

**Mid Devon District Council**



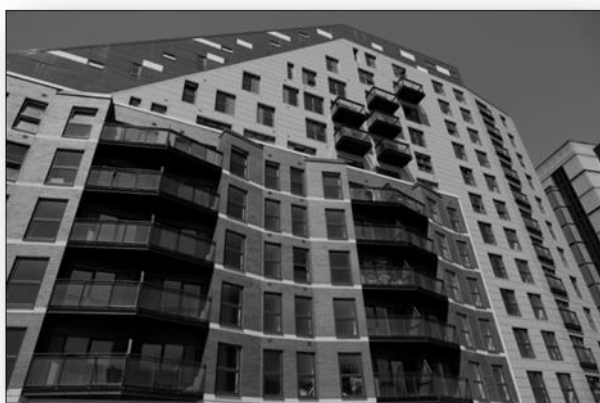
**Viability Assessment:  
Community Infrastructure Levy & Local Plan**

Ref: DSP14244

**Final Report  
June 2014**

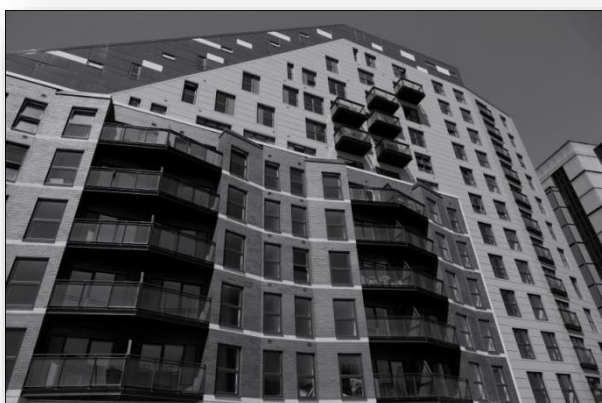
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## Executive Summary

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The following summary is set out in sections 1 to 8, over the next 9 pages. This is based on a presentation given by Dixon Searle Partnership (DSP) to Mid Devon District Council (MDDC) Officers and Members at the draft study findings stage, as part of the Council's consideration of the policy and CIL arrangements that will inform and support development moving forward in Mid Devon.

### 1. Project scope – the Council's brief

The scope of this study is to:

- i. Provide robust viability evidence base to ensure deliverability of development identified in the new Local Plan.
- ii. Provide recommendations on the appropriate level of affordable housing and CIL whilst maintaining viable development.
- iii. Assess viability of development site typologies (relevant to the type of development coming forward across Mid Devon) as well as strategic scale development.

### 2. National planning and Community Infrastructure Levy (CIL) context

The National Planning Policy Framework (NPPF) & CIL Regulations require and provide for:

- i. Local Plans to be deliverable; and identified development should not be subject to such a scale of obligations and policy burdens that viability is threatened.
- ii. Assessment of the cumulative impact of existing and proposed local and national standards; and those should not put at serious risk the implementation of the Plan.
- iii. CIL is expected to have a 'positive economic benefit' and an 'appropriate balance must be struck between additional investment to support development and the potential effect on the viability of development'.

iv. The CIL Regulations have changed recently (February 2014) and since the 2012-13 Examination of MDDC's previous CIL Charging Schedule (not to be implemented now, we understand) the key changes have been:

- Limitation on the pooling of s. 106 obligations delayed until April 2015
- A requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously the authority had to respond to the need to 'aim to strike the appropriate balance'.
- New mandatory exemptions for self-build housing, and for residential annexes and extensions.
- A change to allow charging authorities to set differential rates by the scale of development (e.g. in response to varying viability driven by the amount of floorspace or number of units).
- An authority's ability to accept payments in kind through the provision of infrastructure either on-site or off-site.
- A new 'vacancy test', as part of determining when existing floorspace reduces the CIL payment.

### **3. Viability assessment – principles**

- i. It is accepted that not all development may be viable either before or after the impact of CIL – what counts is that delivery of the Local Plan, as a whole, will not be put at undue risk through the influence of requirements that place too high a level of collective costs on developments (through the CIL levels and policies).
- ii. Charging Authorities need to show how their CIL proposals contribute positively to plan delivery; and how they will operate alongside s.106 (so as to ensure no “double-dipping” in terms of overlaps between costs and obligations used to support particular infrastructure provision).

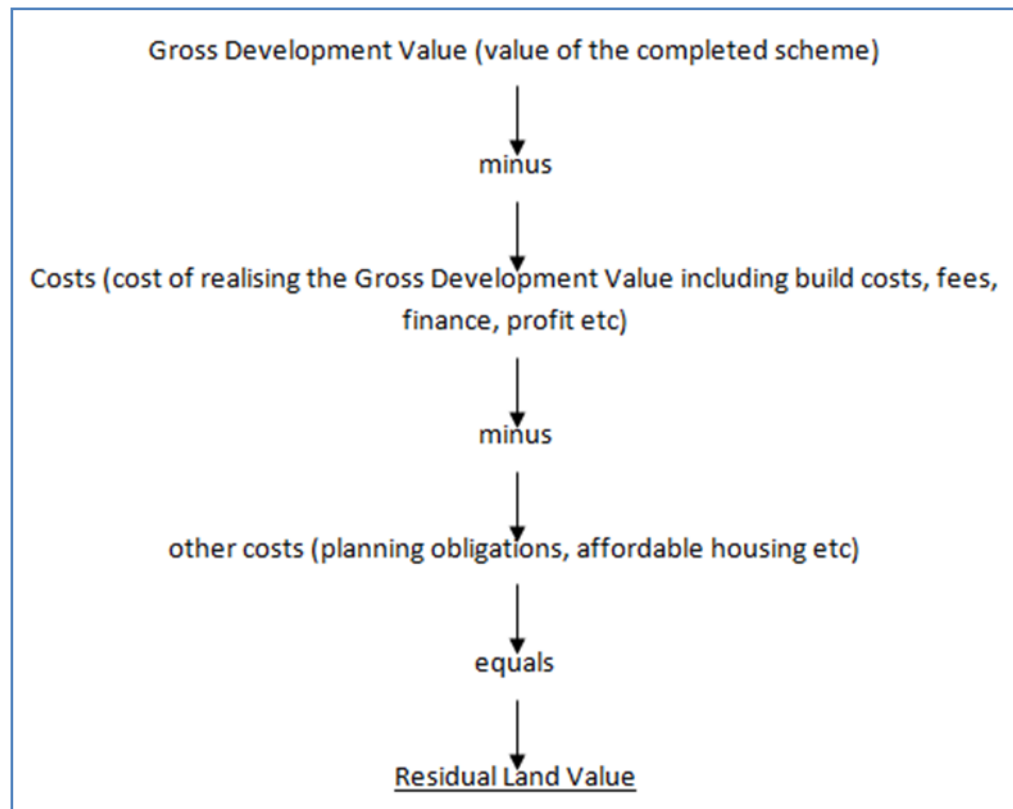
- iii. The assessment provides appropriate, proportionate evidence. It is a high-level overview based on scenarios and site-specifics (including, in the Mid Devon context, strategic scale development).
- iv. In very basic terms, through the study we are looking at the strength of relationship between development values and costs.

#### 4. Study methodology – principles and brief outline

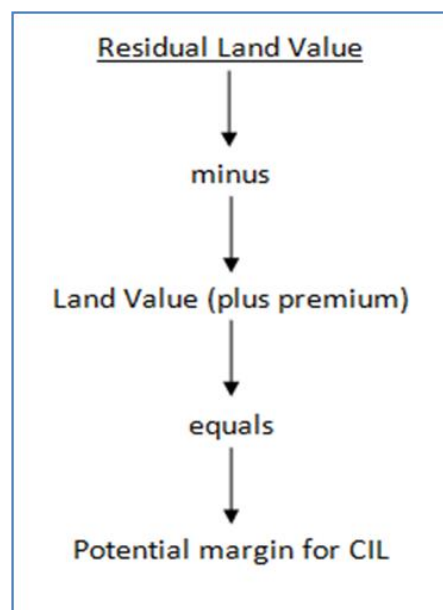
- i. The viability of a scheme is based on *‘the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project’ (RICS Guidance – ‘Financial viability in Planning’ - August 2012).*
- ii. This means that there needs to be sufficient land value and profit once all the costs of development have been met. The assumptions take into account planning obligations, CIL and affordable housing but also any policy requirements that may have a cost impact on development – e.g. sustainability, density, unit mix, affordable housing type / tenure, etc.
- iii. The methodology basis is the same for all parts of the study – it uses residual land valuation techniques.
- iv. There is a significant overlap between Local Plan and CIL viability and some circularity – i.e. policies in the Local Plan will affect the level of CIL, and vice-versa.
- v. The assessment process involves calculating the residual land value (RLV) produced by a range of scheme types and sizes (including non-residential for CIL) and comparing the results to benchmark or threshold land values. For CIL this includes trialling a range of potential CIL charging rates – an iterative approach following the initial assessment of the viability of key policies, allowing a review of the general viability picture and, from there, any in-principle surplus available to support CIL funding.

- vi. The process outlined at 4. v. above, in simplified form, may be visualised as follows (see the following diagrams – steps 1 and 2):

Step 1: Appraisal produces a 'RLV':



Step 2: Considering the RLV and whether it is sufficient to provide a surplus for CIL:





## 5. Findings in Mid Devon

- i. Affordable housing is the primary viability consideration and in our view the setting of CIL rate(s) can only be fully considered once the affordable housing policy impacts have also been reviewed; the two need to be considered together.
- ii. In high level terms, values across Mid Devon do not vary significantly between Tiverton, Cullompton and Crediton (although there is always variation on specific sites etc.). Typically, higher values are in Bampton and the rural areas / villages.
- iii. The local values (property prices), the key driver of development viability, are relatively marginal in producing sufficient levels of viability to support significant CIL scope in conjunction with affordable housing. DSP's view is that the Council should consider a meaningful level of adjustment from the current 35% affordable housing target.
- iv. There is unlikely to be a need to differentiate between the main settlements (Tiverton, Cullompton and Crediton) in terms of affordable housing requirements or CIL (for residential developments), with the possibility of differentiation suggested for consideration for the rural areas (where typically higher values support stronger viability outcomes, and site characteristics tend to be different).
- v. In terms of the CIL considerations for non-residential development, we do not consider that there will be a need to differentiate geographically.

