have taken to include different zones for different business parks – we have based our initial appraisals on two areas, a higher value area in the northeast of the County which comprises Bromsgrove and Redditch, and a lower value area being the remainder of the county (Wider Worcestershire).

5.24 We reiterate that the commercial development market is going through a difficult period and that very little is happening – this needs to be kept under close review as, whilst development may not be viable now, relatively small changes in yields will result in improved viability.

5.25 Through analysing the available rental space and the space for sale, we have formed a view as to the capital value of industrial and office space. In capitalising the rents we have assumed a yield of 7.5% (a Year's Purchase of 13.3)[22]. We acknowledge that the yield will vary from property to property and will depend on the terms of the lease and the standing of the tenant, however, we believe that this a fair figure across the market. There are several exceptions to this. For the large industrial and office space which we have identified as being more attractive to institutional investors we have assumed a lower yield of 6.5% (Year's Purchase of 15.5) and for large food based retail a yield of 5% (Years Purchase of 20). The supermarket operator who attended the consultation event thought that a yield of closer to 6.6% would be more normal in a less good location. We have also assumed a yield of 11% (Year's Purchase of 9) for small retail as these uses are less attractive to investors.

Table 5.1 Capitalised typical rents £/m²

	Rent£/m2	Yield	Capitalised Rent £/m2
Large industrial	50	6.50%	769
Large industrial (NE)	55	6.50%	846
Small industrial	55	7.50%	733
Small industrial (NE)	60	7.50%	800
Large office	110	7.50%	1,467
Large office (NE)	130	7.50%	1,733
Small office	120	8.00%	1,500
Small office (NE)	140	8.00%	1,750
Supermarkets	140	5.50%	2,545
Retail Warehouse	120	7.00%	1,714
Town Centre Shops	200	11.00%	1,818
Hotels		6.50%	2,150
Student Halls		6.50%	2,225
Leisure	135	11.00%	1,227

Source: HDH 2012

5.26 In the above table the rental value for hotels was estimated to be about £3,750/room/year. Assuming a yield of 6.5% this equates to a value of about £2,150 /m².

5.27 Worcester has a vibrant and successful university and has an active student accommodation market. For student accommodation a gross annual rental income of £5,000/ room is typical. We have adjusted to reflect the services provided by the provider and assumed a net income of £3,000/room. This has been capitalised at 6.5% to give a value of £2,225/m². Student accommodation can vary considerably from simple halls of residence that only provide accommodation through various levels of service including fully catered and serviced rooms. For the sake of convenience we have referred to all of these as Student Halls.

[22] The capitalisation of rents using the yields and Year's Purchase is widely used by Chartered Surveyors and others. The Year's Purchase is the factor by which the rent is multiplied to calculate the capital value (calculated at 1/ yield).

Price Assumptions for Financial Appraisals

5.28 Inevitably the data in the table above does not match perfectly with the asking prices of properties in the market. We have therefore looked at further sources of information, including talking to agents, to produce the following results that we have used in our appraisals:

Table 5.2 Non Residential Values for Appraisals £/m^2	
Large industrial	800
Large industrial (NE)	850
Small industrial	750
Small industrial (NE)	800
Large office	1,500
Large office (NE)	1,750
Small office	1,500
Small office (NE)	1,750
Supermarkets	2,500
Retail Warehouse	1,800
Shops	2,000
Hotels	2,150
Student Halls	2,225
Leisure	1,200

Source: HDH 2012

6. Land Prices

6.1 In the section headed Viability Testing, in Chapter 2, we set out the methodology used in this study to assess viability and set out the different approaches put forward in *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)* (August 2012).

6.2 An important element of the assessment, under both sets of guidance, is the value of the land. Under the method recommended in the Harman Guidance, the worth of the land before consideration of any increase in value, from a use that may be permitted though a planning consent, being the Existing Land Value (ELV) or Alternative Land Value (ALV), is the starting point for the assessment as this is one of the key variables in the financial development appraisals. In the RICS Guidance it forms a central role. In this chapter we have considered the values of different types of land. The value of land relates closely to the use to which it can be put and will range considerably from site to site; however, as this is a high level study, we have looked at the three main uses, being: agricultural, residential and industrial.

6.3 In order to assess development viability, it is necessary to analyse current and alternative use values. Current use values refer to the value of the land in its current use <u>before planning consent is granted</u>, for example, as agricultural land. Alternative use values refer to any potential use for the site. For example, a brownfield site may have an alternative use as industrial land.

6.4 To assess viability, the value of the land for the particular scheme needs to be compared with the alternative use value, to determine if there is another use which would derive more revenue for the landowner. If the Residual Value does not exceed the alternative use value, then the development is not viable, if there is a surplus (i.e. profit) over and above the 'normal' developer's profit having paid for the land, then there is scope to pay CIL.

6.5 For the purpose of the present study, it is necessary to take a comparatively simplistic approach to determining the alternative use value. In practice, a wide range of considerations could influence the precise value that should apply in each case, and at the end of extensive analysis the outcome might still be contentious.

6.6 Our 'model' approach is outlined below:

i. For sites previously in agricultural use, then agricultural land represents the existing use value.

ii. For paddock and garden land on the edge of or in a smaller settlement we have adopted a 'paddock' value.

iii. Where the development is on former industrial, warehousing or similar land, then the alternative use value is considered to be industrial, and an average value of industrial land for the area is adopted as the alternative use value.

iv. Where the site is currently in residential use we have used a residential value.

Residential Land

6.7 The VOA publishes figures for residential land in the Property Market Report. These cover areas which generate sufficient activity to discern a market pattern. Locally we have figures for Birmingham and Bristol, to the north and south of the study area which are very different markets. These values can only provide broad guidance, they can therefore be only indicative, and it is likely that values for 'oven ready' land (i.e. land with planning consent and ready for immediate building) will be higher.

Table 6.1 Residential Land Values at January 2011

	Bulk Land £/ha	£ / habitable Room	£/m^2 of completed GIA
Birmingham	1,235,000	6,620	290
Bristol	2,100,000	13,270	580

Source: VOA Property Market Report 2011

6.8 The values in the Property Market Report are based on the assumption that land is situated in a typical average greenfield, edge of centre/suburban location and it has been assumed that services are available to the edge of the site and that it is ripe for development with planning permission being available. The values provided assume a maximum of a two storey construction, S106 provision and affordable housing ratios to be based on market expectations for the locality. It is important to note that these values are net – that is to say they relate to the net developable area and do not take into account open space that may form part of the scheme. On larger sites where there are requirements for public open space, the actual land value, per hectare, will be substantially lower.

6.9 Due to the date of the report, these values are before the introduction of CIL, so do not reflect this new charge on development. As acknowledged by the RICS Guidance a new charge such as CIL will inevitably impact on land values.

6.10 We also sought information about values from residential land currently on sale in Worcestershire. There is relatively little available. There are a few small sites for residential development currently available in the areas. These point to a price of around £500,000/ha.

Industrial Land

6.11 The VOA's typical industrial land values for Birmingham are of about £650,000/ha. Our discussions with agents indicate that this is substantially higher than the prevailing prices in Worcestershire which are typically around £400,000/ha in the northeast of the County around Bromsgrove and Redditch, and £300,000/ha in the remainder of the county.

Agricultural and Paddocks

6.12 Agricultural values rose for a time several years ago after a long historic period of stability. Values are around £15,000-£25,000/ha depending upon the specific use. A benchmark of £25,000/ha is assumed to apply here.

6.13 Sites on the edge of a town or village may be used for an agricultural or grazing use but have a value over and above that of agricultural land due to their amenity use. They are attractive to neighbouring households for pony paddocks or simply to own to provide some protection and privacy. We have assumed a higher value of £50,000/ha for village and town edge paddocks.

6.14 There was a consensus amongst stakeholders that these figures are reasonable for a study of this type – although they are likely to vary depending on the precise circumstances of the site.

Stakeholder Comments

6.15 These assumptions were discussed at some length (and with passion) by developers at the first consultation event. There was a consensus that the agricultural values are representative.

6.16 There was some support for the residential figure if it was a gross £/ha value – although generally it was thought to be a 'bit low' – that is to say it relates to the whole site area rather than just the developable area. It is important to understand residential land prices as, whilst they do not form an important part of the viability appraisals, they do inform the assessment of viability later in this study

6.17 Following the consultation event we have amended the assumption of the gross value of residential land to £750,000/ha (£300,000/acre). This is reflective of the general consensus.

6.18 The industrial values were also discussed at some length by some groups. There is no doubt that there are inexpensive industrial sites available in the County at less than £250,000/ha (£100,000/acre) but a case was made that a more relative typical value may be £450,000/ha in the northeast of the County, and £350,000/ha in the remainder.

Use of alternative use benchmarks

6.19 The results from appraisals are compared with the alternative use values set out above in order to form a view about each of the modelled sites' ability to bear CIL. This is a controversial part of the viability process and the area of conflicting guidance (the *Viability Testing Local Plans* verses the RICS Guidance). In the context of this report it is important to note that it does not automatically follow that, if the residual value produces a surplus over the alternative use value benchmark, the site is viable. The land market is more complex than this and as recognised by paragraph 173 of the NPPF, the landowner and developer must receive a '*competitive return*'. The phrase *competitive return* is not defined in the

NPPF, nor in the guidance, and as yet, has not been defined through planning appeals and the court system. It is clear that for land to be released for development, the surplus needs to be sufficiently large to provide an incentive to the landowner to release the site and cover any other appropriate costs required to bring the site forward for development. It is therefore appropriate and an important part of this assessment to have regard to the market value of land.

6.20 The RICS Guidance recognises that the value of land will be influenced by the requirements imposed by planning authorities. It recognises that the cost to the developer of providing affordable housing, building to increased environmental standards, and paying CIL, all have a cumulative effect on viability and are reflected in the ultimate price of the land. A central question for this study is at what point do the requirements imposed by the planning authorities make the price of land so unattractive that it does not provide competitive returns to the land owner, and does not induce the owner to make the land available for development.

6.21 The reality of the market is that each and every land owner has different requirements and different needs and will judge whether or not to sell by their own criteria. We therefore have to consider how large such an ‘uplift’ or ‘cushion’ should be for each type of site to broadly provide a competitive return. The assumptions must be a generalisation as in practice the size of the uplift will vary from case to case depending on how many landowners are involved, each landowner’s attitude and their degree of involvement in the current property market, the location of the site and so on. An ‘uplift’ of, say, 5% or £25,000/ha might be sufficient in some cases, whilst in a particular case it might need to be five times that figure, or even more.

6.22 Initially (prior to the first consultation event) we took the view that the Viability Threshold (being the amount that the Residual Value must exceed for a site to be viable) of the EUV/AUV plus a 15% uplift on all sites would be sufficient. This is supported both by work we have done elsewhere and by appeal decisions (see Chapter 2). Based on our knowledge of rural development, and from working with farmers, landowners and their agents, we have made a further adjustment for those sites coming forward on greenfield land. We added a further £250,000/ha (£100,000/acre) to reflect this premium. We have also added this amount to sites that were modelled on land that was previously paddock.

6.23 We fully accept that this is a simplification of the market, however in a high level study of this type that is based on modelled sites, simplifications and general assumptions need to be made. These figures were presented to the development industry at the stakeholder event on 18th July 2012.

6.24 This methodology does reflect a very considerable uplift for a landowner selling a greenfield site with consent for development[23]. In the event of the grant of planning consent they would receive over ten times the value compared with before consent was granted. This approach is the one suggested in the *Viability Testing Local Plans* (see Chapter 2 above) and by the Planning Advisory Service (PAS). The approach was endorsed by the Planning Inspector who approved the London Mayoral CIL Charging Schedule in January 2012[24].

6.25 We have considered how these amounts relate to prices for land in the market (see Chapter 5 above) and with a view to providing competitive returns to the land owner. Whilst there are certainly land transactions at higher values than these, we do believe that these are appropriate for a study of this type.

6.26 Having said this, this was discussed at the stakeholder event, and was the most controversial point. The agents for the developers and landowners made a range of representations – mainly around the size of the uplift, arguing that it was not sufficient to incentivise owners to promote land and make it available for development.

6.27 An argument was made that prices had fallen very considerably through the recession and any further reduction in prices would result in a reduction in land coming forward.

6.28 Representations were made that the current s106 regime should remain and that the Councils should not implement CIL as CIL would bring development to a halt even if set at a very low level. Due to the future restrictions on the pooling of s106 payments we do not think that is practical, but we understand that developers would rather maintain control and responsibility for delivering the infrastructure required to support their development rather than rely on the Councils to make the required improvements and investments.

6.29 There is no doubt that CIL will be an additional cost on some development sites, and that some sites may not be able to bear the costs of all the requirements a planning authority makes – such as delivering affordable homes and higher environmental standards. This is noted in the RICS Guidance which recognises that there may well be a period of adjustment in the price of land following the introduction of CIL. Similar views where expressed in the past around the introduction of affordable housing targets and, in some cases, this resulted in a 'hesitation' in the market while prices adjusted to the new requirements.

6.30 Following the consultation event we reconsidered this – particularly in the light of the RICS Guidance. The argument put forward by the landowners' agents was persuasively put, but it was not the only argument put forward – as mentioned above, there was some agreement that, if the assumptions related to gross values, they were realistic and appropriate and allowed a reasonable uplift for the landowners that was sufficient to allow the land to come

[23] See Chapter 2 for further details and debate around EUV plus v Market Value methodologies.

[24] Paragraphs 7 to 9 of REPORT ON THE EXAMINATION OF THE DRAFT MAYORAL COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE by Keith Holland BA (Hons) DipTP MRTPI ARICS an Examiner appointed by the Mayor Date: 27th January 2012

forward. In the revised appraisals in this report, we have used the following assumptions to set the viability thresholds and calculate the land price in the additional profit appraisals:

a. We have used alternative land prices of:

i.	Agricultural Land	£25,000/ha
ii.	Paddock Land	£50,000/ha
iii.	Industrial Land	
	North East Worcestershire (Bromsgrove and Redditch)	£450,000/ha
	Wider Worcestershire	£350,000/ha
iv.	Residential Land	£750,000/ha

b. We have increased the percentage uplift from 15% to 20% on all sites.

c. We have assumed a further uplift of £250,000/ha on greenfield sites (being those in agricultural and paddock uses).

6.31 We stress that these land values relate to the gross development area[25].

6.32 We acknowledge that there was not agreement between the Councils and all stakeholders (or even between stakeholders) on this point, however we believe that this approach is a reasonable one that will, very substantially, reward landowners when land is released and thus enable land to come forward.

[25] A 5ha site with 40% open space would have value of £3,75m. This equates to £1.25m per net developable ha (£500,000/acre).

7. Appraisal Assumptions – Development Costs

7.1 This chapter considers the costs and other assumptions required to produce financial appraisals for the modelled sites. These figures were presented to the stakeholders at the first consultation event on 18th July 2012.

Development Costs

(i) Construction costs: baseline costs

7.2 We have based the cost assumptions on the Building Cost Information Service (BCIS) data. The costs are specific to different built forms (flats, houses, offices, supermarkets, hotels etc).

7.3 The six Councils have each developed their own polices relating to the construction standards and environmental performance of new buildings. These are summarised in Chapter 8 below. We have based our appraisals on building to the Building Regulation, Part L 2010 Standards. This enables comparisons to be made across all areas. We have also run appraisals to the higher, Authority specific requirements.

7.4 We have also assessed the impact on build costs of Code for Sustainable Development. From April 2008, the Code's Level 3 has been a requirement for all homes commissioned by housing associations but would not necessarily be the case for affordable homes built by developers for disposal to a housing association (unless grant was made available from the HCA).

7.5 The Department for Communities and Local Government (CLG) published a review of the costs of building to the Code for Sustainable Homes (CfSH) in August 2011. This provides useful guidance as to the costs of the implementation of the various environmental standards. Based on that we have used the following additional costs for building to CfSH Level 4.

Table 7.1 Additional Cost of Building to CfSH Level 4 (per dwelling)					
	2b-Flat	2b-Terrace	3b-Semi	4b-Detach	Average dwelling
Small brownfield (20 dwellings at 40 dph)		£3,500 4.4%	£4,580 5.3%	£5,140 5.5%	£4,260 5.0%
City Infill (40 dwellings at 160 dph)	£3,400 6.2%				£3,400 6.2%
Edge of town (100 dwellings at 40 dph)	£3,950 7.2%	£4,280 5.3%	£5,360 6.2%	£5,920 6.4%	£4,787 6.2%
Urban Regeneration (1,000 dwellings at 160 dph)	£3,330 6.1%	£3,210 4.0%	£4,300 5.0%	£4,930 5.3%	£3,435 5.4%
Strategic Greenfield (2,000 dwellings at 40 dph)	£3,930 7.2%	£4,260 5.3%	£5,340 6.2%	£5,900 6.4%	£4,846 6.1%
Large edge of town (3,300 dwellings at 40 dph)	£3,930 7.2%	£4,260 5.3%	£5,340 6.2%	£5,900 6.4%	£4,705 6.2%

Source: Cost of building to the Code for Sustainable Homes, Updated cost review. CLG (Aug 2011)

7.6 Bearing in mind the move towards higher standards, we have extended this study to test the impact of building to CfSH Level 4.