### **Affordable Housing (AH):**

- vi. Existing policy requires 35% AH on sites of more than 4 dwellings in the main settlements; 2 dwellings in the rural areas. However the current policy wording means that the requirement is applied only to the net number of dwellings above the policy threshold.
- vii. The outcomes from this assessment indicate that an overall AH target of no more than 25% AH (of the total number of dwellings, i.e. conventionally applied policy) is likely to be viable as a maximum. So 25% AH represents an appropriate target for the main settlements of Tiverton, Cullompton and Crediton (including for urban



extensions and also strategic sites in Mid Devon). The appropriate target in other circumstances within the district (elsewhere) is considered to be 30%.

- viii. For the lower of these two potential affordable housing targets, discussions at length with the Council have considered its recent affordable housing delivery track record, which on average overall, falls around the middle of the range 20 to 25% AH. Weighing-up the evidence picture from the assessment together with the local delivery experience, a 20% AH target was considered to under-play the typical scope and not represent a sufficient balance with the local housing needs. All in all, at 25% an AH target relevant to the towns and to designated larger scale development areas is considered appropriate.

#### **Community Infrastructure Levy (CIL):**

- ix. For background, the previous charging schedule was prepared and examined in 2012 and, therefore, in circumstances prior to the latest Local Plan developments, before the 2014 CIL regulations updating and based also on previous property market characteristics. DSP understands that schedule is no longer to be implemented. Following adjustments at examination it set out a CIL charge of £40/sq. m on all residential development across the district. All other uses were to be nil-rated.
- x. In arriving at his recommendations, including the revision to £40/sq. m. from the submitted level (£90/sq. m), the CIL examiner considered a trade-off between the Council's AH policy and the supportable level of CIL in his view, based on the fully applied adopted level of 35% AH.
- xi. Evidence from the current assessment indicates now overall scope to charge CIL at between £0 and £100/sq. m dependent on the scale of development and the future policy direction both locally and nationally (bearing in mind the Government's recent consultations on a national affordable housing threshold - and its ongoing Housing Standards Review).
- xii. **Potential options for the MDDC CIL include (for consideration alongside the affordable housing findings and recommendations noted at 5. vi. to viii. above) – bullet points follow:**

- As a base position, £40/sq. m CIL on all new residential development across the district except strategic scale development (where relevant to the charging schedule).
- Potential to increase the CIL to approximately £80/sq. m on smaller sites if a national affordable housing threshold is set at 10 dwellings or a similar arbitrary level, taking the threshold away from local control (as per the consultation noted at 5. xi. above),
- Potential to increase the above CIL charging scope (by approximately £20/sq. m) if the Council's renewable energy policy is either superseded by the Housing Standards Review, or is not pursued.
- Strategic sites – the scale of planning obligations and infrastructure such that likely a zero CIL rate (£0/sq. m charge) will be needed in viability terms and be of benefit in terms of additional delivery flexibility on those sites; s.106 is likely to be the more appropriate mechanism for the securing of the infrastructure necessary to support those.
- Potential to consider further differentiation of CIL rates between rural and urban area on developments of fewer than 10 dwellings if a national AH threshold is introduced.

(Section 6 of Executive Summary continued on following page)

## 6. Findings – Residential development overview (affordable housing and CIL)

- i. Residential CIL alongside AH – Summary of options / parameters:

AH% target	CIL scope – Charging Rates recommendations (dependent on wider policy scenario)			
	LP Policy as existing – all sites (including renewable energy)	No renewables Policy (all sites)	10 unit national AH threshold if applicable (sites of <10 units)	No renewables & 10 unit national AH threshold if applicable (sites <10)*
Sites Generally - 25% AH urban (3 main towns)/ 30% AH rural (smaller settlements)	£40/sq. m	£60/sq. m	£80/sq. m	£100/sq. m
Strategic Sites 25% AH	£0/sq. m			

\*Potential for further differentiation for rural areas in this case

## 7. Findings – Commercial / non-residential development (CIL)

- i. **The findings are for CIL charging scope applicable to any new larger format retail – i.e. supermarkets and similar, retail warehousing – at a rate not more than £100/sq. m.**
- ii. This rate would also be applicable to extensions of any size.
- iii. **All other retail, where applicable, should be charged at £0/sq. m. in terms of current viability.**
- iv. Any differentiation by type of retail, if following the above, should be linked to use rather than simply based on size
- v. In testing other forms of commercial / non-residential development, it was found that any level of CIL charging could generally either exacerbate the viability issues associated with marginal schemes or unviable schemes by placing undue added risk to other forms of new development coming forward. This added risk needs to be balanced against the likely frequency of such schemes, their role in the development plan delivery overall and perhaps also the level of CIL “yield” (total monies collected)

that they might provide. We are seeing some authorities looking to charge CIL on development uses such as hotels and care homes where those are shown clearly to be viable and of planned local relevance, but experience of such areas is highly variable and in Mid Devon we consider that the viability evidence does not support that at the current time.

- vi. Business (B use class) development (i.e. offices, industrial, warehousing) were found to show consistently poor viability outcomes. Assumptions need to be made too optimistic to reliably evidence any CIL charging scope. Therefore a nil charge (£0/sq. m) is recommended at the current time.**
- vii. The same (7. as at vi. above) applies to range of other uses except the larger format retail developments. So for all other development uses such as community, health, leisure, hotel, care homes, etc. again a nil CIL charge (£0/sq. m rate) is recommended at the current time.**

## **8. CIL and the Council's approach – Delivery considerations**

- i. Whichever approach to CIL is progressed, the Council will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). CIL will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.
- ii. This again is not just a local Mid Devon factor, but is a widely applicable principle.
- iii. Under the latest CIL guidance, prospective charging authorities will need to make clear how CIL and s.106 will operate together in their area, including setting-out what each will be used for so as to ensure no 'double-dipping' (as it has been referred to) for funds towards meeting the infrastructure costs or for the provision of works in-lieu of financial contributions (known as 'works in kind').

# 1 Introduction

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## 1.1. Background to the Study – Local Plan

- 1.1.1. Mid Devon District Council adopted its Core Strategy in 2007, setting the strategic policies to guide development within the district until 2026. In 2010 the Council adopted the Allocations and Infrastructure Development Plan Document (AIDPD), which allocated sites across the district and set out details of infrastructure requirements to be provided by new development.
- 1.1.2. Following the adoption of the AIDPD the Council began preparing the evidence required to introduce the Community Infrastructure Levy (CIL) based on work undertaken by Fordham Research, Roger Tym & Partners and Peter Brett Associates. The Council's Draft CIL Charging Schedule was examined in 2012 with the Inspector concluding that a charge of £40/sq. m should be applied to all residential development across the district. No charge was recommended for commercial development, although the evidence did show that a charge was justifiable for larger developments. The previously proposed CIL arrangements are currently on hold and at this stage unlikely to be implemented pending a review aligned to the Local Plan review, as outlined below.
- 1.1.3. In 2013 the Council adopted the Local Plan Part 3: Development Management Policies which guide the determination of planning applications across the district including a number of standards covering areas such as minimum dwelling sizes, Lifetime Homes and the Code for Sustainable Homes.
- 1.1.4. All parts of the Plan were adopted by late 2013 and the council is now in the process of reviewing the Plan in its entirety; setting the strategic direction of development to 2033. The document will contain strategic policies, site allocations and development management policies all of which will supersede the three existing parts of the adopted Local Plan.
- 1.1.5. An 'Options Consultation' version of the Local Plan was published in January 2014 including a number of strategic options for growth. All policies from the adopted Local Plan Development Management Policies document are included within the consultation.

1.1.6. The National Planning Policy Framework (NPPF) was published in final form in March 2012 and supersedes previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options which reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

1.1.7. The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

*'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.'*

*Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'<sup>1</sup>.*

1.1.8. Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF.

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<sup>1</sup> Communities & Local Government – National Planning Policy Framework (March 2012)

1.1.9. Alongside the Local Plan Review, the Council is also reviewing its CIL charging proposals, with examination of any updated approach to the CIL anticipated to take place alongside the examination of the Local Plan Review.

1.1.10. To this end, MDDC commissioned Dixon Searle LLP to carry out a new Viability Assessment to assess the financial viability of site typologies that are typical of the sites set out within the draft Local Plan. Site specific viability assessment is also required for the type of development that could come forward based on four strategic sites contained within the draft Local Plan. The assessment takes into account of the policies contained within the Local Plan Development Management Policies document including those relating to affordable housing and other housing standards. The Viability Assessment will provide the evidence base for the viability of the Local Plan policies and any revised level(s) CIL charging.

## **1.2. Background – Community Infrastructure Levy**

1.2.1 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, Mid Devon District Council will be the charging authority.

1.2.2 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'<sup>2</sup>. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.<sup>3</sup>

1.2.3 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area, in accordance with its Local Plan.

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<sup>2</sup> DCLG – Community Infrastructure Levy Guidance (February 2014)

<sup>3</sup> Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.



- 1.2.4 The CIL regulations require charging authorities to allocate a ‘meaningful proportion’ of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able to receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies (usually Parish / Town Councils) and could be used for community projects. The Government has said that it will issue further guidance on exactly what the money can be spent on.
- 1.2.5 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area. This announcement was first formalised through the Community Infrastructure Levy 2013 (Amendment) Regulations on 25<sup>th</sup> April 2013. The Guidance was also updated at that stage to reflect these changes<sup>4</sup>. As will be noted below, further review and consolidation of the regulations and guidance has been put in place subsequently (see 1.2.13 below).
- 1.2.6 Under the Government’s regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.
- 1.2.7 The levy rate(s) will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the anticipated funding gap that exists; and secondly by evidence of development viability.
- 1.2.8 Mid Devon District Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the emerging Local Plan. This will ensure that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It will set out key infrastructure and facility requirements for new development in an Infrastructure Plan, taking account of existing provision and cumulative impact. An updated Infrastructure Plan is expected to be complete by summer 2014.

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<sup>4</sup> DCLG – Community Infrastructure Levy Guidance (April 2013)

- 1.2.9 Infrastructure is taken to mean any service or facility that supports MDDC's area and its population and includes (but is not limited to) facilities for transport, affordable housing, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.
- 1.2.10 In most cases CIL will replace s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, latest Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived "double dipping" – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the LPA intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale strategic development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.
- 1.2.11 An authority wishing to implement the CIL locally must produce a charging schedule setting out the levy's rates in its area. The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.
- 1.2.12 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

*“The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.*

*This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.*

*As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), 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”<sup>5</sup>.*

1.2.13 The latest amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014) came into force on 24<sup>th</sup> February 2014. These regulations introduce:

- Limitation on pooling of s.106 obligations delayed until April 2015;
- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
- a new ‘vacancy test’ - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of

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<sup>5</sup> DCLG – Community Infrastructure Levy – Guidance (February 2014)

floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';
- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.2.14 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance (see 1.4 below).

### **1.3 Mid Devon District Council Profile**

1.3.1 Mid Devon covers 913 square kilometres. It is a rural district with a population of approximately 77,750. There are three main market towns: Tiverton (pop. 21,900), Cullompton (pop. 8,800) and Crediton (pop. 7,700). Tiverton is roughly central within the district, located about 11km (7 miles) from Junction 27 of the M5 and the Tiverton Parkway mainline railway station at Sampford Peverell. The M5 passes through Cullompton on its eastern side, with Junction 28 provided direct access to the town and the A373 running east towards Honiton. Crediton is the most westerly town in Mid Devon, about 13km (8 miles) from Exeter.

1.3.2 The market towns of Tiverton, Collumpton and Crediton will be the main focus of new development with the long term option of a new community in an accessible location. A network of villages with sufficient services and public transport will be locations for limited development targeted at housing, shops, local services, community services and low impact businesses. Development in the countryside areas outside the market towns and villages will be targeted to meet agricultural and other rural business needs.

1.3.3 The adopted Core Strategy sets out strategic targets for the development of housing, employment and retail. Up-to-date information about the district's needs for commercial land has been provided in the Retail Study (2012), Employment Land

Review (2013) and Tourism Study (2013). A new Strategic Housing Market Assessment (SHMA) is being prepared which will identify the amount and type of housing to be provided. On the basis of current and projected data, the housing need equates to approximately 420 dwellings per annum (8,400 dwellings to 2033). The Council is consulting on two options – a town-centred approach and one that combines a town-centred approach with a new settlement later in the plan period. The first option envisages that development will be concentrated at Tiverton, Cullompton and Crediton. Other settlements would have more limited development which meets local needs and promotes vibrant rural communities. This would include 3,600 dwellings in Tiverton, 2,400 in Cullompton, 800 in Crediton and 1,600 in the rural areas.

1.3.4 The second option would see 2,340 dwellings in Tiverton, 1,560 in Cullompton, 520 in Crediton and 1,040 in the rural areas with 2,940 forming an extension or new community at Willand / Cullompton.

1.3.5 Commercial development would also follow a similar pattern in both options including include 49,000 sq. m in Tiverton, 46,700 sq. m in Cullompton, 5,300 sq. m in Crediton and 53,000 sq. m in the rural areas in Option 1; 31,800 sq. m in Tiverton, 30,400 sq. m in Cullompton, 3,400 sq. m in Crediton and 34,400 sq. m in the rural areas and a further 54,000sq. m at Willand / Cullompton.

## **1.4 Purpose of this Report**

1.4.1 This study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance<sup>6</sup> applicable to studies of this nature. This study has also had regard to recently introduced national Planning Practice Guidance ('PPG' – an online resource live as of 6 March 2014).

1.4.2 In August 2013 the Government also began consultation on a Housing Standards Review to seek views on the rationalisation of the framework of building regulations and local housing standards. On 13 March 2014 the Government set out its response to the consultation with the decision to, as far as possible, consolidate technical standards into the Building Regulations. The Government intends to consolidate the

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<sup>6</sup> Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning (GN 94/2012).

standards into Regulations during this Parliament, with draft Regulations due to be published in the Summer of 2014 with supporting approved documents coming into force towards the end of 2014. At this stage, prior to any Guidance or statutory Regulation, we have applied the Council's policies as set out in the Local Plan Review Options Consultation draft. It is possible that this may need to be reviewed later in the year as more detail on housing standards is known.

- 1.4.3 The Government has also recently finished consulting on the potential to abolish any locally set affordable housing thresholds with a national minimum threshold of 10 units being put forward. Again, for the purposes of this study, an assumption has had to be made based on current circumstances. However, we provide sensitivity testing to reflect potential changes in national policy on affordable housing thresholds, so that the Council has a complete set of information from which to draw on as it reviews and develops both the Plan policies and its approach to the CIL.
- 1.4.4 In order to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF, the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence base to inform the development of the Council's new draft CIL charging schedule. Alongside and integral to the development of the CIL charging schedule is the level of affordable housing that can be viably sought across the district as well as other planning obligations and standards that have a cost impact on development viability.
- 1.4.5 This study investigates the potential scope for CIL charging in Mid Devon whilst reviewing and taking into account the emerging Local Plan Review policy options. It also considers the type of development likely to be relevant to the four specific strategic site options. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the district; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy and affordable housing). The aim is to provide the Council with advice as to the likely viability of seeking developer contributions towards infrastructure provision through the CIL and an appropriate level of affordable housing. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.

- 1.4.6 This does not require a detailed viability appraisal of every site anticipated to come forward over the plan period rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies which are likely to have a close bearing on development costs.
- 1.4.7 To this end, the study requires the policies and proposals in the draft Local Plan to be brought together to consider their cumulative impact on development viability. This means taking account of the draft Local Plan Review requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.
- 1.4.8 One of the key areas will be the Council's approach to affordable housing. The adopted Plan and Options Consultation document (policy S4) requires *'On open market housing sites of more than 4 dwellings in Tiverton, Cullompton and Crediton, and of more than 2 dwellings elsewhere a target of 35% affordable dwellings will be applied to the number of dwellings by which the sites exceed the relevant threshold, depending on viability and providing a mix of dwelling sizes and types appropriate to the evolving needs of Mid Devon's population'*<sup>7</sup>. In practice, the headline figure of 35% needs to be viewed carefully in that it only applies to the number of dwellings above the appropriate threshold. By way of an example, on a 10 unit scheme in one of the towns, the actual affordable housing requirement would be 35% of 6 dwellings; overall therefore the affordable housing requirement would be 2 dwellings which as a proportion of the 10 units total is 20% affordable housing.
- 1.4.9 This study applies sensitivity testing to policy costs including a range of affordable housing proportions and at different thresholds combined with varying CIL levels – to provide information to inform the Council's ongoing approach.
- 1.4.10 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

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<sup>7</sup> Mid Devon DC – Local Plan Review Options Consultation (January 2014)



- 1.4.11 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV).
- 1.4.12 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward across the district.
- 1.4.13 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates, affordable housing percentages as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform both the policy and CIL rate setting process.
- 1.4.14 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £180/sq. m for residential and non-residential / commercial scheme test scenarios. This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results. All policies that have a potential impact on the cost of development have also been included within the CIL viability testing.
- 1.4.15 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and a potentially viable level of CIL and affordable housing as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).
- 1.4.16 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily

indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs).

1.4.17 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.

1.4.18 In the background to considering the scale of the potential charging rates and their proportional level in the Mid Devon context, we have also reviewed them alongside a variety of additional measures that are useful in considering the overall impact of a level of CIL on development viability. This includes reviewing the potential CIL charging rates in terms of percentage of development value and cost. This provides additional context for considering the relative level of the potential CIL charging rate(s) and their impact compared with other factors that can affect development viability such as changes in property market conditions, build costs, inflation, affordable housing, etc.

1.4.19 This report then sets out findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a new CIL and a new Preliminary Draft Charging Schedule (PDCS) alongside a reasonable and viable level of affordable housing to be sought on residential development schemes across the area.

## **1.5 Notes and Limitations**

1.5.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

- 1.5.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential (the surplus after land value comparisons).
- 1.5.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases.
- 1.5.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on its CIL Preliminary Draft Charging Schedule preparations and Local Plan policies.

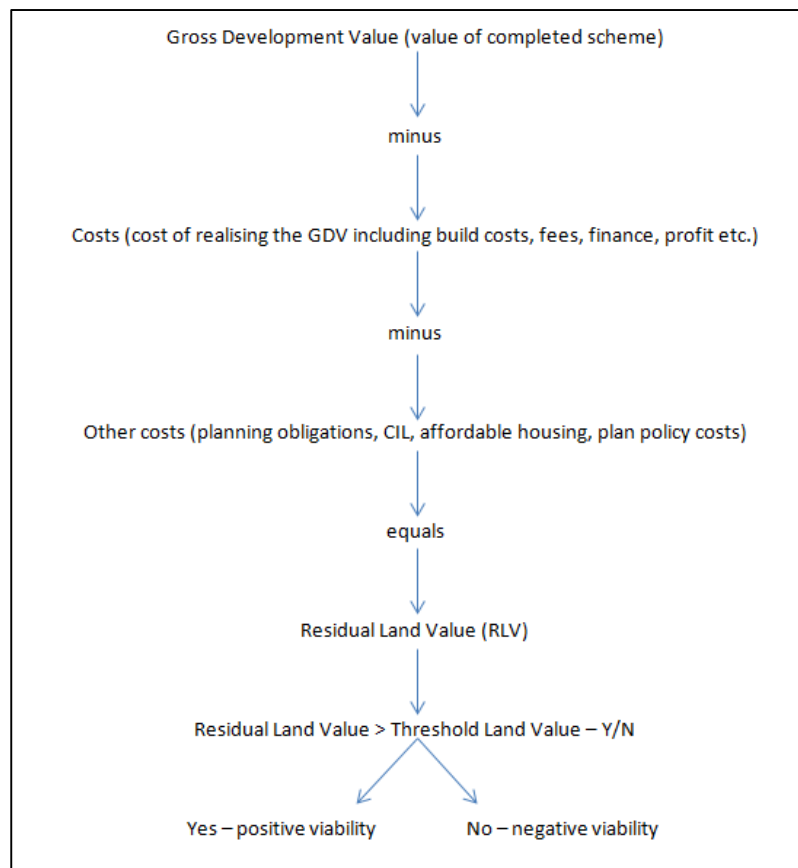
## 2 Assessment Methodology

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### 2.1 Residual valuation principles

- 2.1.1 Collectively this study investigates the potential for a range of development types to contribute to infrastructure provision funding across the district through the collection of financial contributions charged via a Community Infrastructure Levy and provides recommendations on the viability of the Local Plan including various affordable housing proportions and the thresholds above which affordable housing may be sought.
- 2.1.2 There will be a number of policies coming through the emerging Local Plan that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on policies set out in the Local Plan Review Options Consultation, in particular including affordable housing policy. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.
- 2.1.3 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential / commercial.
- 2.1.4 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



- 2.1.5 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).
- 2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.
- 2.1.7 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held

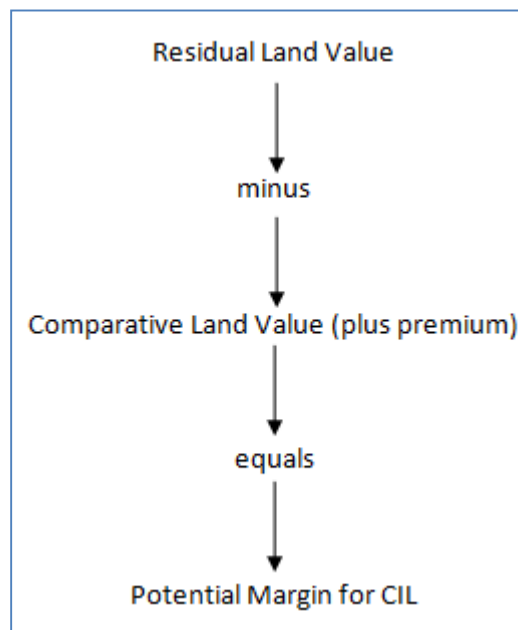
by the Council and its immediate neighbours<sup>8</sup> and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals and consequently there has been very little to use in terms of comparables. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a Mid Devon specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions from the particular appraisal result or results set that is under review.