7.7 We have given careful consideration as to the costs of achieving higher environmental performance (as defined by BREEAM) – particularly through reference to the BRE/Cyril Sweett research reported in their publication ‘Putting a Price on Sustainability’. Considerable improvements can be made through design, some of which actually reduce the cost of delivery (i.e. substituting air conditioning with natural ventilation). We have therefore not made further adjustments to the BCIS figures for commercial property.

7.8 **Appendix 5** contains the April 2012 BCIS build costs for Worcestershire – broken into a number of key development types. We have used the median costs for the different development types that occur on the appraisal sites. We acknowledge that this is a relatively simplistic approach, however, by making the site by site adjustments set out below, we are comfortable with this approach in this high level and broad brush study. This is the approach recommended in the Harman Guidance.

7.9 We have checked these figures against those submitted by developers as part of development appraisals supplied to the Councils as part of the development control process. It is difficult to make a direct comparison, however they are similar. We have summarised these below:

Table 7.2 Construction costs used by Developers (£/m²)			
Council	**Type**	**Base Construction**	**Additional Infrastructure**
Malvern	Flats and housing	868 to 958	28%
Redditch	Mixed housing	829	Included
Worcester	Flats	918	
	Offices	922	
	Retail	772	
	Mixed Houses	1245	Included
Wyre	Mixed Housing	731	48% (inc demolition etc.)
Wychavon	Flats	915	
	Houses	915	
	Flats	808	
	Assisted living	966	
	Affordable	915	

Source: Developer Appraisals

7.10 As we would expect, there is a wide range of costs – even where an attempt has been made to normalise these into a like for like basis – however all are in the expected range and lead us to have added confidence in the figures used in the appraisals.

(ii) Construction costs: site specific adjustments

7.11 It is necessary to consider whether any site specific factors would suggest adjustments to these baseline cost figures. Two factors need to be considered in particular: small sites and high specification.

7.12 Since the mid-1990s, planning guidance on affordable housing has been based on the view that construction costs were appreciably higher for smaller sites, with the consequence that, as site size declined, an unchanging affordable percentage requirement would eventually render the development uneconomic. Hence the need for a 'site size threshold', below which the requirement would not be sought.

7.13 It is not clear to us that this view is completely justified. Whilst, other things being held equal, build costs would increase for smaller sites, other things are not normally equal and there are other factors which may offset the increase. The nature of the development will change. The nature of the developer will also change as small local firms with lower central overheads replace the regional and national house builders. Furthermore, very small sites may be able to secure a 'non-estate' price premium. We have therefore used the appropriate BCIS costs that reflect site size.

(iii) Construction costs: affordable dwellings

7.14 The procurement route for affordable housing is assumed to be through construction by the developer and then disposal to a housing association on completion. In the past, when considering the build cost of affordable housing provided through this route, we took the view that it should be possible to make a small saving on the market housing cost figure, on the basis that one might expect the affordable housing to be built to a slightly different specification than market housing. However, the pressures of increasingly demanding standards for housing association properties have meant that, for conventional schemes of houses at least, it is no longer appropriate to use a reduced build cost; the assumption is of parity.

(iv) Other normal development costs

7.15 BCIS based £/m^2 build cost figures described above is the cost of the building. It does not include any allowance for external works so allowance needs to be made for a range of infrastructure costs (roads, drainage and services within the site, parking, footpaths, landscaping and other external costs), off site costs for drainage and other services and so on (including s278 costs). These items will depend on individual site circumstances but it is possible to generalise as to the scale of these costs. These costs are normally lower for higher density than for lower density schemes since there is a smaller area of external works, and services can be used more efficiently. Large greenfield sites would also be more likely to require substantial expenditure on bringing mains services to the site.

7.16 In the light of these considerations, we have developed a scale of allowances for the residential sites, ranging from 10% of build costs for the smallest sites, to 20% for the larger greenfield schemes. There was a consensus at the first stakeholder event that these costs were representative.

7.17 For commercial and non-residential uses we made an allowance of 15% of build costs for each scheme to cover infrastructure costs.

7.18 We have given careful thought to the large urban extensions as these large sites, by their nature, can have very significant infrastructure requirements that can have a dramatic impact on viability. Additionally, these sites can be a vital part of a Councils' strategy to deliver its housing target – in some cases if the large urban extension does not come forward then the Development Plan may be put at risk. The CIL Guidance is clear that CIL Rates may be set for individual sites if there is strong supporting evidence to do so.

7.19 We recommend that the Councils consider such an approach. If the Councils decide to follow this advice, then detailed, scheme specific, viability appraisals will need to be prepared – such a task is beyond the scope of this project, however as we have said elsewhere, this viability study forms just part of the viability evidence.

(v) Abnormal development costs

7.20 Several of the sites are modelled on, or partly on, previously developed land. We have set out the abnormal costs in Chapter 9 where we set out the modelled sites. In some cases where the site involves redevelopment of land which was previously developed, there is the potential for abnormal costs to be incurred. Abnormal development costs might include demolition of substantial existing structures; piling or flood prevention measures at waterside locations; remediation of any land contamination; remodelling of land levels; and so on. For the non-residential property, we have run a scenario where the site is on previously developed land. With this variable we have increased the costs by an additional 15% cost.

(vi) Fees

7.21 We have assumed professional fees amount to 10% of build costs in each case. This is made up as follows:

Architects	6%	QS and Costs	0.5%
Planning Consultants	1%	Others	2.5%

7.22 We have assumed a lower rate of 8% for industrial and large retail sites in the non-residential section. These were confirmed by stakeholders, although there was some suggestion that for larger residential sites it may be appropriate to use a lower rate.

(vii) Contingencies

7.23 For previously undeveloped and otherwise straightforward sites we would normally allow a contingency of 2.5%, with a higher figure of 5% on more risky types of development, on previously developed land and on central locations. So the 5% figure was used on the brownfield sites and the 2.5% figure on the remainder. These assumptions are in line with those made by developers in their submissions to support s106 negotiations.

7.24 It should be noted that when considering the overall costs, a developer will carry out detailed site investigations and surveys, so the contingency sum is an emergency amount to cover unanticipated costs. In part, it reflects the risks associated with the project, and should be considered with the developers' return and profit.

(viii) S106 Contributions

7.25 For many years, planning authorities have sought payments from developers to mitigate the impact of the development, through improvements to the local infrastructure. The Councils have supplied us with a summary (where available) of recent payments made by developers. We have analysed these – they range from around £750 per dwelling to around £5,000 per dwelling.

7.26 The purpose of CIL is to collect contributions towards infrastructure from all new developments (where viable). We have therefore considered the nature of the payments – are they specific for a particular site, or are they more general, such as towards improving open space, transport or educational facilities? Most of the contributions are general.

7.27 If CIL is introduced, then general payments should be under the CIL regime, whilst the more specific payments should be under s106. We have taken a pragmatic approach, and assumed that all units (market and affordable) on new residential schemes will pay £1,000 under s106 in addition to CIL. It will also be necessary to take a cautious view when setting CIL rates as some sites may pay CIL and still be liable to s106 payments[26].

Financial and Other Appraisal Assumptions

(i) VAT

7.28 For simplicity it has been assumed throughout, that either VAT does not arise, or that it can be recovered in full.

(ii) Interest rate

7.29 Our appraisals assume 7% pa for total debit balances, we have made no allowance for any equity provided by the developer. This does not reflect the current working of the market nor the actual business models used by developers. In most cases developers are required to provide between 30% and 40% of the funds themselves, from their own resources so as to reduce the risk to which the lender is exposed.

7.30 The 7% assumption may seem high given the very low base rate figure (0.5% July 2012). Developers that have a strong balance sheet, and good track record, can undoubtedly borrow less expensively than this, but this reflects banks' view of risk for housing developers in the present situation. In the residential appraisals we have prepared a simple cashflow to calculate interest.

7.31 For the non-residential appraisals, and in line with the 'high level' nature of this study, we have used the developer's rule of thumb to calculate the interest – being the amount due over one year on half the total cost. We accept that is a simplification, however, due to the high level and broad brush nature of this analysis, we believe that it is appropriate.

7.32 The relatively high assumption of the 7% interest rate, and the assumption that interest is chargeable on all the funds employed, has the effect of overstating the total cost of interest. In this study a cautious approach is being taken, so we believe this is a sound assumption.

7.33 As a result of a consultee's comments, consideration was given to the need to carry out sensitivity testing around interest rates. Bearing in mind the very low base rates, the fact that interest is a small proportion of development, and the assumptions above, it was decided that sensitivity testing was not necessary.

[26] A site cannot pay for the same item of infrastructure through both CIL and s106. The actual situation will depend on how the Councils strike the balance and will depend, at least in part, on what is put on the Regulation 123 lists

(iii) Developers' profit

7.34 At the consultation event on 18th July, we suggested that a developers' profit of 15% on costs was reasonable. We have now increased that to 20% on total costs to reflect the risk of undertaking development. This assumption caused some discussion and disagreement at the first consultation event, where some developers made a representation that the profit should be calculated on the Gross Development Value (the total income arising from a project). Three further written representations were made on this point following the second event. We have given this further thought, however have not altered the assumption for a number of reasons.

7.35 CIL Regulations and CIL Guidance do not provide useful guidance in this regard so, in reaching this decision, we have considered the RICS's *'Financial Viability in Planning'* (August 2012), the Harman Guidance *Viability Testing Local Plans, Advice for planning practitioners* (June 2012), and referred to the HCA's Economic Appraisal Tool. None of these documents are prescriptive, but they do set out some different approaches.

7.36 RICS's *'Financial Viability in Planning'* (August 2012) says:

> ***3.3.2*** *The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. ……..*

7.37 LGA and HBF published *Viability Testing Local Plans, Advice for planning practitioners* (June 2012) which says:

> ***Return on development and overhead***
>
> *The viability assessment will require assumptions to be made about the average level of developer overhead and profit (before interest and tax).*
>
> *The level of overhead will differ according to the size of developer and the nature and scale of the development. A 'normal' level of developer's profit margin, adjusted for development risk, can be determined from market evidence and having regard to the profit requirements of the providers of development finance. The return on capital employed (ROCE) is a measure of the level of profit relative to level of capital required to deliver a project, including build costs, land purchase, infrastructure, etc.*
>
> *As with other elements of the assessment, the figures used for developer return should also be considered in light of the type of sites likely to come forward within the plan period. This is because the required developer return varies with the risk associated with a given development and the level of capital employed.*

Smaller scale, urban infill sites will generally be regarded as lower risk investments when compared with complex urban regeneration schemes or large scale urban extensions.

Appraisal methodologies frequently apply a standard assumed developer margin based upon either a percentage of Gross Development Value (GDV) or a percentage of development cost. The great majority of housing developers base their business models on a return expressed as a percentage of anticipated gross development value, together with an assessment of anticipated return on capital employed. Schemes with high upfront capital costs generally require a higher gross margin in order to improve the return on capital employed. Conversely, small scale schemes with low infrastructure and servicing costs provide a better return on capital employed and are generally lower risk investments. Accordingly, lower gross margins may be acceptable.

This sort of modelling – with residential developer margin expressed as a percentage of GDV – should be the default methodology, with alternative modelling techniques used as the exception. Such an exception might be, for example, a complex mixed use development with only small scale specialist housing such as affordable rent, sheltered housing or student accommodation.

7.38 The HCA's Economic Appraisal Tool – the accompanying guidance for the tool kit says:

Developer's Return for Risk and Profit (including developer's overheads)

Open Market Housing

The developer 'profit' (before taxation) on the open market housing as a percentage of the value of the open market housing. A typical figure currently may be in the region of 17.5-20% and overheads being deducted, but this is only a guide as it will depend on the state of the market and the size and complexity of the scheme. Flatted schemes may carry a higher risk due to the high capital employed before income is received.

Affordable Housing

The developer 'profit' (before taxation) on the affordable housing as a percentage of the value of the affordable housing (excluding SHG). A typical figure may be in the region of 6% (the profit is less than that for the open market element of the scheme, as risks are reduced), but this is only a guide.

7.39 It is unfortunate that the above are not really consistent, but they are clear that the purpose of including a developers 'profit figure is not to mirror a particular business model, but to reflect the risk a developer is taking in buying a piece of land, and then expending the costs of construction before selling the property. The use of developers' profit in the context of area wide viability testing of the type required by CIL Regulation 14, is to reflect that level of risk.

7.40 We do not agree that linking the developer's profit to the GDV is reflective of risk, as the risk relates to the cost of a scheme – the cost being the money put at risk as the scheme is developed. As an example (albeit an extreme one to illustrate the point) we can take two schemes, A and B, each with a GDV £1,000,000, but scheme A has a development cost of £750,000 and scheme B a lesser cost of £500,000. All other things being equal, in A the developer stands to lose £750,000 (and make a profit of £250,000), but in B 'only' £500,000 (and make a profit of £500,000). Scheme A is therefore more risky, and it therefore follows that the developer will wish (and need) a higher return. By calculating profit on costs, the developer's return in scheme A would be £150,000 and in scheme B would be £100,000 and so reflect the risk – whereas if calculated on GDV, the profits would be £200,000 in both.

7.41 Broadly, taking into account the various sources of guidance, there are four different approaches to reflecting the developers' profit that could be taken:

a. To set a different rate of return on each site to reflect the risk associated with the development of that site. This would result in a lower rate on the smaller and simpler sites – such as the greenfield sites, and a higher rate on the brownfield sites.

b. To set a rate for the different types of unit produced – say 20% for market housing and 6% for affordable housing, as suggested by the HCA.

c. To set the rate relative to costs – and thus reflect risks of development.

d. To set the rate relative to the gross development value as suggested by several of the stakeholders following the consultation event.

7.42 In deciding which option to adopt it is important to note that we are not trying to re-create any particular developer's business model. Different developers will always adopt different models and have different approaches to risk.

7.43 The argument has been made that financial institutions require a 20% return on development value and, unless that it shown they will not provide development funding. In the pre-Credit Crunch era there were some lenders who did take a relatively simplistic view to risk analysis but that is no longer the case. Most financial institutions now base their decisions behind providing development finance on sophisticated financial modelling that it is not possible to replicate in a study of this type. They do require the developer to demonstrate a sufficient margin, to protect them in the case of changes in prices or development costs but they will also consider a wide range of other factors, including the amount of equity the developer is contributing – both on a loan to value and loan to cost basis, the nature of development and the development risks that may arise due to demolition works or similar, the warranties offered by the professional team, whether or not the directors will provide personal guarantees and the number of pre-sold units.

7.44 This is a high level study where it is necessary and proportionate to take a relatively simplistic approach, so, rather than apply a differential return (either site by site or split between market and affordable housing), we have simply calculated the developers' profit as 20% of costs across all development types, affordable and market housing and non-residential development as this best reflects the risk of development.

7.45 This assumption should be considered in line with the assumption about interest rates in the previous section, where a cautious approach was taken with a relatively high interest rate, and the assumption that interest is charged on the whole of the development cost. Further consideration should be given to the contingency sum in the appraisals.

7.46 An important consideration in deciding to take this approach has been to ensure consistency with other viability evidence provided by the Councils. This approach is in line that adopted by GVA Grimley in their Affordable Housing Viability Study for Wyre Forest although in the South Worcestershire study for Malvern Hills, Worcester City and Wychavon Adams Integra based their profit on 15% of GDV. It is interesting to note that Adams Integra comment that different rates of profit 'do not alter our findings materially…'

7.47 We have reviewed numerous development appraisals provided to us by the Councils, and we were surprised by the range of profit assumptions made. Where an assumption had been made (rather than the figure being derived from a calculation) the profit was, most often, calculated as 20% of cost on market housing and 6% of cost on Affordable Housing. In none of the appraisals was a profit over 20% assumed or expected. The majority of appraisals had profit assumptions of between 15% and 20%.

7.48 It is frustrating not to be able to reach agreement with stakeholders on all aspects of a study of this type, however based on the above reasoning, we believe this to be the most appropriate assumption to make in a study of this type. When considered with the treatment of interest, and the inclusions of contingency sums, the same rate has been applied to both affordable and market housing. We maintain that this is a sound way to incorporate the appropriate reward to reflect risk in a study of this type.

(v) Phasing and timetable

7.49 The appraisals are assumed to have been prepared using prices and costs at a base date of March 2012. A pre-construction period of six months is assumed for all of the sites. Each dwelling is assumed to be built over a nine month period.

7.50 The phasing programme for an individual site will reflect market take-up, and would, in practice, be carefully estimated taking into account the site characteristics, the size and the expected level of market demand. We have developed a suite of modelled assumptions to reflect site size and development type, as set out in Chapter 9. We believe that these are conservative and do, properly, reflect the current difficult market. The assumptions made were supported by consultees.

Site Acquisition and Disposal Costs

(i) Site holding costs and receipts

7.51 Each site is assumed to proceed immediately and so, other than interest on the site cost during construction, there is no allowance for holding costs, or indeed income, arising from ownership of the site.

(ii) Acquisition costs

7.52 We have taken a simplistic approach and assumed an allowance 1.5% for acquisition agents' and legal fees. Stamp duty is calculated at the prevailing rates.