- 2.1.8 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing costs (as with varying commercial development types) and increasing trial CIL rates.
- 2.1.9 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 2 below):

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<sup>8</sup> There are 7 local authorities adjacent to Mid Devon, all at different stages of Local Plan and CIL development.

Figure 2: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



2.1.10 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local markets through research on local values, costs and types of provision, etc. At key project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for provision of information to inform the study. Appendix III provides more details.

## 2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the Council following a review of the information it provided. Information included adopted and emerging Local Plan documents, Strategic Housing Land Availability Assessment (SHLAA), Employment Land Review, Retail Study and other information. For the



purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the district bearing in mind the probable life of this CIL Charging Schedule. In addition the scale of development coming forward across the district also needed to be considered.

### Residential Development Scenarios

- 2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas including sustainable design and construction standards and Lifetime Homes (see Figure 3 below, and Appendix I provides more details):

Figure 3: Residential Scheme Types

<b>Scheme / Typology</b>	<b>Overall Scheme Mix</b>
1 House	1 x 4BH
2 Houses	1 x 3BH, 1 x 4BH
4 Houses	1 x 2BH, 2 x 3BH, 1 x 4BH
9 Houses	6 x 2BH, 2 x 3BH, 1 x 4BH
10 Houses	7 x 2BH, 2 x 3BH, 1 x 4BH
15 Mixed	2 x 1BF, 3 x 2BF, 5 x 2BH, 4 x 3BH, 1 x 4BH
30 Mixed	4 x 1BF, 6 x 2BF, 10 x 2BH, 7 x 3BH, 3 x 4BH
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
100 Mixed	11 x 1BF, 16 x 2BF, 36 x 2BH, 26 x 3BH, 11 x 4BH
500 Mixed	55 x 1BF, 80 x 2BF, 180 x 2BH, 130 x 3BH, 55 x 4BH
<b>Strategic Sites</b>	
1,000 (CU1)	110 x 1BF, 160 x 2BF, 360 x 2BH, 260 x 3BH, 110 x 4BH
1,500 (TIV1)	165 x 1BF, 240 x 2BF, 540 x 2BH, 390 x 3BH, 165 x 4BH
3,000 (CU11)	330 x 1BF, 480 x 2BF, 1080 x 2BH, 780 x 3BH, 330 x 4BH
3,000 (J27)	330 x 1BF, 480 x 2BF, 1080 x 2BH, 780 x 3BH, 330 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

- 2.2.3 The assumed dwelling mixes are based on the range of information reviewed, combined with a likely market led mix. They reflect a range of different types of development that could come forward across the district so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the district by scheme location / type whilst and also allowing us to consider the impact on development

viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

- 2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.
- 2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test a range of potential affordable housing policy thresholds. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.
- 2.2.6 With regard to the strategic sites and particularly options at CU11 and J27, at this stage (and based on the available information), it is not possible to undertake a very detailed review of the sites. Currently, although starting points would be dependent on the selected options and reviewed trajectories associated with those, these are proposed for delivery largely from 2026 onwards to well beyond the emerging plan period and are going to need ongoing and detailed review and monitoring of their capacity to deliver growth and associated infrastructure over such a long time span through varying market cycles etc. For strategic scale sites (new settlements and large urban extensions) much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. Such variables are currently unknown or unclear. It is likely that further detailed work will be required in order for the Council to develop a fuller understanding of the potential delivery scenarios of these sites over time, however further commentary is provided within Chapter 3, so far as possible at this stage given the results trends indicated by the largest current stage appraisals.
- 2.2.7 The dwelling sizes assumed for the purposes of this study follow the minimum requirements set out within the Council’s Options Consultation Document and are as follows (see figure 4 below):

Figure 4: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

- 2.2.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These could also be influenced to some extent by the Governments Housing Standards Review. No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative ‘Values Levels’ (‘VL’s) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to price and assess schemes and is consistent with CIL principles. It provides a more relevant context for considering the potential viability scope and also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as a proportion of the schemes value (see Chapter 3 for more detail).
- 2.2.9 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m ‘Value levels’ basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

## Commercial / Non-Residential Development Scenarios

2.2.10 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the district.

2.2.11 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 5 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 5: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m <sup>2</sup> )	Site Coverage	Site Size (Ha)
Retail - larger format (A1): convenience	Large Supermarket	2500	40%	0.63
Retail - larger format (A1): comparison	Retail Warehousing - edge of centre	1500	25%	0.60
A1- A5: Small Retail	Other retail - town centre	300	70%	0.04
A1-A5: Small retail	Convenience Stores - Crediton / Cullompton / Tiverton / other areas	300	50%	0.06
A1-A5: Small Retail	Farm shop, rural unit, café or similar	200	40%	0.05
B1(a) Offices: Town Centre	Office Building	500	60%	0.08
B1(a) Offices: Out of town centre	Office Building (business park type - various)	2500	40%	0.63
B1(a) Offices: Rural	Farm diversification, rural business centres, ancillary to other rural area uses	250	40%	0.06
B1, B2, B8: Industrial / Warehousing	Start-up / move-on unit	500	40%	0.13
B1, B2, B8: Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2000	40%	0.50
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	2800	80%	0.35
C2 - Residential Institution	Nursing home / care home	3000	60%	0.50

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

- 2.2.12 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the district and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based review. We also received some additional indications through our process of seeking local soundings. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of “sense check” to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.
- 2.2.13 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.
- 2.2.14 Clearly there is potentially a very wide range of such schemes that could be developed over the life of this CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the emerging development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.
- 2.2.15 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the

range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

- 2.2.16 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus would not support any level of CIL, certainly not on any regular basis.

### **2.3 Gross Development Value (Scheme Value) - Residential**

- 2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to the requirement for a range of potential CIL charging rates (including geographical values variations and / or with changing values as may be seen with further market variations). In the case of Mid Devon and given the values variations seen in different parts of the district through the initial research stages, the VLs covered typical residential market values over the range £2,000 to £3,500/sq. m (£186 to £325/sq. ft.) at £250/sq. m (£23/sq. ft.) intervals. These are set out within Appendix I – described as VLs 1 to 7.
- 2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £180/sq. m. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £180/sq. m potential charging rate level trial was not considered relevant in the district. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

- 2.3.3 We carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within previous research documents including previous viability studies forming the evidence base for existing policies and CIL; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by 'appropriate available' evidence and that 'a charging authority should draw on existing data wherever it is available'. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.
- 2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the settlements (rather than parish or other areas) provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the district. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.
- 2.3.5 The purpose of the settlement hierarchy is to identify the current role and function of settlements based on the number and type of facilities and services they provide, to inform the spatial strategy of the Local Plan. Our desktop research considered the current marketing prices of properties across the district and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available. Together, this informed a district-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.
- 2.3.6 Overall the research indicated that although values vary as expected (a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc.), overall there was little differentiation between the



three largest settlements of Tiverton, Cullompton and Crediton. Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future district development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Mid Devon. Neither is the relatively small number of current new-build schemes from which to draw information. However these factors do not affect the scope to get a clear overview of how values vary or otherwise typically between the larger settlements and given the varying characteristics of the district; as set out in these sections and as is suitable for the consideration of both the Local Plan and CIL.

- 2.3.7 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report. However, Figure 6 below indicates some key themes on values patterns across the district as observed through our research:

Figure 6: Indicative Settlement / Locality Relationship to Value Level (VL)

VL	£/sq. m (£/sq. ft.)	Indicative settlement relationship to Value Level (VL) - Range		
1	£2,000 (£189)	Lowest Mid Devon Values Sensitivity Test		
2	£2,250 (£209)	Tiverton / Cullompton / Crediton		
3	£2,500 (£232)		Bampton	
4	£2,750 (£255)			
5	£3,000 (£279)			
6	£3,250 (£302)			Rural Mid Devon
7	£3,500 (£325)	Upper Mid Devon Values Sensitivity Test		

- 2.3.8 The values that are assumed (as being available to support development) affect the consideration of viability of plan policies across the district and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the district - to inform potential options for an appropriate local approach to both Local Plan policy and CIL charging scope.
- 2.3.9 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. As discussed previously, Mid Devon District Council's current approach is to seek affordable housing from sites providing more than 4 dwellings (main settlements) or 2 dwellings (elsewhere). The requirement is based on seeking 35% on the number of units above the affordable housing threshold. As this study seeks to test the viability of Local Plan policies holistically alongside the potential level of CIL that could be viable, we have tested and reviewed a range of potential affordable housing policies from 0% to 40% but based on the more standard approach of applying the proportion to the gross number of new dwellings (all new dwellings) on a site above the particular threshold that is tested (not just to the number of dwellings by which the threshold number is exceeded). For the affordable housing, we have assumed that approximately 60% is affordable rented tenure and 40% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario).
- 2.3.10 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that the setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association's or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

- 2.3.11 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant.
- 2.3.12 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.
- 2.3.13 In broad terms, the transfer price assumed in this study varies between approximately 30% and 75% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The average LHA rate for the four Broad Rental Market Areas (BRMAs) that cover Mid Devon District for the varying unit types was used as our cap for the affordable rental level assumptions.
- 2.3.14 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the RP's own development strategies and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting

viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

- 2.3.15 Again, it is worth noting that affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the Mid Devon context. The market dwellings within each scenario will carry the CIL payments burden at the Council's specified rate(s).