(iii) Disposal costs

7.53 For the market and the affordable housing, sales and promotion and legal fees are assumed to amount to some 2.5% of receipts. For disposals of affordable housing, these figures can be reduced significantly depending on the category, so in fact the marketing and disposal of the affordable element is probably less expensive than this.

8. Appraisal Assumptions – Planning Policy Requirements

8.1 It is important that the appraisals properly reflect the type of development that is likely to come forward in the areas in question. Some of the Councils have developed their own polices relating to the construction standards and environmental performance of new buildings. The NPPF includes a requirement that the impact of such polices on viability should be assessed (para 173):

Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

8.2 This is a new requirement so, unsurprisingly, the Councils have not yet undertaken this work at the time of this study although the three South Worcestershire Councils (Malvern Hills, Worcester City and Wychavon), have commissioned HDH Planning and Development to extend this study to test the cumulative impact of their joint Development Plan policies in line with the requirements of 173 and 174 of the NPPF.

8.3 In the case of the South Worcestershire Councils we have referred to the Draft Emerging SWLP document dated 24th September 2012[27]. This is not an adopted document.

Design and Construction Standards

8.4 We have carried out several sets of appraisals, the first assuming that development is to the Council's policy requirements, based on the minimum current Building Regulation standard (Part L); and a second incorporating the higher standards set out in CfSH Level 4.

8.5 We have summarised the various policy requirements below.

[27] The South Worcestershire Local Plan (SWLP) is now known as the South Worcestershire Development Plan (SWDP)

Table 8.1 Council Design Standards.		
Bromsgrove		
Development densities	**Build standards /environmental requirements**	**Design Standards**
The adopted Development Plan seeks a minimum standard of 2.43ha per 1,000 population. The Outdoor Play Space (SPG) breaks down the amount of play space generated by each type of dwelling as follows: 1 bed = 49sqm 2 bed = 73sqm 3 bed = 97sqm 4 bed = 121sqm 5 bed = 146sqm	The adopted Development Plan contains no requirements over and above building regulations. The Draft Development Plan proposes working with developers to determine the viability of meeting the equivalent level of code for sustainable homes set for social housing within the BREAAM 'very good' rating or above.	New residential development must have a good standard of amenity and contribute to an environmentally satisfying living environment. All new schemes should provide for adequate space between buildings relative to their scale and achieve a satisfactory relationship to existing development. In order to obtain this certain design objectives should be met: a) provision of adequate daylight and sunlight to rooms and rear gardens b) provision of reasonable privacy for dwellings within the layout and reasonable protection of privacy of existing and adjoining dwellings c) provision of satisfactory outlook both within the new development and in relation to existing development d) provision of a reasonable area of private amenity space relative to the functions and scale of the dwelling e) provision of a reasonable area of communal/shared open space for small house type developments.

Malvern Hills, Worcester and Wychavon		
Development densities	**Build standards /environmental requirements**	**Design Standards**
SWLP 5 Green Infrastructure Development must contribute to the strategic aims and objectives of the Worcestershire Green Infrastructure Strategy (WGIS). All allocations and major planning proposals will need to set out at least 40% of their area for Green Infrastructure within the site. The precise form and function(s) of Green Infrastructure (GI) will depend on local circumstances and WGIS' priorities and must be agreed with the Local Planning Authority in advance of a planning application. Effective management arrangements must be clearly set out and secured. **SWLP 12 – Effective use of land** To deliver places that are more sustainable, development will make the most effective and sustainable use of land, focusing on … … Subject to the above density criteria, on sites allocated for housing or for mixed use that includes housing, the following broad indications of appropriate average net densities shall apply: - (a) For sites within the city of Worcester, urban extension allocations in all three districts, and allocations for more than 100 new dwellings in larger towns, development should achieve an average net density of 40 dwellings / ha (b) Worcester city centre and larger town centres development of mainly flatted units should achieve an average net density of 75 dwellings / hectare (c) Where urban extensions and other large	**SWLP 26: Renewable and Low Carbon Energy** To reduce carbon emissions and promote sustainable energy solutions: (a) All new developments will be required to incorporate the generation of energy from renewable or low carbon sources sufficient to reduce estimated carbon dioxide emissions from residual energy use in the development by at least 10%. (b) All new development (as part of the major developments at Worcester South, Worcester West, Worcester East, Worcester North, Droitwich Spa, Cheltenham Road, Hampton, Newland and north of Pershore) will be required to incorporate the generation of energy from renewable or low carbon sources sufficient to reduce estimated carbon dioxide emissions from residual energy use in the development by at least 20%.	**SWLP 4: Moving Around South Worcestershire** Proposals must demonstrate that the location for development will minimise demand for travel, offer genuine sustainable travel choices, improve road safety and support the delivery of Local Transport Plan Objectives. Travel Plans will be required for all major developments. These must set out measures to reduce the demand for travel by private cars and stimulate cycling, walking and public transport through agreed targets and monitoring arrangements. New developments should accord with the design criteria and principles set out in Manual for Streets, Worcestershire County Council's Local Transport Plan 3 Highways Design Guide for new developments, the Design Guide Supplementary Planning Document and the Parking Standards in New Development Supplementary Planning Document. Locally determined car parking standards will apply to all development proposals, which will be set out in Supplementary Planning Documents.

developments abut open land or sensitive locations such as conservation areas, listed buildings, areas of archaeological interest or areas of ecological / biodiversity value, their design should reflect the sensitivity of those areas; immediately adjacent development densities should be adjusted downwards as appropriate to ensure that impact on those areas is minimised, whilst maintaining the overall average density of the site (d) In other towns, or on sites of less than 100 dwellings, average net densities for new development should be an average net density of 30 dwellings / ha. Windfall housing developments should be assessed against the density criteria relevant to their location and the character of the built and natural environments around them, including heritage assets. **<u>SWLP 37 Provision for Open Space, Sport and Recreation Uses in New Development</u>** Any development proposals exceeding 5 dwellings (net) must provide open space together with secure arrangements for its long term management and on-going maintenance. Enhancing connectivity e.g. through improvements to the Rights of Way Network is strongly encouraged. The total amount of open space will be within the overall requirement to deliver 40% Green Infrastructure (SWLP 5 refers). The precise amount, form and type of open space will be informed by the standards and local evidence e.g. Parish / Town Plans. The type and size of the residential proposal will also be a factor in determining the make-up of the various typologies. Over-provision in any single typology does not negate the need to provide for the other typologies.		

Redditch		
Development densities	**Build standards /environmental requirements**	**Design Standards**
Emerging policy requires densities of between 30 and 50 dwellings per hectare will be sought in Redditch Borough, and 70 dwellings per hectare will be sought on sites for residential development that are within or adjacent to Redditch Town Centre and the District Centres.	Emerging policy requires all development to 'seek to be zero carbon' - all new residential development must meet the nationally required standard of the Code for Sustainable Homes (or any other national scheme which supersedes it) and all new non-domestic development must be assessed against the BREEAM assessment method (or any other national scheme which supersedes it). All developers will be encouraged to meet the highest level of Code for Sustainable Homes/BREEAM rating as is economically viable.	Emerging policies require developments to be designed in accordance with the Council's supplementary planning guidance 'Designing for Community Safety' and 'Encouraging Good Design'

Wyre Forest		
Development densities	**Build standards /environmental requirements**	**Design Standards**
As an indicative guide: - within Kidderminster town centre new development will be expected to secure housing densities of 70 dwph. In areas adjacent to the town centre and railway station, new development should incorporate housing densities of at least 50 dwph - within Stourport-on-Severn town centre new development should meet housing densities of 50 dwph - within Bewdley and the rural areas new development should meet housing densities of 30 dwph	CP01: DELIVERING SUSTAINABLE DEVELOPMENT STANDARDS All new development proposals must demonstrate how they reduce their impact on the environment. The design, layout, siting, orientation, construction method and materials used should seek to maximise energy conservation and efficiency. A minimum of 10% of the energy requirements of major new developments should be met on-site from low or zero-carbon energy sources. The technologies installed should be retained and maintained during the full life-time of the building. Consideration should be given the use of combined heat and power systems on larger sites, particularly on industrial sites or sites of new community infrastructure. Free-standing renewable energy developments will be supported, subject to them meeting the requirements of all other policies within the LDF.	No - although they have adopted a Design SPG.

8.6 For the purpose of this study we have assumed that greenfield sites of 1ha and over, in all Council areas, have a 40% open space.

8.7 The South Worcestershire Development Plan is still being developed and is not yet adopted, so it remains unclear as to precisely how the open space policies will be implemented. SWDP 5 and SWDP 37[28] (in their current version) contain provisions requiring all sites of 5 or more units to include 40% green infrastructure and for financial contributions to be made towards their upkeep etc. We understand that these policies have evolved from policies within the existing Wychavon plan and in reality, on smaller sites, the practice is that developers make a financial payment rather than making an on-site contribution.

8.8 Following discussions with the Councils, to ensure that this study is representative of the development economics that will prevail in the future, we have run an additional set of appraisals where all greenfield sites of 1ha and over, in all Council areas, have 40% open space, and all other sites over 5 units have 20% open space.

Affordable Housing

8.9 Each Local Authority as a different need for affordable housing and each has carried out an Affordable Housing Viability Assessment. From these each Authority (Malvern Hills, Worcester and Wychavon working together) has developed their own affordable housing requirements and targets:

[28] Care should be taken when referring to the policy numbers as they may change as the Plan is developed and taken through the plan making process.

Table 8.2 Affordable Housing Requirements	
Bromsgrove	The adopted Development Plan (Jan 2004) policy on affordable housing (S15) pre-dates PPS3 and has a threshold of 25 dwellings. The Draft Development Plan (January 2011) proposed 40% affordable housing on sites over 5 dwellings with 2/3 social rented and 1/3 intermediate. A pre-submission version is likely to be published in Autumn 2012 which will reflect the Levvels 2012 viability study and therefore will propose 30% on brownfield sites, 40% on greenfield sites and any site over 200 dwellings. The mix of social rented, affordable rent and intermediate housing would be negotiated on a site-by-site basis. Based on discussions with officers we have assumed all greenfield sites of over 10 or more units have a target of 40% and all brownfield sites a target of 30%. On sites of less than 10 units we have assumed a commuted sum of £10,000 per dwelling.
Malvern Worcester Wychavon	The number, type, tenure and distribution of affordable dwellings to be provided will be subject to negotiation, dependent on recognised local housing need, specific site / location factors and development viability, having regard to the sliding scale approach set out below. • On sites of 15 or more dwellings, 40% of the units should be affordable i.e. social rented, affordable rented and intermediate tenure and provided on site • On sites of 10 – 14 dwellings, 30% of units should be affordable and be provided on site • On sites of 5 – 9 dwellings, 20% of units should be affordable and be provided on site • On sites of less than 5 dwellings a financial contribution towards local affordable housing provision will be required.
Redditch	The emerging policy is 30% on sites of 10 dwelling or more. Sites of 5 to 9 dwellings a commuted sum dependant on site specific viability, and zero requirement from sites of less than 5 units. Mix is determined in consultation with Housing Services, guided by the SHMA.
Wyre Forest	An annual average of at least 60 units of affordable housing will be delivered during the plan period until 2026. In accordance with the Council's adopted definition of affordable housing this will include an indicative tenure split of 70% social-rented housing and 30% intermediate (shared ownership) housing. The District Council will generally seek to secure affordable housing provision of 30% on sites of ten or more dwellings within Kidderminster and Stourport-on-Severn and 30% on sites of 6 or more dwellings within Bewdley and the rural areas. Where this level of affordable housing provision is proven to undermine the viability of a development, particularly due to residual land values, then this will be subject to further individual site viability assessment undertaken by the applicant.

Source: Charging Authorities

8.10 In addition to the above, we have run appraisals with zero% affordable housing

8.11 It is clear that in some cases, the Councils are not achieving their affordable targets at the moment. This is to be expected as the affordable target is not set at a level that can be delivered on all development sites – but at a level that the typical site can deliver. There will be sites that can deliver more or less than the targets.

9. Modelled Sites

9.1 In the previous chapters we have set out the general assumptions to be inputted into the development appraisals. In this chapter we set out the modelling. We stress that this is a high level and broad brush study that is seeking to capture the generality rather than the specific. The purpose is to establish the effect that the introduction of CIL may have on development viability, and not to accurately assess the viability of the development of specific sites.

9.2 Our approach is to model 16 residential development sites and a suite of non-residential sites that are broadly representative of the type of development that is likely to come forward in Worcestershire in the future. Of the 16 residential sites, not all will be applicable to each authority – we have selected 12 or so for each Council, and where appropriate, tailored the sites to the Councils' individual circumstances.

9.3 In Chapter 3 above we talked about the pattern of past development in the different Charging Authority Areas. This is important when considering the types of development to be tested.

Residential Development Sites

Identifying a range of sites

9.4 This study is based on the modelling of typical sites. In discussion with the Councils it was decided that a total of 16 representative sites should be modelled. These sites are not designed to exactly reflect actual sites in the study area. They are modelled to be broadly representative of the sites that are likely to come forward in the future.

9.5 We acknowledge that modelling cannot be totally representative, however the aim of this work is to inform the CIL Charging Schedule, rather than assess the effects of viability on development. This will enable the Council (and in due course the CIL Examiner) to assess whether the rates of CIL will 'threaten delivery of the relevant Plan as a whole'[29]. The work is broad brush, so there will be sites that will not be able to deliver the affordable housing

[29] Paragraphs 9 and 10 of CIL Guidance set out the scope of the CIL Examination.
9. The independent examiner should establish that:
- the charging authority has complied with the requirements set out in Part 11 of the Planning Act 2008 and the Community Infrastructure Levy Regulations
- the charging authority's draft charging schedule is supported by background documents containing appropriate available evidence
- the proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and
- evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole. 5

10. The examiner should be ready to recommend modification or rejection of the draft charging schedule if it threatens delivery of the relevant Plan as a whole.

target and CIL, but there will also be sites that can afford more. Once CIL has been adopted, there is little scope for exemptions to be granted, however, where the affordable housing target and other policy requirements cannot be met, the developer will continue to be able to negotiate with the planning authority. The planning authority will have to weigh up the factors for and against a scheme, and the ability to deliver affordable housing will be an important factor. The modelled sites are reflective of development sites in the study area that are likely to come forward during the plan period.

9.6 The modelled sites range in size from 1 to over 300 dwellings. The larger sites tended to be Greenfield sites, but several sites are on previously developed land. The modelling of larger sites has been informed by the potential and proposed Urban Extensions that are proposed in some areas – but are not based on the actual sites.

Development assumptions

9.7 In arriving at appropriate assumptions for residential development on each site, we have ensured that the built form used in our appraisals is appropriate to the current development practices. Most Council areas in which we have carried out studies such as this one, display a range of development situations and a corresponding variety of densities. We have developed a typology which responds to that variety, which is used to inform development assumptions for sites (actual, or potential allocations). That typology enables us to form a view about floorspace density – the amount of development, measured in net floorspace per hectare, to be accommodated upon each site. This is a key variable, because the amount of floorspace which can be accommodated on a site relates directly to the residual value, and is an amount which developers will normally seek to maximise (within the constraints set by the market).

9.8 The typology uses as a base, or benchmark, a typical post-PPG3/PPS3 built form which would provide development at around 3,550 m^2/ha on a substantial site, or on a sensibly shaped smaller site. A representative housing density might be 40-45 dwellings per ha. This has become a common development format. It provides for a majority of houses, but with perhaps 15-25% flats, in a mixture of two storey and two and a half to three storey form, with some rectangular emphasis to the layout. These densities are based on the net developable area – there may be further land where there is a requirement for public open space.

9.9 Alongside this, there would, of course, be some schemes of appreciably higher density development providing largely or wholly apartments, in blocks of three storeys or higher, with development densities of 6,900 m^2/ha and dwelling densities of 100 units/ha upwards; and schemes of lower density, in sensitive rural or rural edge situations.

9.10 The 'base' category as a common urban form referred to above, i.e. 3,550 m^2/ha, was used as the starting point for modelling the sites in the initial appraisals.

9.11 As set out in the previous chapter some of the Councils have guidance on development density – seeking to make best use of available land and to meet their wider objectives.

Table 9.1 Typology of development form			
Category title	Density		Built form characteristics
	Floorspace net m^2/ha (sqft/acre)	Dwellings (typical units/ha)	
Lower density	2,875 (12,500)	20-33	Edge of settlement, less pressured location. Mostly 2 storey, largely 3 & 4 bed detached houses with garages.
Base	**3,550 (15,500)**	**40-45**	**Mixture of 2 & 2.5/3 storey houses, many terraced, some (15-25%) flats, limited garaging.**
Urban	4,480 (19,500)	50	30-35% flats, and/or fewer 2 storey units than base
High	6,900 (30,000)	100+	Flats in small blocks on 3 storeys, parking spaces
Very high	11,500 (50,000)	150+	Flats in larger blocks on 4-6 storeys, parking limited or underground

Source: HDH 2012

9.12 The typologies in Table 9.1 was used to develop model development assumptions. The resulting assumptions for residential development for each of the study sites are set out in the table below.

9.13 There was a concern raised at the first consultation event that the three South Worcestershire Councils require up to 40% public open space (POS) in the larger development sites. There was a consensus that the densities used were reasonable on the net developable area – but did not reflect the open space requirements. Following the event and detailed discussions with the Councils, we have increased the gross area of the larger sites (over 1ha) in the South Worcestershire area to reflect 40% POS, but in the remaining area we have continued to use the net area.

9.14 The emerging policy SWLP 37 (Provision of Open Space, Sport and Recreation uses) requires open space provision all sites, including smaller sites (5 or more) in the context of the local circumstances. We have tested a variable with this requirement.

Modelled Sites

9.15 We have set out the main characteristics of the modelled sites in Table 9.2 and Table 9.3 below.

Table 9.2 Summary of modelled sites			
Site	Details		Notes
SUE 1	Units	314	Mix of family housing as part of a larger urban extension. Includes £1,000,000 of abnormal costs. The net developable area is 8.5 ha and the gross area 14.17 ha (40% open space).
	Area (ha)	8.5	
	Density (units/ha)	37	
SUE 2	Units	250	A part of a large urban extension. Lower density than site 1. Majority of the site as detached and semi-detached homes with garages and gardens. Includes 30 flats. Abnormal costs of £750,000. The net developable area is 8 ha and the gross area 13.33 ha (40% open space).
	Area (ha)	8	
	Density (units/ha)	31	
Greenfield 1	Units	133	Standalone greenfield site with 1/3 3 and 4 bed detached homes, 12 flats and the remainder semi-detached and terraced homes. The net developable area is 3.75 ha and the gross area 6.25 ha (40% open space).
	Area (ha)	3.75	
	Density (units/ha)	35	
Greenfield 2	Units	88	38 detached, 36 semi-detached, 8 terraced and 6 flats. The net developable area is 2.5 ha and the gross area 4.17 ha (40% open space).
	Area (ha)	2.5	
	Density (units/ha)	35	
Greenfield 3	Units	81	Four 4 bed detached, 56 semi-detached (2 and 3 bed) and 12 small terraced houses (2 and 3 bed). 9 flats. The net developable area is 8.5 ha and the gross area 3 ha (40% open space).
	Area (ha)	1.8	
	Density (units/ha)	45	
Brownfield redev.	Units	70	Block of 12 flats and mostly 2 and 3 bed terraced and semi-detached but with 4 large 5 bed units. £200,000 of abnormal costs.
	Area (ha)	1.4	
	Density (units/ha)	50	
Urban Flats	Units	60	A mix of 1, 2 and three bedroom flats built over 6 stories.
	Area (ha)	0.6	
	Density (units/ha)	100	
Brownfield redev	Units	30	High density urban site of terraced housing and limited car parking. All as terraced housing. Mix of 2 and 3 bed homes. No flats
	Area (ha)	0.42	
	Density (units/ha)	71	
Medium Brownfield	Units	24	6 flats and the remainder as terraced and semi-detached accommodation. 2 and 3 bed units. Allowance for £100,000 of abnormal costs.
	Area (ha)	0.4	
	Density (units/ha)	60	
Medium greenfield	Units	24	A constrained site with a mix of terraced and semi-detached homes, and a few larger detached 4 and 5 bed units built over 3 stories.
	Area (ha)	0.57	
	Density (units/ha)	42	
Urban edge	Units	12	A mix of small 2 and three bed units in pairs and as detached on a constrained site.
	Area (ha)	0.3	
	Density (units/ha)	40	

Table 9.2 Summary of modelled sites (continued)			
Town centre flats	Units	10	A mix of 2 and 3 bedroom flats built over three floors. Allowance for abnormal costs of £25,000.
	Area (ha)	0.2	
	Density (units/ha)	50	
Ex garage site	Units	5	A disused garage site in roadside location. 3 detached homes, two 3 and one 4 bed and a pair of 2 bedroom semi-detached.
	Area (ha)	0.12	
	Density (units/ha)	42	
Town Village Infill	Units	4	2 pairs of 3 bed semi-detached homes on a cleared village or town site.
	Area (ha)	0.1	
	Density (units/ha)	40	
Small Village Site	Units	3	A pair of semi-detached and single unit on a small infill type site.
	Area (ha)	0.1	
	Density (units/ha)	30	
Village House	Units	1	A single 4 bedroom detached house with its own highway access.
	Area (ha)	0.1	
	Density (units/ha)	10	

Source: HDH 2012

9.16 The gross and net areas and the site densities are summarised below.

Table 9.3 Site development assumptions								
Number	Site	Gross Area	Units	Net Area	Density	Average Unit Size		Density
		ha		ha	Units/ha	m2	m2	m2/ha
1	SUE 1	14.17	314	8.50	37	81.9	25,723	3,026
2	SUE 2	13.33	250	8.00	31	82.9	20,730	2,591
3	Greenfield 1	6.25	133	3.75	35	92.5	12,301	3,280
4	Greenfield 2	4.17	88	2.50	35	95.2	8,376	3,350
5	Greenfield 3	3.00	81	1.80	45	78.8	6,386	3,548
6	Brownfield redev. L	1.40	70	1.40	50	78.1	5,466	3,904
7	Urban Flats	0.60	60	0.60	100	76.4	4,586	7,643
8	Brownfield redev. M	0.42	30	0.42	71	70.6	2,119	5,045
9	Medium Brownfield	0.40	24	0.40	60	69.3	1,663	4,158
10	Medium greenfield	0.57	24	0.57	42	90.5	2,171	3,809
11	Urban edge	0.30	12	0.30	40	86.8	1,041	3,470
12	Town centre flats	0.20	10	0.20	50	80.4	804	4,020
13	Ex garage site	0.12	5	0.12	42	84.6	423	3,525
14	Town Village Infill	0.10	4	0.10	40	83.5	334	3,340
15	Small Village Scheme	0.10	3	0.10	30	92.0	276	2,760
16	Village House	0.10	1	0.10	10	111.0	111	1,110
	TOTAL		**1,109**	**28.86**		**83**	**92,510**	**3,205**

Source: HDH 2012. Note: Floorspace density figures are rounded

9.17 In order to tailor the appraisals to local circumstances, we have applied the geographically appropriate affordable housing targets and prices as shown in Table 9.5.

9.18 We received conflicting representations following the consultation event, some arguing the unit sizes were too large and others too small. On balance we have kept with the above assumptions.

Abnormal Costs

9.19 We have assumed that some sites have abnormal costs over and above the standard cost assumptions that were made earlier in this report. These are included to illustrate variability between sites. The following amounts are included:

Table 9.4 Site Abnormal Cost Assumptions	
Site	Abnormal Costs
1	£1,000,000
2	£750,000
6	£200,000
9	£100,000
13	£25,000

Source: HDH 2012

9.20 These amounts are not intended to relate to a specific abnormal cost, however, they do represent that many sites may be subject to some extra costs to enable development to proceed. These may relate to a wide range of items that may include the demolition of existing buildings, improvements to highways, or utility connections.

Prices Assumptions

9.21 The price of units is one of the most significant inputs into the appraisals. This applies not just to the market homes, but also the affordable uses (intermediate, social rented and affordable rented). The prices used are set out in Chapter 4, and summarised in Table 9.5 below. This table also shows the amounts of affordable housing with the local targets and sites selected for each Council.

9.22 In order to tailor the appraisals to the local circumstances, we have applied the geographically appropriate prices. These are based on the sites' general location. We modelled each site in different parts of each local authority area. These locations are not precise sites but general locations. These are shown on the plans in **Appendix 6**.

Choice of Sites

9.23 As set out at the start of this report we have modelled 16 residential sites that are broadly representative of the type of development that is likely to come forward across the whole of Worcestershire but, not all will be applicable to each authority – we have selected 12 or so for each Council. This process of site section is an important part of the study, and was carried out through a series of one to one meetings with council officers. We have set out the general locations of the various sites in **Appendix 6**.

9.24 It is important to note that Worcester City's administrative boundary is drawn tightly to the urban area. As a result the urban extensions to Worcester City are included within the administrative areas of Malvern and Wychavon. This area is considered part of Wider Worcester.

9.25 In selecting the sites we have born in mind the test that the CIL examiner will apply when setting CIL – will CIL threaten delivery of the Development Plan? The sites have therefore been selected to be most representative of each Council's pattern of development. When it comes to setting CIL the Councils will need to put appropriate weight on those types of development most likely to come forward in their area.

Table 9.5 Appraisal Variables by Charging Authority

			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	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
	Net 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
Bromsgrove																		
			SUE 1	SUE 2	Greenfield 1	Greenfield 2	Greenfield 3	Brownfield redev. L		Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
Mix	Intermediate to Buy		13%	13%	13%	13%	13%	10%		10%	10%	13%	13%	10%				
	Affordable Rent																	
	Social Rent		27%	27%	27%	27%	27%	20%		20%	20%	27%	27%	20%				
Price	Market	£/m2	2,100	2,050	2,175	2,250	2,200	2,050		1,900	2,250	2,250	2,200	1,800	1,850	2,350	2,600	3,000
	Intermediate to Bu	£/m2	1,470	1,435	1,523	1,575	1,540	1,435		1,330	1,575	1,575	1,540	1,260	1,295	1,645	1,820	2,100
	Affordable Rent	£/m2	1,081	1,081	1,081	1,081	1,081	1,081		1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081
	Social Rent	£/m2	1,155	1,128	1,196	1,238	1,210	1,128		1,045	1,238	1,238	1,210	990	1,018	1,293	1,430	1,650
Malvern Hills																		
			SUE 1	SUE 2	Greenfield 1	Greenfield 2				Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
Mix	Intermediate to Buy																	
	Affordable Rent		40%	40%	40%	40%				40%	40%	40%	30%	30%	20%			
	Social Rent																	
Price	Market	£/m2	2,050	2,100	2,200	2,250				1,850	2,100	2,300	2,250	2,400	2,050	2,300	2,500	2,750
	Intermediate to Bu	£/m2	1,435	1,470	1,540	1,575				1,295	1,470	1,610	1,575	1,680	1,435	1,610	1,750	1,925
	Affordable Rent	£/m2	1,356	1,356	1,356	1,356				1,356	1,356	1,356	1,356	1,357	1,356	1,356	1,356	1,356
	Social Rent	£/m2	1,128	1,155	1,210	1,238				1,018	1,155	1,265	1,238	1,320	1,128	1,265	1,375	1,513
Redditch																		
				SUE 2	Greenfield 1	Greenfield 2	Greenfield 3				Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Town Scheme	Village House
Mix	Intermediate to Buy																	
	Affordable Rent			30%	30%	30%	30%				30%	30%	30%	30%				
	Social Rent																	
Price	Market	£/m2		1,950	1,975	2,100	2,150				2,050	2,050	2,000	1,750	1,850	2,150	2,600	3,000
	Intermediate to Bu	£/m2		1,365	1,383	1,470	1,505				1,435	1,435	1,400	1,225	1,295	1,505	1,820	2,100
	Affordable Rent	£/m2		1,037	1,037	1,037	1,037				1,037	1,037	1,037	1,037	1,037	1,037	1,037	1,037
	Social Rent	£/m2		1,073	1,086	1,155	1,183				1,128	1,128	1,100	963	1,018	1,183	1,430	1,650
Worcester																		
						Large Brownfield	Greenfield 3	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill		
Mix	Intermediate to Buy																	
	Affordable Rent					40%	40%	40%	40%	40%	40%	40%	30%	20%	20%			
	Social Rent																	
Price	Market	£/m2				2,150	2,075	1,850	2,300	2,150	2,100	2,225	2,400	2,450	1,750	2,025		
	Intermediate to Bu	£/m2				1,505	1,453	1,295	1,610	1,505	1,470	1,558	1,680	1,715	1,225	1,418		
	Affordable Rent	£/m2				1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120		
	Social Rent	£/m2				1,183	1,141	1,018	1,265	1,183	1,155	1,224	1,320	1,348	963	1,114		
Wychavon																		
			SUE 1	SUE 2	Greenfield 1	Greenfield 2	Greenfield 3	Brownfield redev. L		Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
Mix	Intermediate to Buy																	
	Affordable Rent		40%	40%	40%	40%	40%	40%		40%	40%	40%	30%	20%	20%			
	Social Rent																	
Price	Market	£/m2	2,025	2,075	2,150	2,200	2,550	2,450		2,300	2,050	1,800	2,250	2,100	2,350	3,000	3,000	3,500
	Intermediate to Bu	£/m2	1,418	1,453	1,505	1,540	1,785	1,715		1,610	1,435	1,260	1,575	1,470	1,645	2,100	2,100	2,450
	Affordable Rent	£/m2	1,093	1,093	1,093	1,093	1,093	1,093		1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093
	Social Rent	£/m2	1,114	1,141	1,183	1,210	1,403	1,348		1,265	1,128	990	1,238	1,155	1,293	1,650	1,650	1,925
Wyre Forest																		
					Brownfield 1	Brownfield 2	Brownfield 3	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
Mix	Intermediate to Buy				9%	9%	9%	9%	9%	9%	9%	9%	9%					
	Affordable Rent																	
	Social Rent				21%	21%	21%	21%	21%	21%	21%	21%	21%					
Price	Market	£/m2			2,250	1,950	2,025	2,150	2,300	1,850	1,650	2,300	2,250	2,350	2,000	2,500	2,400	3,000
	Intermediate to Bu	£/m2			1,575	1,365	1,418	1,505	1,610	1,295	1,155	1,610	1,575	1,645	1,400	1,750	1,680	2,100
	Affordable Rent	£/m2			1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007
	Social Rent	£/m2			1,238	1,073	1,114	1,183	1,265	1,018	908	1,265	1,238	1,293	1,100	1,375	1,320	1,650

Source: HDH 2012

Non-Residential Sites

Development typologies

9.26 For the purpose of this study we have assessed a number of development types. In considering the types of development to assess we have sought to include those types of development that are likely to come forward in the short to medium term. The predominant type of development will be residential development. This is important as the legislation, the CIL Regulations, and the CIL Guidance all require the charging authority to use '*appropriate available evidence*'. This is stressed in all the Guidance. It is not necessary to test every type of development that may occur in the district for every situation. This was confirmed by the Examiner who conducted the Shropshire CIL Examination.

9.27 In assessing which types of development to model, we have briefly considered whether or not the use is likely to yield CIL – those sites that are very unlikely to yield CIL have been disregarded and not pursued further.

9.28 We have therefore tested the following development types:

i. **Large offices**. These are more than 250 m^2, will be of steel frame construction, be over several floors and will be located on larger business parks. Typical larger units in the County are around 500 m^2 – we will use this as the basis of our modelling.

ii. **Small offices**. Modern offices of less than 250 m^2. These will normally be built of block and brick, will be of an open design, and be on a market town edge or in a more rural situation. Typical small office units in the County are around 150 m^2 – we will use this as the basis of our modelling.

iii. **Large industrial**. Modern industrial units of over 500 m^2. There is relatively little new space being constructed. Typical larger units in the district are around 1,500 m^2 – we will use this as the basis of our modelling.

iv. **Small industrial**. Modern industrial units of less than 500 m^2. These will normally be on a small business park and be of simple steel frame construction, the walls will be of block work and insulated cladding, and there will be a small office area. Typical small units in the area are around 200 m^2 – we will use this as the basis of our modelling.

9.29 In developing these typologies, we have made assumptions about the site coverage and density of development on the sites. We have assumed 66% coverage on the large industrial sites, and 60% coverage on the small industrial and large offices, on the small offices we have assumed 50% coverage. On the offices we have assumed two story construction. We have not looked at the plethora of other types of commercial and employment development beyond office and industrial/storage uses in this study.

9.30 We fully appreciate that, following the Wycombe DC decision, differential rates should not be set by size alone. The economics of large and small units can be quite different so both have been tested to provide a depth of information, to allow the Councils to be fully informed when striking the balance.

9.31 **Rural commercial conversions**. Over the last 15 or so years there have been numerous conversions of redundant farm buildings and estate. Many of these schemes have been of high quality offices and workshops in traditional farm buildings that are no longer required for agricultural purposes. The buildings are often of high historical value and of high importance to the landscape. Having said this, there has also been a trend in the increasing number of ‘modern’ farm buildings being converted to non-agricultural uses. These ‘modern’ buildings are typically steel or concrete portal framed, and were built in the second half of the twentieth century.

- The conversion of historic farm buildings is carried out for a wide range of reasons which are, often, not purely commercial. For example, the landowner may wish to see a farm yard conserved rather than simply to allow it to become derelict and may seek to convert it to a new employment use to fund the refurbishment work – and generate an income, rather than conversion to residential to generate capital receipts. The decision making process is not commercial and the project may not make a positive return (without grant) in the short to medium-term although in due course this is normally the ultimate intention of the owner.
- The conversion of relatively modern buildings has arisen because these are no longer suitable for modern farming (for factors such as the inability to exclude pests and vermin) or because of the consolidation of farms into larger units. In the case of these buildings, it is often the case that little actual work is required. A disused potato shed, grains store, or chicken house, may be used for low grade storage or some form of B1 use.
- Such development has been seen as a vital part of the diversification of the rural economy (both for the individual farm / estate and more widely) and has been encouraged through planning policies and subsidies.