## **2.4 Gross Development Value – Commercial / Non-residential**

- 2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of the completed scheme values that would be compared with the various development costs to be applied within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).
- 2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.
- 2.4.3 Figure 7 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.
- 2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the district. This

enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Mid Devon only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

- 2.4.5 These varying rental levels were capitalised by applying yields of between 5.5% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (5.5% - 6.5% for large retail formats and hotels) were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.
- 2.4.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

2.4.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the district. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 7: Rental Value for Commercial Schemes

Development Type		Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	£165	£205	£245
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£100	£125	£150
A1- A5 - Small Retail	Other retail - town centre	£75	£100	£125
A1-A5 - Small retail*	Convenience Stores - Crediton / Cullompton / Tiverton / other areas	£70	£100	£130
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£30	£45	£60
B1(a) Offices - Town Centre	Office Building	£90	£110	£130
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£90	£110	£130
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£50	£80	£110
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£50	£70	£90
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£35	£50	£65
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£3,000**	£4,000**	£5,000**
C2 - Residential Institution	Nursing home / care home	£110	£130	£150

\* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

\*\*per room per annum

### Economic and market conditions

2.4.8 We are making this viability assessment following what appears to be the end of a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and

affecting all property types (residential and commercial). At the time of writing we appear to have come through a period of relatively weak and uncertain economic conditions with the economy and property market in particular beginning to show signs of continued recovery. At the point of closing-off the study, there continues to be mixed messages with the Eurozone still in difficulty but the British economy is showing signs that the market is beginning to pick up with house price growth rising at the fastest rate for 3 years<sup>9</sup> boosted by the Government's Funding for Lending scheme and some forecasts indicating UK house price inflation of 24% by the end of 2018<sup>10</sup>.

- 2.4.9 The RICS Commercial Market Survey for Q1 of 2014 - stated that *'The Q1 2014 RICS UK Commercial Property Market Survey highlights a continued strengthening in both the occupier and investment sectors. This improvement is becoming increasingly broad based in both sectoral and regional terms; this is no longer just a London offices story.'*

*At the all-sector level, occupier demand increased while availability fell. With the market tightening, rents are expected to pick up further and the value of tenant inducements are falling. This broad pattern is also evident across the three subsectors (retail, office and industrial) and the survey's broad four regional groupings (London, the South, Midlands/Wales and the North).*

*While London offices are still the outperforming market segment, it is increasingly apparent in the survey that the market, ex-London offices, is beginning to shift up a gear. This is a welcome development given how unbalanced the commercial real estate sector had become in recent years and reflects the broader economic recovery underway.*

*In the investment market, buyer enquiries accelerated further at the all-sector level, pushing up survey respondents' confidence in the outlook for capital values. Again, the regional and sector breakdown of the results indicate that this improvement is taking place not just in London and not just in the office sector.*

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<sup>9</sup> [http://www.lloydsbankinggroup.com/media1/press\\_releases/2013\\_press\\_releases/halifax/040713\\_HPI.asp](http://www.lloydsbankinggroup.com/media1/press_releases/2013_press_releases/halifax/040713_HPI.asp)

<sup>10</sup> Knight Frank Residential Research – UK Housing Market Forecast (Q42013 Edition)



*The survey comments bear out a few interesting anecdotal points. First, while conditions in some secondary markets clearly remain challenging, there is a growing sense that some office tenants are beginning to reevaluate the economics of renting prime versus secondary office space. Second, availability in some markets is falling not just because of strong tenant demand, but also because part of the stock is being converted for residential use.*

*Over the next twelve months, rents are projected to rise by around 4.5% in the office sector, by approximately 5.5% in the industrial segment and by just over 3% in the retail sector. On the same basis, capital values are forecast to increase by roughly 5% and 6% in the office and industrial sectors respectively, while retail sector gains are expected to be a slightly more modest 3%.'*

2.4.10 As with residential development, consideration was given to the Mid Devon context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the district so far as the likely location of such development is concerned, focussed in the early Plan timescales on the three main towns. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.

2.4.11 As can be seen, there is great variety in terms of values within each of the main settlement areas and across the full range of locations in the district. However, there were tones of values which informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a district-wide overview was considered appropriate.

2.4.12 Overall, we found no clearly justifiable or readily definable approach to varying the potential CIL charging on commercial / other development types through viability findings based on location / geography – without risking the approach becoming

overly complex. Whilst certain specific scheme types could create more value in one location compared with another in the district, typically there was felt to be no clear or useful pattern which might be described for that. In preference to a more complex approach, given the lack of clear evidence pointing towards that, the project ethos was to explore potential CIL charging rates for these various development types in the case of making them workable district-wide. We therefore continued our work based on a uniform approach district-wide to exploring the CIL charging rate scope in viability terms for commercial uses. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

## **2.5 Development Costs – General**

- 2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required and is appropriate.
- 2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.
- 2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

## **2.6 Development Costs – Build Costs**

- 2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the median figure, rebased to a Tiverton location index, is used. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS Median, Tiverton Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses - mixed development	£919
	Houses – one-off (3 units or less)	£1,274
	Flats - generally	£1,033
	Flats - Sheltered housing	£1,046
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	£1,094
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£607
A1- A5 - Small Retail	Other retail - town centre	£755
A1-A5 - Small retail*	Convenience Stores - Crediton / Cullompton / Tiverton / other areas	£774
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£774
B1(a) Offices - Town Centre	Office Building	£1,374
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£1,243
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£1,243
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£855
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£642
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£1,224 - £1,712**
C2 - Residential Institution	Nursing home / care home	£1,400

\*excludes external works and contingencies (these are added to the above base build costs)

\*\*all-in cost – range from budget to 4\*+

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which

lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

- 2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM). In the residential scenarios, this was applied to all dwellings assuming that construction standards met the requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4). Sensitivity testing on further changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to meeting zero carbon requirements. We have utilised information within the DCLG Housing Standards Review Impact Assessment<sup>11</sup> and Zero Carbon Hub respectively<sup>12</sup>. Appendix I provides more detail.
- 2.6.5 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.
- 2.6.6 Survey and normal site costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios).
- 2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we saw build

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<sup>11</sup> DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)

<sup>12</sup> Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

costs fall, but moving ahead they are expected to rise again, if only over the longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, building costs have been at relatively consistent (flat) levels. This trend is forecast to continue with steady tender price increases forecast through to early 2017 (rising from about a 2% per annum increase in 2014 to 3.9% at the beginning of 2018). Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (30<sup>th</sup> April 2014) stated on build cost trends:

*'The General Building Cost Index rose by 0.3% in 4th quarter 2013 compared with the previous quarter, and by 1.3% compared with the same quarter in 2012.*

*Materials prices rose by 0.4% in the year to 4th quarter 2013 and nationally agreed wage rates rose by 1.6%. General inflation rose by 2.7% over this period.*

*Materials prices as a whole are expected to rise by under 2% over the first year of the forecast, on the back of weak upward pressure in raw materials prices. As the construction industry and the wider economy improves over the following years, it is anticipated that overall annual price increases will rise from 2.6% in 1st quarter 2016 to 3.8% in 1st quarter 2019. Looking at the global economy, and in particular the emerging economies, growth is not expected to rise fast enough to put significant upward pressure on materials prices throughout the forecast period.*

*From the standpoint of employees in the construction industry, their wage bargaining position is expected to improve on the back of increasing demand for construction work going forward. As a result, the average of wage settlements is forecast to rise from 2.6% in the year to 1st quarter 2015 to 3.9% over the last two years of the forecast period.*

*New orders for construction work rose by 2% in 4th quarter 2013 compared with the previous quarter, and by 4% compared with a year earlier. It should be noted that ONS changed the methodology of data collection for construction orders in 2nd quarter 2013, without applying any conversion factor, which may continue to distort the yearly percentage changes through to 1st quarter 2014.*

*New work output recovered to modest growth in 2013, and growth is expected to become stronger as the economy as a whole picks up. However, some sectors and regions will lag behind. Construction demand is not expected to return to its pre-recession level until 2016.*

*Tender prices have risen by 7% over the past year, and it is now felt that short term capacity issues may keep increases higher over the next year, as contractors struggle with the increase in workload. This was one of our alternative scenarios given previously. Tender prices are therefore expected to rise by 6.1% over the first year of the forecast period. Tender prices are then predicted to slow to around 4.6% over the following year, as the industry begins to cope with the increased workload. Over the remaining years of the forecast, tender prices are expected to rise by around 5.2% per annum, driven by increasing demand and upward pressure from input costs. Tender prices are forecast to have risen by around 26% above the pre-recession peak by the end of the forecast period.’<sup>13</sup>*

Annual % Change	1Q12	1Q13	1Q14	1Q15	1Q16	1Q17	1Q18
	to	to	to	to	to	to	to
	1Q13	1Q14	1Q15	1Q16	1Q17	1Q18	1Q19
Tender Prices	+9.3%	+3.8%	+6.1%	+4.6%	+5.2%	+5.3%	+5.3%
Building Costs	+1.3%	+0.3%	+2.2%	+3.1%	+3.0%	+3.8%	+3.9%
Nationally Agreed Wage Awards	+1.4%	+1.4%	+2.6%	+3.0%	+3.6%	+3.9%	+3.9%
Materials Prices	0	+0.8%	+1.5%	+2.6%	+2.9%	+3.2%	+3.8%
Retail Prices	+3.1%	+2.7%	+3.3%	+2.9%	+3.1%	+3.4%	+3.6%
Construction New Work output*	-11.3%	+1.0%	+5.1%	+6.1%	+5.8%	+6.0%	+6.1%
* Year on Year (1Q12 to 1Q13 = 2012 to 2013)							

(Data Source: BCIS)

## 2.7 Development Costs – Fees, Finance & Profit (Residential)

2.7.1 The following costs have been assumed for the purposes of this study alongside those at section 2.6 above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

<sup>13</sup> BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (April 2014)

<u>Professional fees:</u>	Total of 10% of build cost
<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded) Arrangement fee variable – basis 1-2% of loan
<u>Marketing costs:</u>	3.0% - 6.0% sales fees £750 per unit legal fees
<u>Developer Profit:</u>	Open Market Housing – 20% GDV Affordable Housing – 6% of GDV (affordable housing revenue).

## 2.8 Development Costs – Fees, Finance & Profit (Commercial)

2.8.1 Other development cost allowances for the commercial development scenarios are as follows:

<u>Professional and other fees:</u>	12% of build cost
<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded) Arrangement fee variable – 1-2% loan cost
<u>Marketing / other costs:</u>	(Cost allowances – scheme circumstances will vary) 1% promotion / other costs (% of annual income) 10% letting / management / other fees (% of assumed annual rental income) 5.75% purchasers costs – where applicable

Developer Profit: 20% of GDV

## 2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 9 below):

Figure 9: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	1 House	6
	2 Houses	6
	4 Houses	6
	9 Houses	9
	10 Houses	9
	15 Mixed	12
	30 Mixed	18
	30 Flats (Sheltered)	18
	100 Mixed	24
	500 Mixed	60*
	1,000 Mixed (CU1)	78*
	1,500 Mixed (TIV1)	120*
	3,000 Mixed (CU11)	240*
	3,000 Mixed (J27)	240*
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	12
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	7
A1- A5 - Small Retail	Other retail - town centre	6
A1-A5 - Small retail*	Convenience Stores - Crediton / Cullompton / Tiverton / other areas	6
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	6
B1(a) Offices - Town Centre	Office Building	6
B1(a) Offices - Out of town centre	Office Building (business park type - various)	12



Development Use Type	Scheme Type	Build Period (months)
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	6
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	6
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	9
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	14
C2 - Residential Institution	Nursing home / care home	16

\*Larger scheme types – potential involvement by multiple house-builders

## 2.10 Other planning obligations - Section 106 ('s.106') Costs

2.10.1 Current guidance states the following with regard to CIL: *“At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions”*<sup>14</sup>. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance<sup>13</sup> states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.10.2 On discussion with the Council it was considered that a great majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. The appraisals therefore included a notional sum of £1,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and

<sup>14</sup> DCLG – Community Infrastructure Levy Guidance (February 2014)

in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements.

2.10.3 On larger, strategic scale development allowances would need to be made for increased levels of infrastructure (through s.106) assuming the requirement for on-site provision in these cases. A number of strategic scale sites have been tested at an appropriately high level for the purposes of this study and based on available information.

2.10.4 Estimated costs of infrastructure requirements in relation to the Tiverton Eastern Urban Extension (EUE) – Policy TIV1 – were provided and equated to approximately £14.8m (based on estimates of A361 road improvements at approximately £8m together with currently estimated s.106 (known requirements only) of £6.8m. This cost therefore equates to just under £10,000 per unit for s.106 at TIV1 at this stage.

2.10.5 Costs were not available for sites CU1, CU11 and J27 and therefore in these cases the appraisals were run on the basis of scenario testing with a base level of £10,000 per unit s.106, equivalent to that noted at 2.10.4 above. Sensitivity testing also looked at the effect on the RLVs of varying the s.106 assumption (input cost per dwelling) by £2,000 steps up and down from that level. More information is provided within the study findings at Chapter 3 below (see 3.3.19 and subsequent paragraphs).

2.10.6 In addition to the already included uplift to build costs for external works an additional £300,000 per hectare was included for site opening-up costs in the case of these strategic site scenarios.

2.10.7 In summary the strategic site scenario tests were based on the following approximate land areas (based on total site areas from the Local Plan):

- TIV 1 (1,500 dwellings indicative): 44ha residential; 7 ha employment; 2 ha neighbourhood centre. Gross site area 122 ha.
- Developable site areas for CU1 and CU11 / J27 are approximated based on 35 d.p.h. (net) and employment based on pro-rating the TIV1 scenario information.
- CU1 (1,000 dwellings indicative): 28.5 ha residential; 2 ha employment. Gross site area 78.4 ha.

- CU11 / J27 (3,000 dwellings indicative): 85ha residential; 11ha employment.  
Gross site area 200 ha.

## **2.11 Indicative land value comparisons and related discussion**

2.11.1 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the outturn results of the development appraisals (in terms of RLV) and some benchmark or known land value. As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the varied land supply picture that the Council expects to see, including the occurrence of greenfield sites and schemes coming forward on previously developed former commercial / employment land as well as reuse and intensification of existing residential sites and garden areas.

2.11.2 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential CIL funding scope and affordable housing proportion. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see that, alongside the other costs assumed, there is little or no CIL or affordable housing contribution scope once all other assumed normal costs have been allowed for.

2.11.3 This also needs to be viewed in the context that invariably (as we see across a range of CIL viability studies) the levy rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added. Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial

rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that Councils need to find between funding local infrastructure and the viability of development in their area.

- 2.11.4 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. However, no firm evidence of such was available from the various soundings we took and sources we explored. We reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, seeking local soundings, EGi; and from a range of property and land marketing web-sites. Details of the research are provided in Appendix III.
- 2.11.5 Each of the RLV results is compared to a range of land value levels representing potential values for sites of varying types of PDL previously developed land – i.e. brownfield) and greenfield sites; envisaging a potential spectrum of sites from greenfield through lower and then upper value commercial land and sites with existing residential use. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will be variable in practice.
- 2.11.6 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends.
- 2.11.7 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results respectively), we have made indicative comparisons at land value levels in a range between £250,000/ha and £1,200,000/ha so that we can see where our RLVs fall in relation to these levels and the overall range between them. These benchmarks are based on a review of available information from site specific reviews, local research and research carried out by others in carrying out viability studies both for Mid Devon and neighbouring authorities.

- 2.11.8 Where greenfield or other lower value land were to be relevant then the results can be used in exactly the same way; to get a feel for how the RLVs (expressed in per ha terms) compare with a lower land value levels of say £250,000/ha. The minimum land values likely to incentivise release for development under any circumstances is probably around £250,000/ha in the Mid Devon context. Land values at those levels are likely to be relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the district. This range could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at £15,000 - £20,000/ha in existing use, verified by our own research). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances.
- 2.11.9 As well as a level of value relating to an existing or alternative use driving a site's value ('EUV' or 'AUV'), there may be an element of premium (an over-bid or incentive) required to enable the release of land for development. The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that *'the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development'*. This benchmark is referred to as threshold land value in that example: *'Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely'*. Further it goes on to say that *'There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied'*.
- 2.11.10 RICS Guidance<sup>15</sup> refers to site value in the following *'Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value*

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<sup>15</sup> Financial Viability in planning – RICS Guidance note (August 2012)

*(ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations’.*

2.11.11 In the Local Housing Delivery Group report<sup>16</sup> chaired by Sir John Harman, it is noted that *‘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’.*

2.11.12 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.11.13 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

2.11.14 Essentially this approach leads to the comparison of the RLV results in £s per hectare (£/ha), having taken into account all values and costs including varying levels of CIL and affordable housing, to a range of potential land values representing various

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<sup>16</sup> Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

greenfield, previously developed land (e.g. former commercial uses) or existing residential (residential intensification) benchmark land value indications. The range of land value comparisons is set out beneath the results tables (at Appendices IIa and IIb) and further information is set out within the wider research as included at Appendix III. The results trends associated with these are seen at Appendices IIa and IIb as explained in Chapter 3 below.

## 3 Findings

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### 3.1 Introduction, values patterns and relationship with the development strategy options associated with the emerging Local Plan.

#### A guide to the results and appendices tables

3.1.1 Results summaries are included within the tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (residential scenarios – tables 1a to 1u and appraisal summaries that follow those tables);
- Appendix IIb (commercial / non-residential scenarios – tables 2 to 5 and relevant appraisal summaries);

3.1.2 In each case these reflect the scenarios explained in Chapter 2 and summarised at Appendix I.

3.1.3 Within Appendices IIa and IIb the tables refer to the potential relevance / occurrence of the scenarios, on an overview basis and bearing in mind that in practice each site will be different. The process included consideration of the varying site types relevant to schemes on greenfield land and PDL of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such redevelopment of existing housing). Across this range of site types, varying land values will be relevant to some extent. Although most of the development, overall, looks set to be greenfield site based, this is likely to include a range of smaller sites as well as larger scale scenarios and town / village infill type development will continue to play a smaller role in the overall plan context. Most of the development scenarios considered could occur on host sites with a variety of characteristics. This is a feature of development in the district area, given that as an indication currently there are potentially 1,600 or so new homes in total planned across the smaller settlements / rural areas.

3.1.4 The viability assessment of potential affordable housing policy position variations and potential CIL charging rate(s) scope is based on the running of sensitivity tests. Each of these corresponds with an individual row of figures within each coloured section



of the Appendix IIa table 1a to 1u results overviews. Each of the Appendix IIa tables shows for that development scenario (as titled at the top alongside the Table number) the resulting RLVs (£) and RLVs/ha (£/ha) from the tests at each value level (VL) across the range of trial CIL charging rates (£0 to £180/sq. m, moving from left to right). The affordable housing (AH) proportion (%) relevant to each set of tests for VLs 1 to 7 is shown in the grey column at the left hand side of each table.

- 3.1.5 Affordable housing (AH) has been tested based on a conventional application of policy; i.e. where the stated AH% is applied to the whole number of dwellings in the scheme scenario and not just to those that are above the AH policy threshold (the latter interpretation being as currently used by the Council in accordance with direct interpretation of the adopted policy wording). A straight application of the AH% to all units within a scenario, as modelled, is the approach taken to inform our recommendations and provides a simpler policy basis consistent with the approach of most Councils in DSP's experience. This means, however, that comparisons between the existing and potential proposed (simplified) approach need to be made carefully as by in large the Council's existing approach does not require as much affordable housing as the AH% suggests, by the time the threshold number of units are deducted from the total scheme number. Currently in the settlements of Tiverton, Cullompton, Crediton and Bampton, schemes of 4 or fewer dwellings do not attract an affordable housing requirement. So the 35% target currently takes effect at 5 dwellings, meaning that in practice 1 AH dwelling (i.e. 20% of 5) or 2 AH dwellings (40% of 5) would be sought. In the rural/smaller settlements (elsewhere), the current AH threshold is 2 dwellings, meaning that schemes attract affordable housing at 3 dwellings or more; the first 2 do not count for the calculation. So at its first point of impact, we would assume that the currently worded policy requires 1 of 3 units to be affordable – i.e. 33.3%.
- 3.1.6 Bearing in mind the current policy background but potentially looking ahead for the emerging Plan to a more conventional policy wording that provides a clearer link to the AH%, AH impact is tested here at 4 dwellings upwards at AH% of between 0% and 40% depending on the scenario. The far left column in the Appendix IIa tables shows the AH% tests relevant to each area of the RLV results indications. It should be noted again that numbers rounding has a significant effect on the detail of this. So the need to provide only whole number AH dwellings means that, for the smaller sites although the AH% tested varies in theory, there is no scope within the total dwelling number to vary the AH content. As an example the AH tests at 4 units all

involve a single (1 no.) AH dwelling only, with 3 no. market dwellings, as this is the only combination that works in between either 0% AH (no AH unit) and a too onerous level of 50% AH (2 no. units of the 4 no. total). This same effect is seen with in the results tables to a diminishing degree through to table 1g (30 unit scheme), being the first point at which the tested scheme size means that all AH tests (20%, 25%, 30%, 35% and 40%) included different AH numbers more closely reflecting the stated AH% trials.