9.32 We have not been able to find any of these types of schemes that are coming forward at the moment, and have concluded that these schemes are now rare and relatively unlikely to come forward. In addition, they are often subsidised, and on the whole we do not believe that they are viable, when measured against the conventional criteria, without subsidy and therefore would not be able to bear an element of CIL.

Agricultural

9.33 Worcestershire is largely rural (by land use area) – although of course not all the Charging Authorities are rural councils. Agriculture is a significant land use in the area. We are advised by the Council officers that relatively few agricultural applications have come forward recently, and there is no current reason to believe that this should change in the short to medium term. Agriculture has, for many years, been treated as a special case in planning terms, with much development being outside the planning system. Those agricultural schemes that do go ahead tend to be minor and under the General Permitted Development Order (GPDO) which allows buildings of up to 465 m^2, but subject to various conditions.

9.34 There has been a general move towards farm diversification. These are for a wide variety of uses in both the agricultural and non-agricultural sectors. This is strongly encouraged in policy. We recommend that applications that are submitted for diversification projects that fall outside strict agricultural use prepared by the GPDO, should be assessed for CIL under the appropriate schedule – i.e. industrial, office or leisure etc.

9.35 We do not believe that it is necessary to carry out further viability testing of agricultural development at this stage. However, if there is a change in the pattern of development or policy this should be coved in a future review of the charging schedule.

Hotels and Leisure

9.36 The leisure industry is very diverse, and ranges from conventional hotels and roadside budget hotels, to cinemas, theatres, historic attractions, equestrian centres, stables and ménages. We have reviewed this sector and there is very little activity in this sector at the moment, either at the planning stage or the construction stage. This is an indication that development in this sector is at the margins of viability at the moment. Having considered this further, we have only assessed a modern hotel on a town edge site. Both Travelodge and Premiere Inn are seeking hotel sites in the area. We have assumed that this is a 60 bedroom product with ample car parking on a 0.4 ha (1 acre) site.

9.37 Under this heading we have also considered village halls and other community buildings. These can be considered as community as well as leisure buildings. We do not believe that there is scope to charge CIL on this type of development as, whilst they are often over 100 m^2, they are rarely viable in purely commercial terms. The development of village halls is normally subject to grant funding – from a wide variety of sources. When the building is complete, a commercial return on the investment is not a priority – many villages halls strive to break even.

Residential Institution/Community/Institutional

9.38 This sector includes residential care homes and residential schools. We do not believe that it is viable to levy CIL on this sector at the moment. We have undertaken some market research that has revealed values of less than £1,000/m^2. Generally we do not believe that these are sufficient to sustain the additional costs of CIL – bearing in mind construction costs in excess of £1,000 /m^2 (plus fees, contingency, developers' profit, finance and land).

9.39 We understand (from representations made after the Consultation event) that the care based schemes currently being promoted are partly funded through grant – an indication of the lack of viability. We recommend that this is kept under review and revisited when the charging schedule is reviewed.

9.40 This use includes development used for the provision of any medical or health services and development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education. The majority of development in this sector is mainly brought forward by the public sector or by not-for-profit organisations – many of which have charitable status (thus making then potentially exempt from CIL).

Retail

9.41 For the purpose of this study, we have assessed the following types of space. It is important to remember that this assessment is looking at the ability of new projects to bear an element of CIL – it is only therefore necessary to look at the main types of development likely to come forward in the future.

i. **Supermarket**[30] is a single storey retail unit development with a gross (i.e. GIA) area of 4,000 m^2. It is assumed to require 400 car parking spaces, and to occupy a total site area of 2.6 ha. The building is taken to be of steel construction. The development was modelled alternatively on greenfield and on previously developed sites.

ii. **Retail Warehouse**[31] is a single storey retail unit development with a gross (i.e. GIA) area of 4,000 m^2. It is assumed to require 150 car parking spaces, and to occupy a total site area of 1.8ha. The building is taken to be of steel construction. The development was modelled alternatively on greenfield and on previously developed sites.

iii. **Town Centre Shop** is a brick built development on two storeys, of 150 m^2. No car parking or loading space is allowed for, and the total site area (effectively the building footprint) is 0.017 ha.

9.42 In line with the Guidance, we have only assessed developments of over 100 m^2. There are other types of retail development, such as small single farm shops, petrol filling stations and garden centres. We have not included these in this high level study due to the great diversity of project that may arise. For the larger units we have looked at Bulky Goods and Food.

9.43 In developing these typologies, we have made assumptions about the site coverage and density of development on the sites. We have assumed 15% building coverage on the large shed sites, and 22% building coverage on the small sheds, on the town centre shops we have assumed 100% coverage. The remainder of the larger sites are car parking, internal roads and landscaping. We have assumed simple, single story construction and have assumed there are no mezzanine floors.

[30] We recommend that the definition set out the examiner at the Wycombe DC CIL Examination is used:
Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

[31] We recommend that the definition set out the examiner at the Wycombe DC CIL Examination is used:
Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods) DIY items and other ranges of goods catering for mainly car-borne customers.

10. Residential Appraisal Results

10.1 At the start of this chapter it is important to stress that the results of the appraisals do not, in themselves, set a level of CIL. They are one of a number of factors that the Councils will consider when setting CIL, including the need for infrastructure, other available evidence such as the Councils' track record in collecting payments under s106 and, importantly, the results of the consultation process with developers. The purpose of the appraisals is to provide an indication of the ability of different types of sites, in different areas, to bear CIL. In due course, the Councils will have to set CIL through striking the balance between deterring development through making it unviable, and deterring development through the lack of infrastructure – and the CIL Examiner will consider if the rates proposed put the Development Plan at 'serious risk'.

10.2 In order to inform the consultation process and then the setting of CIL we have run several sets of appraisals for each Council. The first is based on the assumptions set out in the previous chapters of this report, including the various affordable housing requirements set out in the Councils' policies – with the base being to Building Regulations Part L. We have run a second set of appraisals assuming no provision of affordable housing, as this will be useful in helping the Councils to understand the relationship between CIL and affordable housing.

10.3 In addition we have also run appraisals allowing for CfSH Level 4 (and allowance for the SWLP extra on-site energy generation requirements). Development appraisals are also sensitive to changes in price so appraisals have been run with a 5% increase and decrease in prices.

10.4 For each development type we have generated two principle outputs. The Residual Value and the Additional Profit. In the tables in this chapter we have colour coded the results using a simple traffic light system:

a. **Green** **Viable** – where the Residual Value exceeds the Existing Use Value plus the appropriate uplift to provide a competitive return for the landowner.

b. **Amber** **Marginal** – where the Residual Value exceeds the Existing Use Value but not the Existing Use Value plus appropriate uplift to provide a competitive return for the landowner. These sites should not be considered as viable as it is unlikely that the land would be made available to a developer at this level.

c. **Red** **Non-viable** – where the Residual Value does not exceed the Existing Use Value.

Base Appraisals

10.5 The detailed appraisal base results, for the affordable housing targets, are set out in the attached **Appendix 7**. In addition **Annex 1**, being a separate document, includes the site by site appraisals.

10.6 The appraisals use the residual valuation approach – that is, they are designed to assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents, and an appropriate amount of developers' profit. The payment would represent the sum paid in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for this value to exceed the value from an alternative use. We have already seen that, for a greenfield site where the only alternative use is likely to be agricultural, this figure may be very modest. However, some of the sites have been previously developed and therefore have a more substantial existing or competing alternative use value.

10.7 These initial appraisals are based on the base options:

a. Net Gross Development Area
   i. 40% Public Open Space on greenfield sites 1.0ha and over
   ii. Greenfield sites of more than 5 units and less than 1ha. 20% open space for the South Worcestershire Councils.
   iii. Brownfield sites no Public Open Space (although sites will include undeveloped areas (gardens, parking etc) through good design).

b. Density Calculated on net area

c. Renewables Building Regs (Part L)

d. Affordable Housing Current target and thresholds. The requirement in Bromsgrove, on sites of less than 10 units, is a commuted sum of £10,000 per dwelling has not been included.

e. CIL and s106 £1,000 per unit – applied to all units (market and affordable)

10.8 The following table compares the Residual Value with the Existing Use Value and the Viability Threshold illustrating which site types are viable.

Table 10.1 Residual Land Values and Viability Thresholds

			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
Gross Site Area		ha	14.17	13.33	6.25	4.17	3.00	0.60		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		0.42	0.40	0.57	0.30	0.20	0.12	0.10	0.10	0.10
Units			314	250	133	88	81	70		30	24	24	12	10	5	4	3	1
Bromsgrove																		
Mix	Market		60.00%	60.00%	60.00%	60.00%	60.00%	70.00%		70.00%	70.00%	60.00%	60.00%	70.00%	100.00%	100.00%	100.00%	100.00%
	Intermediate to Buy		13.00%	13.00%	13.00%	13.00%	13.00%	10.00%		10.00%	10.00%	13.00%	13.00%	10.00%	0.00%	0.00%	0.00%	0.00%
	Affordable Rent		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Social Rent		27.00%	27.00%	27.00%	27.00%	27.00%	20.00%		20.00%	20.00%	27.00%	27.00%	20.00%	0.00%	0.00%	0.00%	0.00%
Alternative Land Valu		£ site	354,167	333,333	156,250	104,167	75,000	630,000		189,000	180,000	14,250	15,000	90,000	54,000	75,000	5,000	5,000
Viability Threshold		£ site	3,966,667	3,733,333	1,750,000	1,166,667	840,000	756,000		226,800	216,000	159,600	93,000	108,000	64,800	90,000	31,000	31,000
Residual Value		£ site	4,560,856	3,235,698	3,303,115	2,714,614	1,795,019	902,193		428,583	450,635	784,964	281,300	-11,562	86,078	225,173	191,232	100,773
Malvern Hills																		
Mix	Market		60.00%	60.00%	60.00%	60.00%				60.00%	60.00%	60.00%	70.00%	70.00%	80.00%	100.00%	100.00%	100.00%
	Intermediate to Buy		0.00%	0.00%	0.00%	0.00%				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Affordable Rent		40.00%	40.00%	40.00%	40.00%				40.00%	40.00%	40.00%	30.00%	30.00%	20.00%	0.00%	0.00%	0.00%
	Social Rent		0.00%	0.00%	0.00%	0.00%				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alternative Land Valu		£ site	354,167	333,333	156,250	104,167				147,000	140,000	14,250	15,000	70,000	42,000	75,000	5,000	5,000
Viability Threshold		£ site	3,966,667	3,733,333	1,750,000	1,166,667				176,400	168,000	159,600	93,000	84,000	50,400	90,000	31,000	31,000
Residual Value		£ site	4,714,057	4,322,012	3,587,642	2,733,922				399,822	250,000	834,823	377,892	271,544	104,678	213,250	171,465	80,524
Redditch																		
Mix	Market			70.00%	70.00%	70.00%	70.00%				70.00%	70.00%	70.00%	70.00%	100.00%	100.00%	100.00%	100.00%
	Intermediate to Buy			0.00%	0.00%	0.00%	0.00%				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Affordable Rent			30.00%	30.00%	30.00%	30.00%				30.00%	30.00%	30.00%	30.00%	0.00%	0.00%	0.00%	0.00%
	Social Rent			0.00%	0.00%	0.00%	0.00%				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alternative Land Valu		£ site		333,333	156,250	104,167	75,000				180,000	14,250	15,000	90,000	54,000	75,000	5,000	5,000
Viability Threshold		£ site		3,733,333	1,750,000	1,166,667	840,000				216,000	159,600	93,000	108,000	64,800	90,000	31,000	31,000
Residual Value		£ site		2,637,007	2,271,350	2,124,283	1,663,840				188,641	572,628	187,655	-39,281	86,078	177,480	191,232	100,773
Worcester																		
Mix	Market					60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	70.00%	80.00%	80.00%	100.00%		
	Intermediate to Buy					0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
	Affordable Rent					40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	30.00%	20.00%	20.00%	0.00%		
	Social Rent					0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Alternative Land Valu		£ site				104,167	75,000	490,000	210,000	147,000	140,000	14,250	15,000	70,000	42,000	75,000		
Viability Threshold		£ site				1,166,667	840,000	588,000	252,000	176,400	168,000	159,600	93,000	84,000	50,400	90,000		
Residual Value		£ site				1,888,206	1,139,549	-627	-697,880	520,451	144,532	627,506	402,381	326,008	17,391	147,672		
Wychavon																		
Mix	Market		60.00%	60.00%	60.00%	60.00%	60.00%	60.00%		60.00%	60.00%	60.00%	70.00%	80.00%	80.00%	100.00%	100.00%	100.00%
	Intermediate to Buy		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Affordable Rent		40.00%	40.00%	40.00%	40.00%	40.00%	40.00%		40.00%	40.00%	40.00%	30.00%	20.00%	20.00%	0.00%	0.00%	0.00%
	Social Rent		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alternative Land Valu		£ site	354,167	333,333	156,250	104,167	75,000	490,000		147,000	140,000	14,250	15,000	70,000	42,000	75,000	5,000	5,000
Viability Threshold		£ site	3,966,667	3,733,333	1,750,000	1,166,667	840,000	588,000		176,400	168,000	159,600	93,000	84,000	50,400	90,000	31,000	31,000
Residual Value		£ site	2,765,400	2,718,389	2,533,361	1,993,373	2,307,385	1,268,899		635,567	98,256	239,001	321,398	168,826	160,057	372,900	265,125	139,892
Wyre Forest																		
Mix	Market				70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	100.00%	100.00%	100.00%	100.00%
	Intermediate to Buy				9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	0.00%	0.00%	0.00%	0.00%
	Affordable Rent				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Social Rent				21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	0.00%	0.00%	0.00%	0.00%
Alternative Land Valu		£ site			156,250	104,167	75,000	490,000	210,000	147,000	140,000	14,250	15,000	70,000	42,000	75,000	5,000	5,000
Viability Threshold		£ site			1,750,000	1,166,667	840,000	588,000	252,000	176,400	168,000	159,600	93,000	84,000	50,400	90,000	31,000	31,000
Residual Value		£ site			4,478,361	1,751,681	1,505,669	1,201,916	-66,128	359,946	-156,536	980,792	374,187	258,827	130,382	255,949	151,698	100,773

Source: HDH 2012

10.9 The above table shows which of the modelled sites are and are not viable but does not quantify the profitability of the viable sites. The following table indicates the additional profit for the base appraisals:

Table 10.2 Worcestershire CIL Viability Appraisals – Base Assumptions

Additional Profit (£/m2)

		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	Brownfield redev. L	0	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town 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
Bromsgrove	£/m^2	45	-42	233	340	275	43		148	218	523	326	-221	53	428	613	657
Malvern Hills	£/m^2	56	54	276	344				190	89	564	422	359	168	390	538	467
Redditch	£/m^2		-81	68	181	204				-23	296	138	-273	53	277	613	657
Worcester	£/m^2				159	87	-184	-357	295	-23	391	458	406	-101	183		
Wychavon	£/m^2	-83	-87	119	182	422	228		394	-71	65	338	140	343	912	913	1,036
Wyre Forest	£/m^2			350	111	165	176	-102	134	-290	588	416	335	200	535	462	657

Source: HDH 2012

10.10 In comparing the above, it is important to note that each Authority has a different affordable housing target (The South Worcestershire Authorities have the same target) – so direct comparisons should not be made.

10.11 To assist the Councils to set appropriate rates of CIL, we have run various alternative appraisals, firstly with no policy requirements and building up the Council's different policy requirements. A further set of appraisals has then been run to illustrate the impact of CIL at different levels.

Additional Profit – No Policy Requirements

10.12 The Councils need to strike a balance between raising CIL and delivering their affordable housing target and environmental aspirations. The following results show the viability results with a zero affordable housing target and to current building standards. In these appraisals it is assumed that 40% of the large greenfield sites (those over 1ha) is Public Open Space.

Table 10.3 Worcestershire CIL Viability Appraisals – Zero Affordable Housing Target

Additional Profit (£/m²)

		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	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
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
Bromsgrove	£/m²	260	207	383	463	423	206		272	350	582	456	8	53	428	613	657
Malvern Hills	£/m²	226	243	400	463				261	271	619	493	487	238	390	538	467
Redditch	£/m²		137	244	355	387				203	433	309	-30	53	277	613	657
Worcester	£/m²				391	332	95	133	483	271	563	604	525	14	183		
Wychavon	£/m²	208	225	365	427	680	529		595	234	247	493	261	463	912	913	1,036
Wyre Forest	£/m²			435	248	295	312	133	261	-55	619	493	449	200	535	462	657

Source: HDH 2012

10.13 As we would expect, nearly all sites are viable on this basis – however two are not. There will always be some sites that are unviable, even in the best market.

10.14 The potential to pay CIL is sensitive to the amount of affordable housing. The following table is produced for illustrative purposes and is based on a 0.57ha, greenfield site of 18 market units and 6 affordable rented units (24 in all) and assumes that CIL is set at 50% of the 'additional profit'. It shows how CIL could vary relative to prices – starting from a base price of £1,750/m^2 (£157,500/unit).