- 3.1.7 1 and 2 houses schemes (tables 1a and 1b), including no AH but with a significantly higher build cost assumed (see Appendix I), have been appraised given that the CIL would take effect from a single (non-self-build) dwelling upwards.
- 3.1.8 At this stage, no appraisals have been carried out in respect of financial contributions for affordable housing on smaller schemes because with established low affordable housing thresholds already in operation the formal introduction of the requirements for such contributions is unlikely to become a key part of any new policy. This and other aspects around AH provision on sites providing fewer than 10 dwellings could be an area for further consideration by the Council if considered of relevance locally. However, and of great significance, it is likely that the scope to consider such aspects or indeed any AH policy effecting sites of fewer than 10 dwellings will be dependent on the outcome of current Government consultations.
- 3.1.9 Where the scheme dwelling numbers allows the exploration of the impact of AH% variation, the outcomes from the increasing AH% tests are shown moving from top to bottom within each table.
- 3.1.10 Tables 1k onwards within the overall set, show the results for a further range of sensitivity tests carried out beyond those associated with the base assumptions on development costs (1a to 1j). Tables 1k to 1r show sample AH tests at 0% to 40% for schemes up to 30 units combined with a zero carbon (increased sustainability) cost assumption. This is with a view to forward-looking information for the Council based on current costs estimates. The final tables, 1s to 1u, show outcomes based on removing from the various AH% tests for the 30 unit scheme with base assumptions the emerging Plan potential requirement for on-site renewable energy (the carbon footprint reduction element of adopted policy carried forward to the January 2014 Options Consultation Policy DM3) and / or lifetime homes requirements. These further tests have been added with a view to the likely standardisation of

requirements under the building regulations, or similar, through the Government's current Housing Standards review process. As with all other trial scenarios, the further sensitivities enable the viewing of varying potential cumulative costs impacts based purely on these current stage assumptions.

- 3.1.11 Following the main results tables sets within Appendix IIa, Argus Developer software summary reports are included for the current stage high-level strategic sites review appraisals are included. The findings from those are to be discussed below separately, given the different nature of considerations involved with those – see the text that follows the tables 1a to 1u results discussions.
- 3.1.12 Tables 2 to 5 at Appendix IIb include the equivalent information for the commercial / non-residential scenarios testing undertaken – only where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing /care home). These tables show in their heading the rental yield % assumed for each set. At the lower yield tests, these included only the larger format retail (supermarket and retail warehousing developments) - according to the potential relevance of yield % test by development use type. The 5.5% and 6.0% yield test(s) are considered only applicable to those development types as shown in tables 2 and 3 at Appendix IIb.
- 3.1.13 Overall, the range of yield %s used assumes high quality, well-located new-build development as relevant to the Plan and to CIL. It should be noted that in respect of some development uses in the local context (particularly the 'B' (business) Class uses) the yield % tests shown are at the positive end of the potential range and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, any scope for CIL payments. For the development use types considered, where poor or marginal outcomes are shown generally (B, C1 and C2 Uses – business, hotels, care / nursing homes) we can see that results would deteriorate further with increased yield % trials as may be applicable.
- 3.1.14 As noted at 3.1.12, only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because the early stages consideration of the strength of relationship between the values and build costs quickly showed there to be no point developing the full testing process beyond initial stages. This applied where certain scenarios were seen to be clearly unviable as

development uses based on the range of assumptions applied. We will pick up this area with further commentary later in this chapter; see 3.7.8 (Figure 11 below).

3.1.15 In the current climate it is likely that the 6.5% and / or 7.5% yield trials (results at tables 4 and 5) may well represent too positive a scenario in some cases, and particularly for the B uses together with others outside the retail use types in the Mid Devon context. However, as above, these trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios (including for hotels and similar uses) produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield (or other) assumptions that might be seen in practice.

3.1.16 In summary Appendix IIa and IIb results tables show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1u, the AH policy requirement or sensitivity variation tested. For each results set the assumed AH% is stated.
- Across the top grey row: other assumptions headings and the increasing 'trial CIL charging rate' tested from £0/sq. m to £180/sq. m applied across all scheme scenarios and variations at £20/sq. m intervals for residential (Appendix IIa) and commercial (Appendix IIb) scenarios.
- Within the table section for each residential scenario type and AH assumption variation, the increasing market sales value level (VLs 1 to 7) used to test the sensitivity of the outcomes to varying values. Overall, this covers values from £2,000 to £3,500/sq. m (approximately £186 to £325/sq. ft.). This range enables us to consider viability as influenced by location and by the market (e.g. including values falling or rising from current typical levels). This provides full context for considering the potential for the varying value levels to support viable developments with reference to the delivery of the emerging Plan proposals and for considering the CIL funding scope. It should also be noted that for the 30 unit apartments scenario included at this stage, envisaging retirement (sheltered

housing), we looked at higher VLs at 7 plus (8, 9 and 10 added) – reflecting our view of the expected premium level pricing of most new-build schemes of that type; a common observation made through our wider work (table 1h within Appendix IIa refers).

- VL1 represents the lowest market values sensitivity test, through a scale including the highest market values sensitivity test at VL7 (VL10 upper end test for sheltered / retirement scenarios). VL1, however, is largely to be regarded as lower-end sensitivity test for residential, in the main outside the range of typical values considered relevant to delivery moving forward, and therefore represents the effect of a falling market from the current lower-end.
- We consider that the range of values currently most relevant to the emerging plan and to the CIL that will support it, is represented by VLs 2 to 3 in respect of the main settlements of Tiverton, Cullompton and Crediton or new development adjoining those; with very little differentiation apparent between those. The majority of development relevant to the Plan, taking a wide view to include the significant housing numbers likely to come forward overall at the smaller settlements, the values range relevant to the district is VL2 to 6. Within that, Bampton (viewed as a main settlement in the adopted Local Development Framework 2006) typically commands higher values considered to be in the range VL3 to 5. As the research shows, in practice values are variable from scheme to scheme. The indications are that, whilst there is little difference between the values relevant to the main settlements aligned to the new Local Plan Options proposals, and therefore to the most significant proportion of the proposed Plan delivery, across the rural areas an option may be to consider some form of differentiation for affordable housing policy (as exists under the adopted Plan) or for the CIL charging rate(s). Nevertheless, aiming to differentiate for the whole range of values variation subtleties is very likely to over-complicate matters and not be justified.
- Under each commercial / non-residential scheme type: Increasing value (this time meaning rental value that underpins the completed scheme (sale) value – OR GDV - in combination with the yield %) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. ‘L’ and ‘H’ allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type

/ location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through any further weakening of commercial property market conditions. For context here, in our wider work we are seeing that for prime sectors and locations the commercial market is beginning to show signs of picking-up from the recession period in some respects. To date, however, the signs of market pick-up are not so evident in areas such as Mid Devon, which do not have a well-established prime commercial property offer.

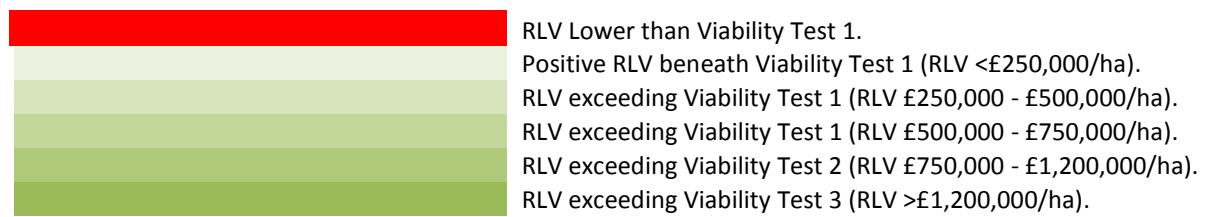
- Main areas of results in table sets 1 and 2 to 5: RLV appraisal results for each set expressed in £s within the white / grey and white areas (top section – residential tables 1a to 1u); left-side section (commercial – tables 2 to 5) and in £/ha within the coloured table areas (lower section – residential; right-side section – commercial) given the assumed scenario type, density / site coverage, etc. generated by each individual appraisal within the set.
- Within each of those sections, the coloured table cells (see below) act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the scope for potential CIL charging in the context of the emerging plan. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability. These trial rates are considered in combination with the key areas of potential policy that impact on viability. The sensitivity tests on affordable housing are the key factor in that respect, but also allowances were made for other potential Plan policies that at this stage are considered likely to have a direct development cost implication.
- The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as those trial CIL charging rates increase (moving from left to right within all Appendix IIa and IIb tables) and, more so, as the AH % increases moving from top to bottom within each Appendix IIa table set.
- As discussed earlier, realistically this testing of trial CIL rates has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Provided that these trial rates span a sufficient range, and

the steps between each trial level are not too large, an element of interpolation can be applied and considered. It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £180/sq. m for residential and commercial scenarios to give a sufficient range for review; we could see that higher rates were likely to be unsuitable. In our experience and from a review of emerging results, this provided us with suitable parameters and context for review with the Council. The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the proposed Plan policy directions.