Table 10.4 Sensitivity to Affordable Housing Target		
Affordable Target	**Potential CIL, £/m^2**	**% difference in CIL from base price scenario**
0%	106	122%
2%	102	114%
4%	99	106%
6%	95	98%
8%	91	90%
10%	87	82%
12%	82	72%
14%	78	63%
16%	71	49%
18%	68	42%
20%	62	31%
25%	**48**	**0%**
30%	31	-35%
35%	13	-73%
40%	-9	-120%
50%	-67	-240%

Source: HDH 2012

Additional Profit – CfSH Level 4

10.15 As set out earlier in this report, we have modelled the impact of the introduction of CfSH. Working from the Base Appraisals above we have added in the additional cost of satisfying the requirements of CfSH Level 4.

10.16 There are commentators who have postulated that a home built to a higher environmental standard will be less expensive for the owner to run (in heating and energy) so will be more valuable. There is a sensible logic to this line of thought however there is no evidence that there is actually a measurable impact on the price of a home built to a higher standard than one that is not.

Table 10.5 Worcestershire CIL Viability Appraisals – CfSH Level 4

Additional Profit (£/m²)

		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	Brownfield redev. L	0	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town 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
Bromsgrove	£/m²	211	157	334	412	371	151		227	304	539	414	-45	8	384	562	605
Malvern Hills	£/m²	176	193	352	412				215	225	556	450	434	193	346	486	415
Redditch	£/m²		87	195	305	335				158	391	266	-83	8	233	562	605
Worcester	£/m²				340	280	41	49	438	225	500	561	472	-32	139		
Wychavon	£/m²	159	175	317	376	628	474		550	189	185	450	211	418	868	862	984
Wyre Forest	£/m²			386	197	243	257	49	215	-102	576	450	397	156	497	410	605

Source: HDH 2012

10.17 These results are representative of the current development environment and current costs of implementing CfSH, however we would expect the cost of implementing this level of the code to fall quite substantially over the next few years as the technology and practice within the industry becomes the norm. This happened following the introduction of the requirements of Part L.

10.18 The SWLP includes a policy requiring 10% on-site energy production. We have run a further set of appraisals with this requirement applied to all sites – although there is no suggestion that the other Councils plan to introduce this.

Table 10.6 Worcestershire CIL Viability Appraisals –CfSH Level 4 plus cost of On-site Generation as required by SWLP. Additional Profit (£/m²)

		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	Brownfield redev. L	0	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town 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
Bromsgrove	£/m²	191	137	314	392	350	129		204	281	517	392	-71	-15	361	536	579
Malvern Hills	£/m²	156	172	332	392				193	203	534	428	408	171	324	460	389
Redditch	£/m²		66	175	284	314				135	369	244	-109	-15	211	536	579
Worcester	£/m²				320	259	19	16	416	203	479	539	446	-54	116		
Wychavon	£/m²	139	154	297	356	606	451		527	166	163	428	184	395	846	838	958
Wyre Forest	£/m²			366	176	222	235	16	193	-125	555	428	370	134	474	385	579

Source: HDH 2012

Table 10.7 Worcestershire CIL Viability Appraisals – Affordable Housing Target with CfSH Level 4

Additional Profit (£/m2)

		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	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
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
Bromsgrove	£/m^2	-37	-125	152	255	188	-36		83	152	451	257	-297	8	384	562	605
Malvern Hills	£/m^2	-26	-29	194	259				115	15	460	360	287	112	346	486	415
Redditch	£/m^2		-153	-1	108	129				-87	236	76	-348	8	233	562	605
Worcester	£/m^2				75	3	-276	-497	221	-98	287	396	340	-158	139		
Wychavon	£/m^2	-165	-171	38	98	335	137		318	-148	-38	277	74	286	868	862	984
Wyre Forest	£/m^2			280	38	90	99	-222	70	-356	527	355	397	156	497	410	605

Source: HDH 2012

Additional profit - Price +5% and -5% price change

10.19 To enable a judgement to be made about the impact of price changes, the following tables show the impact of a 5% decrease and a 5% increase in house prices on the base appraisals. All other assumptions in the appraisals have been held constant.

Table 10.8 Worcestershire CIL Viability Appraisals – Affordable Housing Target with CfSH Level 4

Prices plus 5% - Additional Profit (£/m²)

		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	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
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
Bromsgrove	£/m²	65	-24	258	368	301	57		172	256	568	368	-211	77	472	660	720
Malvern Hills	£/m²	45	45	271	340				184	89	545	443	374	189	433	581	519
Redditch	£/m²		-84	68	183	208				-14	311	151	-282	77	314	660	720
Worcester	£/m²				152	77	-209	-412	300	-23	369	485	432	-92	215		
Wychavon	£/m²	-94	-98	112	176	428	224		404	-73	29	360	153	375	981	975	1,117
Wyre Forest	£/m²			378	126	183	195	-116	156	-280	633	459	485	230	585	501	720

Source: HDH 2012

Table 10.9 Worcestershire CIL Viability Appraisals – Affordable Housing Target and CfSH 4
Prices less 5% - Additional Profit (£/m²)

		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	Brownfield redev. L	Urban Flats	Brownfield redev. M	Medium Brownfield	Medium greenfield	Urban edge	Town centre flats	Ex garage site	Town Village Infill	Small Village Scheme	Village House
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
Bromsgrove	£/m²	-138	-227	46	142	76	-127		-3	48	334	143	-382	-62	295	463	491
Malvern Hills	£/m²	-97	-104	118	179				49	-60	374	277	197	35	259	392	310
Redditch	£/m²		-219	-70	33	51				-163	160	4	-414	-62	152	463	491
Worcester	£/m²				-3	-73	-343	-583	141	-176	205	307	250	-223	65		
Wychavon	£/m²	-232	-241	-37	19	242	49		234	-224	-104	196	-4	200	755	751	853
Wyre Forest	£/m²			182	-47	-1	1	-329	-14	-432	419	250	308	81	402	321	491

Source: HDH 2012

10.20 It is difficult to really understand the effect of a change in house prices from the above. The potential to pay CIL is very sensitive to price change as the residual value is the product of deducting one large number (GDV) from another large number (development cost). The following table is produced for illustrative purposes and is based on a 0.57ha, greenfield site of 18 market units and 6 affordable rented units (24 in all) and assumes that CIL is set at 50% of the 'additional profit'. It shows how CIL could vary relative to prices – starting from a base price of £1,750/m^2 (£157,500/unit).

Table 10.10 Sensitivity to House Price Change

House price change	Residential Prices, £/m^2	Potential CIL, £/m^2	% difference in CIL from base price scenario
-10%	1,575	-16	-133%
-8%	1,610	-3	-106%
-6%	1,645	10	-79%
-4%	1,680	22	-54%
-2%	1,715	35	-27%
0%	**1,750**	**48**	**0%**
2%	1,785	61	27%
4%	1,820	74	54%
5%	1,838	79	65%
6%	1,855	87	81%
10%	1,925	112	133%
12%	1,960	129	169%
14%	1,995	145	202%
16%	2,030	161	235%
18%	2,065	178	271%
20%	2,100	210	338%

Source: HDH 2012

Consolidated Results

10.21 The NPPF is clear that Planning Authorities should consider the cumulative impact of planning policies. In the following tables the Residual Value is compared in a range of different policy scenarios and levels of CIL. In Table 10.11 the first four of the Residual Value columns show the cumulative impact of policies and the final two columns the effect of price change the Affordable Housing Target and CfSH Level 4 Scenario.

Table 10.11a Worcestershire CIL Viability Appraisals
Cumulative Impact of Planning Polices
Existing Use Value and Viability Threshold compared with Residual Value (£/ha)

Bromsgrove					Residual Value					
		Alternative Land Value	Viability Threshold	No Requirements	CfSH 4	Affordable Target	Affordable Target and CfSH 4		Affordable Target and CfSH 4 - LESS 5%	Affordable Target and CfSH 4 - PLUS 5%
Site 1	SUE 1	25,000	280,000	707,650	626,430	321,943	240,723		139,851	341,596
Site 2	SUE 2	25,000	280,000	571,848	500,767	242,677	171,576		85,475	257,676
Site 3	Greenfield 1	25,000	280,000	964,044	876,676	528,498	441,130		327,224	555,037
Site 4	Greenfield 2	25,000	280,000	1,126,237	1,033,194	651,507	558,464		434,310	682,619
Site 5	Greenfield 3	25,000	280,000	1,099,632	998,760	598,340	497,468		366,367	628,569
Site 6	Brownfield redev. L	450,000	540,000	1,277,172	1,079,060	644,423	444,434		209,978	680,880
Site 7	Urban Flats	0	0	0	0	0	0		0	0
Site 8	Brownfield redev. M	450,000	540,000	1,799,798	1,589,467	1,020,436	808,092		526,080	1,100,173
Site 9	Medium Brownfield	450,000	540,000	1,875,138	1,698,310	1,126,587	948,067		667,019	1,229,115
Site 10	Medium greenfield	25,000	25,000	2,297,577	2,148,710	1,377,130	1,226,851		980,434	1,473,268
Site 11	Urban edge	50,000	310,000	1,763,556	1,641,104	937,668	813,917		589,212	1,018,745
Site 12	Town centre flats	450,000	540,000	567,161	364,448	-57,810	-260,522		-492,108	-31,366
Site 13	Ex garage site	450,000	540,000	717,317	564,966	717,317	564,966		330,690	799,242
Site 14	Town Village Infill	750,000	900,000	2,251,730	2,111,831	2,251,730	2,111,831		1,831,633	2,392,028
Site 15	Small Village Scheme	50,000	310,000	1,912,316	1,777,469	1,912,316	1,777,469		1,520,504	2,034,435
Site 16	Village House	50,000	310,000	1,007,730	952,492	1,007,730	952,492		831,000	1,073,984
Malvern Hills					Residual Value					
		Alternative Land Value	Viability Threshold	No Requirements	CfSH 4	Affordable Target	Affordable Target and CfSH 4		Affordable Target and CfSH 4 - LESS 5%	Affordable Target and CfSH 4 - PLUS 5%
Site 1	SUE 1	25,000	280,000	650,432	569,212	332,757	251,538		181,159	321,916
Site 2	SUE 2	25,000	280,000	621,867	550,786	324,151	253,049		190,012	316,087
Site 3	Greenfield 1	25,000	280,000	995,236	907,868	574,023	486,655		404,309	569,001
Site 4	Greenfield 2	25,000	280,000	1,126,237	1,033,194	656,141	563,098		474,364	651,833
Site 5	Greenfield 3	0	0	0	0	0	0		0	0
Site 6	Brownfield redev. L	0	0	0	0	0	0		0	0
Site 7	Urban Flats	0	0	0	0	0	0		0	0
Site 8	Brownfield redev. M	350,000	420,000	1,626,764	1,416,433	951,958	739,614		556,356	933,519
Site 9	Medium Brownfield	350,000	420,000	1,453,344	1,276,516	625,000	452,546		272,869	625,000
Site 10	Medium greenfield	25,000	280,000	2,426,809	1,822,353	1,464,601	1,051,458		907,433	1,195,482
Site 11	Urban edge	50,000	310,000	1,881,763	1,743,756	1,259,642	1,120,314		932,357	1,308,271
Site 12	Town centre flats	350,000	420,000	2,237,069	2,040,176	1,357,721	1,183,478		942,805	1,396,895
Site 13	Ex garage site	350,000	420,000	1,211,920	1,061,055	872,319	719,968		512,285	927,651
Site 14	Town Village Infill	750,000	900,000	2,132,497	1,992,598	2,132,497	1,992,598		1,718,362	2,266,834
Site 15	Small Village Scheme	50,000	310,000	1,714,651	1,579,804	1,714,651	1,579,804		1,332,722	1,826,886
Redditch					Residual Value					
		Alternative Land Value	Viability Threshold	No Requirements	CfSH 4	Affordable Target	Affordable Target and CfSH 4		Affordable Target and CfSH 4 - LESS 5%	Affordable Target and CfSH 4 - PLUS 5%
Site 1	SUE 1	0	0	0	0	0	0		0	0
Site 2	SUE 2	25,000	280,000	471,812	400,731	197,776	126,674		58,936	194,965
Site 3	Greenfield 1	25,000	280,000	714,510	627,142	363,416	276,048		189,803	362,293
Site 4	Greenfield 2	25,000	280,000	929,049	836,006	509,828	416,785		320,163	513,407
Site 5	Greenfield 3	25,000	280,000	1,028,648	927,776	554,613	453,742		346,910	560,573
Site 6	Brownfield redev. L	0	0	0	0	0	0		0	0
Site 7	Urban Flats	0	0	0	0	0	0		0	0
Site 8	Brownfield redev. M	0	0	0	0	0	0		0	0
Site 9	Medium Brownfield	450,000	540,000	1,312,746	1,146,788	471,602	292,452		82,743	497,262
Site 10	Medium greenfield	25,000	280,000	1,780,649	1,647,249	1,004,610	862,506		673,509	1,041,537
Site 11	Urban edge	50,000	310,000	1,303,081	1,163,753	625,518	483,471		316,223	653,804
Site 12	Town centre flats	450,000	540,000	422,492	219,779	-196,403	-399,115		-581,357	-221,896
Site 13	Ex garage site	450,000	540,000	717,317	564,966	717,317	564,966		330,690	799,242
Site 14	Town Village Infill	750,000	900,000	1,774,798	1,634,899	1,774,798	1,634,899		1,378,548	1,891,250
Site 15	Small Village Scheme	50,000	310,000	1,912,316	1,777,469	1,912,316	1,777,469		1,520,504	2,034,435
Site 16	Village House	50,000	310,000	1,007,730	952,492	1,007,730	952,492		831,000	1,073,984

Source: HDH 2012

Table 10.11b Worcestershire CIL Viability Appraisals
Cumulative Impact of Planning Polices
Existing Use Value and Viability Threshold compared with Residual Value (£/ha)

Worcester					Residual Value					
		Alternative Land Value	Viability Threshold	No Requirements	CfSH 4	Affordable Target	Affordable Target and CfSH 4		Affordable Target and CfSH 4 - LESS 5%	Affordable Target and CfSH 4 - PLUS 5%
Site 1	SUE 1	0	0	0	0	0	0		0	0
Site 2	SUE 2	0	0	0	0	0	0		0	0
Site 3	Greenfield 1	0	0	0	0	0	0		0	0
Site 4	Greenfield 2	25,000	280,000	994,779	901,735	453,169	360,126		275,335	444,917
Site 5	Greenfield 3	25,000	280,000	922,171	821,299	379,850	281,622		192,409	367,353
Site 6	Brownfield redev. L	350,000	420,000	757,823	565,016	-448	-208,318		-360,801	-57,100
Site 7	Urban Flats	350,000	420,000	1,347,757	764,861	-1,163,134	-1,793,765		-2,180,210	-1,409,438
Site 8	Brownfield redev. M	350,000	420,000	2,639,944	2,431,587	1,239,168	1,038,683		813,333	1,252,051
Site 9	Medium Brownfield	350,000	420,000	1,453,344	1,276,516	361,330	181,094		-3,041	361,666
Site 10	Medium greenfield	25,000	280,000	2,232,961	1,667,275	1,100,887	760,487		627,103	899,815
Site 11	Urban edge	50,000	310,000	2,236,383	2,098,376	1,341,269	1,201,941		1,001,453	1,402,429
Site 12	Town centre flats	350,000	420,000	2,377,585	2,180,692	1,630,041	1,433,148		1,180,326	1,708,559
Site 13	Ex garage site	350,000	420,000	464,046	311,695	144,924	-7,427		-184,717	169,863
Site 14	Town Village Infill	750,000	900,000	1,476,716	1,336,817	1,476,716	1,336,817		1,106,162	1,578,263
Site 15	Small Village Scheme	0	0	0	0	0	0		0	0
Site 16	Village House	0	0	0	0	0	0		0	0
Wychavon					Residual Value					
		Alternative Land Value	Viability Threshold	No Requirements	CfSH 4	Affordable Target	Affordable Target and CfSH 4		Affordable Target and CfSH 4 - LESS 5%	Affordable Target and CfSH 4 - PLUS 5%
Site 1	SUE 1	25,000	280,000	621,823	540,603	195,205	113,985		44,887	183,505
Site 2	SUE 2	25,000	280,000	596,858	525,777	203,879	132,777		71,158	195,065
Site 3	Greenfield 1	25,000	280,000	932,853	845,485	405,338	317,970		237,495	398,445
Site 4	Greenfield 2	25,000	280,000	1,060,508	967,465	478,409	385,366		298,604	472,129
Site 5	Greenfield 3	25,000	280,000	1,596,523	1,495,652	769,128	668,257		559,650	776,863
Site 6	Brownfield redev. L	350,000	420,000	2,315,869	2,117,758	906,356	714,286		522,288	899,106
Site 7	Urban Flats	0	0	0	0	0	0		0	0
Site 8	Brownfield redev. M	350,000	420,000	3,154,171	2,945,815	1,513,254	1,302,923		1,074,319	1,541,709
Site 9	Medium Brownfield	350,000	420,000	1,312,746	1,146,788	245,641	61,845		-117,906	241,596
Site 10	Medium greenfield	25,000	280,000	1,145,242	795,971	419,301	211,699		96,628	327,713
Site 11	Urban edge	50,000	310,000	1,881,763	1,743,756	1,071,326	931,998		758,559	1,119,956
Site 12	Town centre flats	350,000	420,000	1,393,974	1,220,439	844,132	643,397		406,692	884,070
Site 13	Ex garage site	350,000	420,000	1,964,321	1,813,456	1,333,809	1,182,944		956,524	1,418,696
Site 14	Town Village Infill	750,000	900,000	3,728,997	3,591,775	3,728,997	3,591,775		3,240,923	3,942,628
Site 15	Small Village Scheme	50,000	310,000	2,651,247	2,518,981	2,651,247	2,518,981		2,271,633	2,809,805
Site 16	Village House	50,000	310,000	1,398,921	1,344,221	1,398,921	1,344,221		1,215,724	1,484,579
Wyre Forest					Residual Value					
		Alternative Land Value	Viability Threshold	No Requirements	CfSH 4	Affordable Target	Affordable Target and CfSH 4		Affordable Target and CfSH 4 - LESS 5%	Affordable Target and CfSH 4 - PLUS 5%
Site 1	SUE 1	0	0	0	0	0	0		0	0
Site 2	SUE 2	0	0	0	0	0	0		0	0
Site 3	Greenfield 1	25,000	280,000	1,057,620	970,252	716,538	629,170		505,861	752,479
Site 4	Greenfield 2	25,000	280,000	731,861	638,818	420,403	327,360		216,797	439,959
Site 5	Greenfield 3	25,000	280,000	851,186	750,315	501,890	401,018		277,343	527,297
Site 6	Brownfield redev. L	350,000	420,000	1,536,846	1,338,734	858,511	666,660		419,102	905,633
Site 7	Urban Flats	350,000	420,000	1,347,757	764,861	-110,214	-723,617		-1,283,988	-177,325
Site 8	Brownfield redev. M	350,000	420,000	1,626,764	1,416,433	857,014	644,670		367,799	928,580
Site 9	Medium Brownfield	350,000	420,000	195,369	11,573	-391,340	-580,310		-798,528	-362,539
Site 10	Medium greenfield	25,000	280,000	1,383,281	1,298,427	980,792	895,133		744,884	1,035,567
Site 11	Urban edge	50,000	310,000	1,881,763	1,743,756	1,247,290	1,107,962		872,076	1,343,849
Site 12	Town centre flats	350,000	420,000	2,096,553	1,899,660	1,294,137	1,899,660		1,569,448	2,229,873
Site 13	Ex garage site	350,000	420,000	1,086,519	944,873	1,086,519	944,873		691,602	1,186,455
Site 14	Town Village Infill	750,000	900,000	2,559,487	2,469,530	2,559,487	2,469,530		2,171,447	2,714,643
Site 15	Small Village Scheme	50,000	310,000	1,516,985	1,382,138	1,516,985	1,382,138		1,156,220	1,619,337
Site 16	Village House	50,000	310,000	1,007,730	952,492	1,007,730	952,492		831,000	1,073,984

Source: HDH 2012

10.22 It can be seen, as would be expected, that as additional policy requirements are added, sites become less viable.

10.23 Drawing on the results of the appraisals (expressed as Additional Profit at the start of this chapter) we have run a final set of appraisals that show the impact on viability of a range of rates of CIL from £10/m^2 to £90/m^2. These are set out in Table 10.12 below. These are based on the current Affordable Housing target and CfSH Level 4.

Table 10.12a Worcestershire CIL Viability Appraisals – Cumulative Impact CIL Existing Use Value and Viability Threshold compared with Residual Value (£/ha)

Bromsgrove				Residual Value				
		Alternative Land Value	Viability Threshold	£10/m2	£30/m2	£50/m2	£70/m2	£90/m2
Site 1	SUE 1	25,000	280,000	333,669	229,779	207,108	184,438	161,767
Site 2	SUE 2	25,000	280,000	252,482	161,964	142,549	123,133	103,717
Site 3	Greenfield 1	25,000	280,000	538,353	426,410	401,835	377,260	352,684
Site 4	Greenfield 2	25,000	280,000	660,936	542,785	517,678	492,571	467,464
Site 5	Greenfield 3	25,000	280,000	613,150	485,689	459,099	432,509	405,919
Site 6	Brownfield redev. L	450,000	540,000	667,966	409,989	355,369	296,827	238,284
Site 7	Urban Flats	0	0	0	0	0	0	0
Site 8	Brownfield redev. M	450,000	540,000	1,058,754	771,462	696,513	621,565	557,282
Site 9	Medium Brownfield	450,000	540,000	1,159,368	919,096	857,344	795,591	733,839
Site 10	Medium greenfield	25,000	25,000	1,397,365	1,199,048	1,151,010	1,102,973	1,054,935
Site 11	Urban edge	50,000	310,000	958,017	789,624	744,584	699,544	654,505
Site 12	Town centre flats	450,000	540,000	-33,927	-298,127	-359,615	-421,178	-484,389
Site 13	Ex garage site	450,000	540,000	724,327	494,953	417,929	340,906	263,882
Site 14	Town Village Infill	750,000	900,000	2,258,870	2,046,702	1,974,433	1,902,164	1,829,894
Site 15	Small Village Scheme	50,000	310,000	1,914,913	1,720,342	1,660,619	1,600,895	1,541,171
Site 16	Village House	50,000	310,000	1,006,528	927,032	902,774	878,516	854,259

Malvern Hills				Residual Value				
		Alternative Land Value	Viability Threshold	£10/m2	£30/m2	£50/m2	£70/m2	£90/m2
Site 1	SUE 1	25,000	280,000	344,483	240,593	217,923	195,252	172,581
Site 2	SUE 2	25,000	280,000	333,956	243,438	224,022	204,607	185,191
Site 3	Greenfield 1	25,000	280,000	583,878	471,935	447,359	422,784	398,209
Site 4	Greenfield 2	25,000	280,000	665,570	547,419	522,312	497,205	472,097
Site 5	Greenfield 3	0	0	0	0	0	0	0
Site 6	Brownfield redev. L	0	0	0	0	0	0	0
Site 7	Urban Flats	0	0	0	0	0	0	0
Site 8	Brownfield redev. M	350,000	420,000	995,629	719,044	654,802	595,238	536,589
Site 9	Medium Brownfield	350,000	420,000	659,596	436,499	382,536	328,573	277,315
Site 10	Medium greenfield	25,000	280,000	1,187,869	1,029,216	990,785	952,355	913,925
Site 11	Urban edge	50,000	310,000	1,276,309	1,085,441	1,033,900	982,359	930,819
Site 12	Town centre flats	350,000	420,000	1,380,918	1,146,240	1,085,352	1,024,464	963,576
Site 13	Ex garage site	350,000	420,000	887,032	673,062	611,443	549,824	488,205
Site 14	Town Village Infill	750,000	900,000	2,139,637	1,927,469	1,855,200	1,782,931	1,710,661
Site 15	Small Village Scheme	50,000	310,000	1,717,247	1,522,677	1,462,953	1,403,229	1,343,505

Redditch				Residual Value				
		Alternative Land Value	Viability Threshold	£10/m2	£30/m2	£50/m2	£70/m2	£90/m2
Site 1	SUE 1	0	0	0	0	0	0	0
Site 2	SUE 2	25,000	280,000	205,962	112,209	89,557	67,540	44,673
Site 3	Greenfield 1	25,000	280,000	371,223	255,184	226,513	197,842	169,171
Site 4	Greenfield 2	25,000	280,000	517,164	394,829	365,537	336,245	306,954
Site 5	Greenfield 3	25,000	280,000	567,208	435,315	404,293	373,272	342,250
Site 6	Brownfield redev. L	0	0	0	0	0	0	0
Site 7	Urban Flats	0	0	0	0	0	0	0
Site 8	Brownfield redev. M	0	0	0	0	0	0	0
Site 9	Medium Brownfield	450,000	540,000	505,022	262,624	199,046	135,469	71,892
Site 10	Medium greenfield	25,000	280,000	1,020,842	822,313	765,733	709,152	652,572
Site 11	Urban edge	50,000	310,000	642,511	447,918	399,267	346,203	293,139
Site 12	Town centre flats	450,000	540,000	-172,520	-437,495	-500,706	-563,917	-627,128
Site 13	Ex garage site	450,000	540,000	724,327	494,953	417,929	340,906	263,882
Site 14	Town Village Infill	750,000	900,000	1,781,938	1,569,770	1,497,501	1,425,232	1,352,963
Site 15	Small Village Scheme	50,000	310,000	1,914,913	1,720,342	1,660,619	1,600,895	1,541,171
Site 16	Village House	50,000	310,000	1,006,528	927,032	902,774	878,516	854,259

Source: HDH 2012. Based on Current Affordable Target and CfSH Level 4

Table 10.12b Worcestershire CIL Viability Appraisals – Cumulative Impact CIL Existing Use Value and Viability Threshold compared with Residual Value (£/ha)

Worcester				Residual Value				
		Alternative Land Value	Viability Threshold	£10/m2	£30/m2	£50/m2	£70/m2	£90/m2
Site 1	SUE 1	0	0	0	0	0	0	0
Site 2	SUE 2	0	0	0	0	0	0	0
Site 3	Greenfield 1	0	0	0	0	0	0	0
Site 4	Greenfield 2	25,000	280,000	462,598	344,447	319,340	294,233	269,125
Site 5	Greenfield 3	25,000	280,000	394,660	269,731	242,889	216,047	189,205
Site 6	Brownfield redev. L	350,000	420,000	28,329	-231,205	-282,868	-334,795	-387,924
Site 7	Urban Flats	350,000	420,000	-1,102,326	-1,835,973	-1,938,989	-2,042,004	-2,145,020
Site 8	Brownfield redev. M	350,000	420,000	1,282,426	1,018,113	953,871	889,629	825,388
Site 9	Medium Brownfield	350,000	420,000	399,247	164,890	110,395	55,900	1,405
Site 10	Medium greenfield	25,000	280,000	896,898	738,244	701,754	667,713	628,915
Site 11	Urban edge	50,000	310,000	1,357,936	1,167,068	1,115,527	1,063,986	1,012,446
Site 12	Town centre flats	350,000	420,000	1,648,972	1,383,825	1,315,570	1,250,000	1,202,068
Site 13	Ex garage site	350,000	420,000	159,636	-54,334	-115,952	-177,571	-239,190
Site 14	Town Village Infill	750,000	900,000	1,483,856	1,271,688	1,211,236	1,138,254	1,065,273
Site 15	Small Village Scheme	0	0	0	0	0	0	0
Site 16	Village House	0	0	0	0	0	0	0

Wychavon				Residual Value				
		Alternative Land Value	Viability Threshold	£10/m2	£30/m2	£50/m2	£70/m2	£90/m2
Site 1	SUE 1	25,000	280,000	206,931	103,041	80,370	58,247	35,361
Site 2	SUE 2	25,000	280,000	213,684	123,166	103,751	84,335	65,534
Site 3	Greenfield 1	25,000	280,000	415,193	303,250	278,674	254,099	229,524
Site 4	Greenfield 2	25,000	280,000	487,838	369,687	344,580	319,473	294,365
Site 5	Greenfield 3	25,000	280,000	783,939	656,477	629,887	603,297	576,707
Site 6	Brownfield redev. L	350,000	420,000	933,782	692,939	643,235	593,531	543,827
Site 7	Urban Flats	0	0	0	0	0	0	0
Site 8	Brownfield redev. M	350,000	420,000	1,556,511	1,282,548	1,218,915	1,166,338	1,102,096
Site 9	Medium Brownfield	350,000	420,000	283,932	45,641	-8,854	-63,349	-117,844
Site 10	Medium greenfield	25,000	280,000	350,877	188,806	150,721	110,776	70,832
Site 11	Urban edge	50,000	310,000	1,087,994	897,125	845,585	809,538	756,991
Site 12	Town centre flats	350,000	420,000	863,432	598,955	528,683	458,411	388,140
Site 13	Ex garage site	350,000	420,000	1,348,378	1,136,496	1,075,478	1,024,455	962,836
Site 14	Town Village Infill	750,000	900,000	3,736,000	3,527,893	3,457,007	3,386,121	3,315,235
Site 15	Small Village Scheme	50,000	310,000	2,653,794	2,500,000	2,451,281	2,391,557	2,331,833
Site 16	Village House	50,000	310,000	1,397,731	1,319,010	1,294,989	1,270,968	1,250,000

Wyre Forest				Residual Value				
		Alternative Land Value	Viability Threshold	£10/m2	£30/m2	£50/m2	£70/m2	£90/m2
Site 1	SUE 1	0	0	0	0	0	0	0
Site 2	SUE 2	0	0	0	0	0	0	0
Site 3	Greenfield 1	25,000	280,000	724,345	608,306	579,635	550,964	522,292
Site 4	Greenfield 2	25,000	280,000	427,739	305,404	276,113	246,821	219,591
Site 5	Greenfield 3	25,000	280,000	514,484	382,591	351,569	323,586	292,270
Site 6	Brownfield redev. L	350,000	420,000	881,834	632,215	574,227	516,239	458,251
Site 7	Urban Flats	350,000	420,000	-59,422	-789,717	-909,416	-1,029,601	-1,149,786
Site 8	Brownfield redev. M	350,000	420,000	895,332	608,040	543,493	467,082	390,671
Site 9	Medium Brownfield	350,000	420,000	-356,825	-610,980	-676,353	-741,726	-807,099
Site 10	Medium greenfield	25,000	280,000	990,045	872,440	840,495	808,550	776,605
Site 11	Urban edge	50,000	310,000	1,263,958	1,073,089	1,021,548	970,008	918,467
Site 12	Town centre flats	350,000	420,000	2,106,953	1,824,742	1,739,424	1,654,106	1,568,788
Site 13	Ex garage site	350,000	420,000	1,093,462	874,860	797,836	720,813	643,789
Site 14	Town Village Infill	750,000	900,000	2,566,491	2,404,401	2,332,132	2,259,862	2,187,593
Site 15	Small Village Scheme	50,000	310,000	1,519,582	1,325,011	1,265,287	1,217,441	1,157,129
Site 16	Village House	50,000	310,000	1,006,528	927,032	902,774	878,516	854,259

Source: HDH 2012 Based on Current Affordable Target and CfSH Level 4

Conclusions

10.24 We take this opportunity to stress again that we are not suggesting that CIL is set at these rates. The above analysis shows the additional profit generated by these modelled developments. This information 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.

11. Non-Residential Appraisal Results

Results

11.1 In the preceding chapters we set out the assumptions for the non-residential development appraisals and concluded that Worcestershire has two distinct market areas – the higher values are in the North East of the County that includes Bromsgrove and Redditch, and the lower value area being the remainder on the County. Based on the assumptions set out previously we have run a set of development financial appraisals for these two market areas. The detailed appraisal results are set out in **Appendix 8** and summarised at the end of this chapter.

11.2 As with the residential appraisals, we have used the residual valuation approach – that is, we have run appraisals to assess the value of the site after taking into account the costs of development, the likely income from sales and/or rents, and an appropriate amount of developers' profit. The payment would represent the sum paid in a single tranche on the acquisition of a site. In order for the proposed development to be described as viable, it is necessary for this value to exceed the value from an alternative use. To assess viability we have used exactly the same methodology with regard to the Viability Thresholds (alternative Land Use plus 'uplift').

Table 11.1 Appraisal Results showing Additional Profit and Approximate Residual Value - Greenfield										
	Large industrial	Small industrial	Large office	Small office	Supermarkets	Retail Warehouse	Shops	Leisure	Hotel	Student Halls
North Eastern Worcestershire (Bromsgrove and Redditch)										
Additional Profit	-159,305	-116,584	-98,192	-56,305	2,044,978	3,062,901		-1,038,965	437,203	
Residual Land Worth (APPROX.)	-122,105	-104,728	-82,442	-46,330	2,910,478	3,664,401		-437,465	598,703	
Wider Worcestershire										
Additional Profit	-229,827	-125,966	-217,935	-92,228	2,090,881	3,094,680		-1,007,186	437,203	
Residual Land Worth (APPROX.)	-193,865	-114,291	-202,529	-82,357	2,920,631	3,671,430		-430,436	598,703	

Source: HDH 2012

Table 11.2 Appraisal Results showing Additional Profit and Approximate Residual Value - Brownfield										
	Large industrial	Small industrial	Large office	Small office	Supermarkets	Retail Warehouse	Shops	Leisure	Hotel	Student Halls
North Eastern Worcestershire (Bromsgrove and Redditch)										
Additional Profit	-368,276	-153,938	-231,327	-97,796	445,114	2,148,821	-12,865	-496,106	311,371	
Residual Land Worth (APPROX.)	-312,176	-139,310	-210,327	-86,246	1,856,614	3,128,321	76,235	-407,606	570,871	
Wider Worcestershire										
Additional Profit	-424,498	-161,222	-347,098	-132,528	904,144	2,466,611	-8,499	-469,623	311,371	740,290
Residual Land Worth (APPROX.)	-380,773	-148,409	-329,535	-122,009	1,958,144	3,198,611	77,201	-401,748	570,871	884,290

Source: HDH 2012

11.3 The above results largely reflect the difficult state of the property sector and the situation within Worcestershire with little development happening (because it is not attractive to do so). It is however apparent that some types of development do generate some positive values. In order to make meaningful comparisons, and to reflect the CIL guidance, the additional profit figures need to be converted to a £/m^2 charge basis. The resulting figures, set out in the following two tables, then show a potential level of CIL charge.

Table 11.3 Appraisal Results showing potential maximum CIL payment £.m^2										
	Large industrial	Small industrial	Large office	Small office	Super-markets	Retail Warehouse	Shops	Leisure	Hotel	Student Halls
Greenfield										
North Eastern Worcestershire	-106	-583	-196	-375	511	766		-2,078	270	
Wider Worcestershire	-153	-630	-436	-615	523	774		-2,014	270	
Brownfield										
North Eastern Worcestershire	-246	-770	-463	-652	111	537	-86	-992	192	
Wider Worcestershire	-283	-806	-694	-884	226	617	-57	-939	192	204

Source: HDH 2012

Conclusions

11.4 As with the residential analysis in the previous chapter, we take this opportunity to stress that we are not suggesting that CIL is set at these rates. The above analysis shows the maximum amount of CIL that these modelled developments can bear. This information 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.

12. Maximum Potential for CIL

12.1 CIL will be set within a band. The top of the band is where so many sites become unviable through the introduction of CIL that the delivery of the Development Plan is put at 'serious risk' and the bottom of that band is where CIL is set so low that the Development Plan is put at 'serious risk'. In the previous chapters we have set the assumptions, and then the results, of the development financial appraisals for a range of development sites that are representative of the types of development that are likely to come forward in the future. This information is one of a numbers of pieces of evidence that will inform the CIL setting process, in particular the top of the band.

12.2 The results of the appraisals show the maximum additional profit that each of the modelled sites generates in a number of different policy and market scenarios. This information should be used, with information about the pattern and nature of development likely to come forward, to inform the CIL setting process as set out in the next chapter. The results are summarised in tables 12.1 and 12.2.

Table 12.1 Worcestershire Residential Development Viability Appraisals
Additional Profit at Current Prices and Current Affordable Housing Targets (£/m²)

		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	wn centre flats	Ex garage site	wn 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
Bromsgrove	£/m²	45	0	233	340	275	43		148	218	523	326	0	53	428	613	657
Malvern Hills	£/m²	56	54	276	344				190	89	564	422	359	168	390	538	467
Redditch	£/m²		0	68	181	204				0	296	138	0	53	277	613	657
Worcester	£/m²				159	87	0	0	295	0	391	458	406	0	183		
Wychavon	£/m²	0	0	119	182	422	228		394	0	65	338	140	343	912	913	1,036
Wyre Forest	£/m²			350	111	165	176	0	134	0	588	416	335	200	535	462	657

Source: HDH 2012

Table 12.2 Worcestershire Non-Residential Development Viability Appraisals
Additional Profit at Current Prices (£/m^2)

	Large industrial	Small industrial	Large office	Small office	Super-markets	Retail Warehouse	Shops	Leisure	Hotel	Student Halls
Greenfield										
North Eastern Worcestershire	0	0	0	0	511	766		0	270	
Wider Worcestershire	0	0	0	0	523	774		0	270	
Brownfield										
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: HDH 2012

13. Charge Setting

13.1 This document sets out the methodology used, the key assumptions adopted and the findings of a development viability assessment across Worcestershire. 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, and 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.

13.2 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.

13.3 In this Chapter we have set out some of the factors that the Councils may consider when deciding whether or not to introduce CIL, and deciding at what level to set it. 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.

13.4 It is important to note that the Charging Authorities 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 and urban extensions that are important to the overall delivery of the plan.

13.5 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 a Council that puts less weight on affordable housing.

Regulations and Guidance

13.6 A detailed commentary is given on the CIL Regulations and CIL Guidance at the start of this report, however it is useful to revisit these at this stage. Regulation 14 sets out the context for setting the rates of CIL – the relevant parts say:

Setting rates

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

(a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and

(b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

(2) In setting rates in a charging schedule, a charging authority may also have regard to actual and expected administrative expenses in connection with CIL to the extent that those expenses can be funded from CIL in accordance with regulation 61.

13.7 'Appropriate balance' is expanded on in paragraph 8 of the CIL Guidance:

8. By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened.

13.8 The scope of the CIL Examination is clearly set out in paragraphs 9 and 10 of the CIL Guidance. The Examiner will consider whether the charging schedule *'threatens delivery of the relevant Plan as a whole*'. It is not for the CIL Examiner to question how the Charging Authority has struck the balance and set CIL – unless '*it threatens delivery of the relevant Plan*'.

9. The independent examiner should establish that:

- *the charging authority has complied with the requirements set out in Part 11 of the Planning Act 2008 and the Community Infrastructure Levy Regulations*
- *the charging authority's draft charging schedule is supported by background documents containing appropriate available evidence*
- *the proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and*
- *evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole. 5*

10. The examiner should be ready to recommend modification or rejection of the draft charging schedule if it threatens delivery of the relevant Plan as a whole.

13.9 It is important to note that, without CIL to pay for infrastructure, the Development Plan may be put at risk.

13.10 The CIL Regulations and CIL Guidance are clear and well set out, however over recent months a number of uncertainties have come to light. Only 7 Charging Schedules are in place and there is not a large body of CIL Examination reports and legal decisions in place to clarify the areas of uncertainty. There are two particular matters that are relevant to this study; differential rates and charging zones.

Differential Rates (Poole and Wycombe Councils)

13.11 As we set out in Chapter 2, CIL Regulation 13 gives the flexibility to charge variable rates by zone and development type, however there has been some uncertainty around the charging of differential rates. This follows the objection made by supermarket operator Sainsbury's to the Poole Charging Schedule. We recommend that the Charging Authorities adopt the definitions set out by Geoff Salter in his report following his examination of the Wycombe DC CIL Charging Schedule (September 2012). These are:

***Superstores/supermarkets** are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.*

***Retail warehouses** are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods) DIY items and other ranges of goods catering for mainly car-borne customers..*

Charging Zones

13.12 As set out in Chapter 7, large development sites can be very different to smaller development sites. During the consultation phases of this project we have been advocating the setting of site specific rates for large urban extensions so welcome the wording introduced in paragraph 34 in the December 2012 CIL Guidance that says '*In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability*'.

13.13 We recommend that this is read in conjunction with the Harman Guidance that says (page 23):

Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.

13.14 Developers and landowners must be given the opportunity to make submissions – and we would recommend that they are actively encouraged to do so.

13.15 If the Councils decide to follow this advice, then detailed, scheme specific, viability appraisals will need to be prepared – such a task is beyond the scope of this project, however as we have said elsewhere, this viability study forms just part of the viability evidence.

New Regulations and Guidance

13.16 This Viability Study has been prepared in line with CIL Guidance and the CIL Regulations, best practice, and the various other sources of relevant Guidance. It may be necessary to revisit the CIL setting process in the light of any new Regulations or Guidance.

CIL v s106

13.17 Councils are not required to introduce CIL – the use of CIL by local authorities is discretionary, so some authorities may continue to seek S106 contributions, and others will seek a combination of S106 contributions and CIL payments.

13.18 From April 2014, councils will be unable to pool S106 contributions from more than five developments[32]. 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 s106 will have the effect of bringing s106 tariff policies for items like open space, education and transport, to an end.

13.19 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'[33].

13.20 It is our firm recommendation that the Councils do 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.

14. The charging authority should set out at examination a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy. The charging authorities should also set out those known site-specific matters where section 106 contributions may continue to be sought. The principal purpose is to provide transparency on what the charging authority intends to fund in whole or part through the levy and those known matters where section 106 contributions may continue to be sought.

13.21 In this context we draw the Councils' attention to Paragraphs 84 to 91 if the December 2012 CIL Guidance which supplement Paragraph 15.

Infrastructure Delivery

13.22 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 a

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[32] CIL Regulations 123(3)
[33] This is the list of the items that the Council will spend CIL payments on.

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.

13.23 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. By way of an example these may be to provide a new roundabout and upgrade a stretch of road, and on a very big scheme provide community buildings – say a school. The developer carries all the financial and development risk associated with the process.

13.24 If the Councils are to move to a system whereby CIL is set at the upper limit of viability, it is likely that the delivery of these infrastructure items will fall to each Council. The Councils will need to consider the practicalities of this. Do they want to take responsibility for delivering infrastructure that is currently delivered by developers under the s106 regime, and if so, how they will manage and fund it? If the Councils do not have a mechanism in place, the Development Plan could be put at risk as consented schemes may not be able to proceed.

13.25 As part of the process of working towards getting CIL in place, each Council has made an assessment of the infrastructure required to support new development. An important part of striking the balance as to what level of CIL to charge, may be around the nature of infrastructure and how it is to be delivered.

Developers' Comments

13.26 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 made. In due course, a Preliminary Draft Charging Schedule will be prepared and consulted on and, no doubt, further comments will be made, but is useful to consider those made to date:

a. <u>Delivery of infrastructure</u>. Grave concern was expressed, particularly 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 developers not only pay but normally procure the infrastructure (i.e. builds a new school or carries out highways improvements under the supervision of the appropriate authority).

   If infrastructure is to be paid for through CIL it must be delivered, otherwise development will not be able to come forward. The Councils will therefore need a clear mechanism and be able to give firm undertaking to developers that the required works will be forthcoming. Without this firm undertaking, developers will not be able secure the substantial funds required to enable sites to be developed.

   There is concern as to whether the Councils can actually deliver – most are not practised at delivering large infrastructure projects. There was concern that moving responsibility for delivery from the development industry to the Councils, would add an expensive layer of administration and cost (through the public procurement process) and thus reduce the amount of infrastructure actually delivered.

We have some sympathy with this concern. A way around this may be to set CIL at a 'low' level to pay for the more general and area wide infrastructure requirements, and also allow developers to continue to pay for and deliver the more site specific items. If this recommendation is followed, then the Councils will need to give careful consideration to the preparation of a Regulation 123 List.

b. Timing of CIL payments. If CIL is introduced, the timing of the payment of CIL will have a considerable impact on the delivery of projects. Payments early in the construction program are likely to increase the peak borrowing requirements of a developer, and whilst a development may show a reasonable profit, it may not be able to proceed. This will apply particularly to larger projects.

It is our firm recommendation that the Charging Authorities give careful consideration to introducing a payment policy to allow payments to be made towards the completion of units within a development.

c. Land Supply. The supply of land is vital if the Councils are to deliver their housing targets and the other priorities that are set out in the Development Plan. Representations were made that CIL will simply reduce the land price received by landowners and thus prevent the release of land and undermine the Development Plan.

The impact on land supply will vary from area to area and will depend on the nature of the landowners involved. It is well recognised that long term land-owning families and estates take a different approach to releasing land from those organisations that are shorter term owners. A land-owning family may take the view that if the terms offered now are not sufficient that it will wait for two or three generations before revisiting the site – whereas a shorter term landowner may want to see land released in the current or next plan period.

We have set out our approach to assessing viability, one that is based on appeal decisions, the various sources of Guidance, and our experience, and believe that this is satisfactorily addressed.

Uncertain Market

13.27 There is no doubt that the future the British economy is uncertain. Various sources of data are shown in Chapter 4 and, whilst the general fall in house prices seems to have stopped, there are still ups and downs in prices. It is noticeable how low turnover is now when compared to the peak of the market in 2007.

13.28 Confidence is low and a high level of CIL, set close to the limits of viability could adversely impact on development coming forward. We recommend that a cautious approach is taken.

Neighbouring Authorities

13.29 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.

13.30 At the time of writing, very few 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).

Table 13.1 Adopted and Emerging Rates of CIL

Shropshire Adopted	Residential	£40 - £80
Bristol Adopted	Residential Hotel Student Retail	£50 - £70 £70 £100 £120
Newark and Sherwood Adopted	Large retail Small retail Residential	£100 - £125 £75 - £100 £0 - £70
Birmingham Consultation	Large retail Small retail Residential Hotel Student Office	£380 £150 £55 - £115 £25 - £45 £115 £15 - £55

Source: HDH 2012

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

S106 History

13.32 The Councils have existing policies requiring developers to contribute to infrastructure though 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:

Table 13.2 Amounts per dwelling (Estimated)	
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: HDH based on information supplied by the Councils

13.33 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. In due course, and in preparation for the CIL Examination, it will be necessary to comply with a new requirement introduced in the 2012 CIL Guidance that says Charging Authorities should detail their past s106 track record[34].

Costs of Infrastructure and Sources of Funding

13.34 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.

13.35 When the Councils strike the balance and set the levels of CIL, the amount of funding required will be a material consideration[35], however it should be stressed that CIL should be set with regard to the effect of CIL on development viability.

13.36 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.

13.37 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.

[34] Paragraph 22 of the CIL Guidance Says:
22. As background evidence, the charging authority should also prepare and provide information about the amounts raised in recent years through section 106 agreements. This should include the extent to which affordable housing and other targets have been met.

[35] See the last sentence of Paragraph 10 of the CIL Regulations

13.38 In the following tables we have set out the approximate amount of CIL that each Council may receive from residential property in two scenarios – being set at £40/m^2 and being set at £60/m^2. These figures should be treated with caution as the actual receipts will depend on the actual units started.

13.39 We have based these projection on the following information:

Table 13.3 Uncommitted Housing Numbers				
	Wyre Forest	**Redditch**	**Bromsgrove**	**South Worcestershire**
Total Housing Requirement	4,000	6,380	7,000	22,200
Completed Units	1,353	63	256	4,909
Approved Units	1,083	680	598	3,788
Uncommitted	**1,564**	**5,637**	**6,146**	**13,503**

Source Worcestershire County Council 2012. Note the full South Worcestershire housing requirement is 23,200 – however 1,000 of these are to be met through the reuse of empty homes so the 22,200 shown is the net figure.

13.40 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.

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

Table 13.4 Wyre Forest CIL Projection (£m)				
Indicative CIL rate per m2		*Low (m2)*	*Med (m2)*	*High (m2)*
		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

Table 13.5 Redditch CIL Projection (£m)				
Indicative CIL rate per m2		*Low (m2)*	*Med (m2)*	*High (m2)*
		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

Table 13.6 Bromsgrove CIL Projection (£m)				
Indicative CIL rate per m2		*Low (m2)*	*Med (m2)*	*High (m2)*
		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

Table 13.7 South Worcestershire CIL Projection (£m)				
Indicative CIL rate per m2		*Low (m2)*	*Med (m2)*	*High (m2)*
		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

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

A Strategy for Setting CIL

13.43 In setting CIL the Councils will need to weigh up a wide range of information – including the viability evidence.

13.44 Our recommended strategy for setting CIL is to set CIL well within the limits of viabilty and 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.

13.45 The limited Regulation 123 List will enable the Councils to develop and implement a strategy of further site specific s106 payments.

13.46 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 putting the Development Plan at risk.

13.47 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.

13.48 Due to the uncertain market, we recommend that any rates of CIL are reviewed every three years, or if house prices change by more than 10% from the date of this study.

Payment of CIL

13.49 The CIL Regulations 69 sets out when CIL is payable. This is summarised as follows:

Table 13.8 Payment of CIL	
Equal to or greater than £40,000	Four equal instalments at the end of the periods of 60, 120, 180 and 240 days from commencement
£20,000 and less than £40,000	Three equal instalments at the end of the periods of 60, 120 and 180 days from commencement
£10,000 and less than £20,000	Two equal instalments at the end of the periods of 60 and 120 days from commencement
less than £10,000	In full at the end of the period of 60 days from commencement

Source: HDH

13.50 The 2011 amendment to the CIL Regulations[36] introduced (at Regulation 69B), the ability for Charging Authorities to adopt an Instalment Policy. If an Instalment Policy is not adopted, then payment is due as set out in the table above. To require payment, particularly on large schemes in line with the above, 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

13.51 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 the earlier sections of this Chapter. It is unlikely that two authorities will settle on the same rates of CIL, even if they are geographically close and subject to the similar market conditions, as the members are likely to put different levels of importance on different parts of the development plan, and the assessments made as to what they may be prepared to put at risk.

13.52 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.

[36] SI 2011 No. 987 COMMUNITY INFRASTRUCTURE LEVY, ENGLAND AND WALES The Community Infrastructure Levy (Amendment) Regulations 2011. *Made 28th March 2011 Coming into force 6th April 2011*

13.53 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 CIL rates that are emerging elsewhere.

13.54 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 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, and to meet developer's concerns over the actual delivery of site-specific infrastructure.

Review

13.55 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 and when these may change. 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.

13.56 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

13.57 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.

HDH Planning and Development (HDH) is a specialist planning consultancy providing evidence to support planning authorities, land owners and developers.

The firm is led by Simon Drummond-Hay who is a Chartered Surveyor, Associate of Chartered Institute of Housing and a senior development professional with a wide experience of both development and professional practice. The firm is regulated by the RICS.

The main areas of expertise are:

- Community Infrastructure Levy (CIL) testing
- District wide and site specific Viability Analysis
- Local and Strategic Housing Market Assessments and Housing Needs Assessments
- Future Housing Numbers Analysis (post RSS target setting)

HDH Planning and Development have clients throughout England and Wales.

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