- It is important to note that the colour-coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs. This is all in the context of the emerging Plan development strategy so far as it was possible to make financial assumptions at this Options review stage; in advance of the proposals for more settled policy and delivery details.
- The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative or very low RLVs failing the lowest tests considered – i.e. clear non-viability) to the boldest green-coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types). There are no precise cut-offs or steps in terms of the results interpretation. In practice a range of outcomes within the non-red table areas could prove viable depending on particular scheme and site circumstances. The footnotes to the Appendix IIa and IIb tables describe these as a series of ‘viability tests’, referring to the various land value comparison levels considered:

- Boldest green cells - considered to provide very good viability prospects; the best results from the range produced; likely to be workable across the full range of site types.
- Mid-green cells - considered to provide good viability prospects in a range of circumstances meeting a wide range of likely former commercial use and lower residential values expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for a limited range of high-value commercial / non-residential developments (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of previously developed land (PDL) site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above) that are considered capable of working even on the highest value PDL scenarios in the Mid Devon context.
- Paler green cells – Positive RLVs, but which are under our higher land value comparisons and therefore indicating reduced confidence in results in respect of PDL scenarios. Potentially representative of scenarios that may be workable on lower value PDL (commercial) or (with greater confidence) on greenfield sites.
- Red coloured table cells (results) – negative or very low RLVs – schemes in financial deficit or in any event representative of clearly poor viability outcomes – no prospect of viable schemes based on the collective assumptions used in each case. In most of the table rows that have part red shading, it can be seen that the CIL trial rate is seen to have relatively little impact on scenarios that are inherently unviable. In a small number of cases, however, it can be seen that a nil or very low CIL rate might contribute to supporting a level of viability in greenfield or other lower land value scenarios. That effect could be relevant for example in the case of any larger scale developments also carrying significant site-specific costs sought through s.106, or where similar cost impacts are involved in bringing those forward.
- The above colour scale, showing the results trends within Appendices IIa and IIb (as per the table footnotes there) is as follows:





Source: Dixon Searle LLP (2014)

- As seen here the table footnotes provide a reminder of the land value benchmarks (comparisons) applied in arriving at this picture; all bearing in mind the context and explanations provided within this report.
  - DSP considers that within the bracket to £500,000/ha, outcomes represent potentially workable greenfield scenarios where the RLVs exceed £250,000/ha. With increasing land value comparison covering the overall range £250,000/ha (potential greenfield enhancement land value) to £1.2m/ha (upper PDL level), those are noted there as 'Viability Tests' 1 to 5. In practice we consider that the upper test here (test 5 at £1.2m/ha) will not need to be exceeded too frequently within the Mid Devon context. However, it can be seen that the RLV outcomes from a range of residential and large format retail scenarios exceed this level in any event.
- 3.1.17 In addition, each results Appendix contains sample appraisal summary information. Bearing in mind the study purpose and nature, these are not the full appraisals or sets, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used here. The summaries included represent a selection of scheme / use types with a focus where, ultimately, positive CIL charging scope and recommendations have been made. Appraisal summaries are not included for the full range of scenarios that were considered non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).
- 3.1.18 The results discussion within this section, and the reported policy and CIL options / scope that is supported by our findings, is based on the review of current stage assumptions based on the Options proposals for the Council's Local Plan. This is the focus because to consider CIL we also have to build-in the likely effect of the plan policies for the cumulative impact on viability. So the commentary refers to the emerging plan in so far as the key viability impacts of policies on affordable housing

and potentially on sustainability are concerned; alongside the CIL viability implications, because the range of viability influences from these needs to be taken account of together.

3.1.19 Government guidance states that the CIL charging rates should not be set up to their potential limits (up to ‘the margins of viability’, or similar phrases). On reviewing the results and for the Council taking this further into the wider consideration of its Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, a number of key principles have been and will need to be considered as set out below (at 3.1.20 to 3.1.40) .

3.1.20 Costs will vary from these assumptions levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormals and / or increasing national level carbon reduction agenda requirements longer term, scheme-specific design / materials, etc. When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the Mid Devon characteristics where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the plan and to informing the associated approach to any updated CIL proposals by the Council.

3.1.21 Land owners’ situations and requirements will vary. Expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the prevailing market. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.

3.1.22 The wider economic backdrop remains mixed, although at the point of writing-up this study there are increasingly established signs of an improved level of housing market stability - local house prices have remained relatively flat and have recently shown signs of uplift. The more positive climate has been noted through bank and

government figures, house prices indices and also through some performance reporting coming out from the house-building sector. In addition, a level of continued development activity and interest in promoting sites suggests a reasonable underlying strength in the local market. Nevertheless, the uncertainties and experiences of the last few years could remain or could still increase to some extent. These are unknowns, particularly with elections approaching and very recent reporting suggesting that more stringent mortgage lending criteria, just introduced as at May 2014, may have a dampening effect on the recent market pick-up. We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend; the use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis so that to inform the viability scope put to the Council we are looking at the range of values expected, from the information currently available. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.23 Certainly a significant factor for the residential scenarios, as is always the case, will be the Council's approach to affordable housing (AH) provision secured from market developments. This assessment aims to test alternatives so as to provide advice on potential for AH target %s within the new Plan, as well as on considerations that should inform any updated CIL levels associated with the development proposed in the Plan Options.

3.1.24 Therefore, in all cases the impact of the key affordable housing policy requirements as those may vary have been tested by allowing for them alongside the trial CIL rates and other wider planning objectives of the Council (so far as those are known or able to be aligned to assumptions at the current stage of review). HCA funding for affordable housing appears to be uncertain at best, and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormalities or other requirements).

- 3.1.25 Developer's profit level requirements (and in some cases related funders' stipulations) could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed; potentially significantly lower than 20% GDV. However, we felt it appropriate given particularly depressed recent commercial market conditions overall to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks. This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.
- 3.1.26 The potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery.
- 3.1.27 Amongst these, the location and frequency of site and scheme types forming key parts of the local growth planning options is key – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns for example).
- 3.1.28 The types and frequency of schemes likely to be relevant under the emerging plan will influence the selection of the Council's approach to implementing any refreshed approach to affordable housing policy and the CIL; and may subsequently vary for future CIL charging schedules. In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council's proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.
- 3.1.29 Under the plan options, strategic scale housing delivery from large developments with potentially significant infrastructure requirements looks set to be highly relevant in considering the scope to bear affordable housing and CIL costs in addition to the

site-specific costs. Therefore, CIL could be most relevant to the scattering of generally smaller development proposals (as represented by the scenarios of up to 500 dwellings, with most being well within the 1 to 100 dwellings bracket). Strategic sites using greenfield land are also set to play an important role in the overall scale of delivery. As the Council's picture on the sites likely to be contributing to the delivery becomes clearer through the settling of outcomes from the options consultation and review process, the implications of CIL charging alongside the site-specific costs and planning obligations will need to be considered further. Given the nature of CIL and the need to keep it as simple as possible, in any event this could in some cases mean that other planning obligations aspects may need to be negotiated with CIL in place at levels suitable for the majority of sites.

- 3.1.30 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected MDDC delivery.
- 3.1.31 Some individual schemes (residential and commercial) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market conditions (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that the CIL will be non-negotiable.
- 3.1.32 Under the CIL principles this is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk.
- 3.1.33 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL than the recommended levels (and / or greater levels of other obligations). This is again in the context of seeking an

appropriate local balance in setting the charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting contributions towards meeting the infrastructure needs associated with the required new development. The latter points here tie in with the Government's latest CIL Guidance (February 2014 - as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. The Council will need to be able to show that it has struck an appropriate balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.1.34 As above, the variety of site and scheme types that is expected to come forward is an important consideration – meaning reviewing the scale of results in the context of a range of potential locations and land value comparison levels. We do not consider it appropriate to rely on comparisons at a single land value level for each scenario as development will come forward in various forms and on a range of site types over time. In assessing results it has been necessary to consider viability outcomes across the results range and against various land value comparison levels. In some cases it can be seen that the land value comparisons are greatly exceeded, showing that higher levels of land value expectations could be met in those scenarios (assumptions sets) if needed under certain circumstances. Whilst the reducing boldness of the green colour-coding within the results tables indicates scenarios that are unlikely to be viable against the higher land value benchmarks, in many cases those outcomes meet or exceed requirements where lower land values are likely to be sufficient. The range of results should be viewed in this wide context.

3.1.35 The reality is that site-specifics will involve a wide range of land value scenarios. Whilst in the main these will be within or well within this upper benchmark given that a range of greenfield and some former commercial sites are likely to be relevant, higher levels should also be considered, however, in order to provide the full context for review of results. As noted previously, many results support higher land values than the benchmarks that have been considered for comparison purposes.

3.1.36 Consideration is to be given to the scale of local infrastructure needs that require funding contributions and development viability amount to opposing tensions. The Council needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and

promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided. At the time of this study, work on infrastructure requirements is ongoing and is likely to be further updated. Nevertheless, there is a notable funding gap in Mid Devon; meaning that the Council needs to secure a level of CIL that is as meaningful as possible, but realistic. This is a key ingredient of the overall growth and funding packages, in support of its development strategies; focussed on the emerging plan.

3.1.37 CIL charging calculations relate to net new development – added floor-space. As is typical, in practice we understand that in line with the CIL regulations a number of developments in the district will entail some level of “netting-off” of existing floor-space within the charging calculations. This means that the selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will have a highly variable influence on scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set right ‘at the margins of viability’<sup>17</sup> as part of this overall theme.

3.1.38 Local authorities (the charging authorities, including the Council) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area.

3.1.39 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome.

3.1.40 It is important to note, when we refer to highly variable outcomes / sensitive results, that:

- These are not factors that only affect Local Plan and CIL considerations in Mid Devon. They have to be recognised in any similar study and applied through

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<sup>17</sup> DCLG – Community Infrastructure Levy Guidance (February 2014)

practical local application of the Government's approach – through the NPPF and the CIL regime – regardless of location;

- These characteristics would apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0/sq. m) CIL rate – as the results show for many non-residential scheme types (Appendix IIb) and the lowest value / highest AH% residential sensitivities.

### **3.2 Values - patterns and levels, and the effect of those – Affordable Housing and CIL**

- 3.2.1 The following sections first consider residential development and then commercial / non-residential.
- 3.2.2 Adjustments from asking price, as are usual to some extent, are often handled by way of bespoke incentives to particular purchasers, rather than by headline price adjustments. In whichever form, adjustments will vary by developer, by scheme and often by individual plot in practice. Nevertheless, in the current market we consider that a 5% deduction from asking prices in most cases is likely to represent a reasonable current approach to the sales value estimate, especially given the recent more positive market trends and continued signals that we are seeing. This depends of course on the approach to marketing price setting, and will be influenced by the nature of the market, however we consider it a reasonable current stage assumption amongst the range of property values information that we reviewed to inform the study.
- 3.2.3 Any clear values patterns that influence viability and are critical to the relationship between viability and housing (or other development) supply in terms of ensuring overall plan delivery are to be respected. However, it also needs to be understood that there are bound to be imperfections in defining any viability zones or similar (linked to any differential CIL charging rates). In practice values can change over very short distances (even within schemes, between different sides or ends of roads, with different aspects, particular surroundings, school catchments or other specific local influences).



3.2.4 These blurring factors are seen in the district on several levels – from the site / street or local area specific level to the higher level characteristics varying between the 3 main settlements and most other areas. However, in terms of general values patterns (as seen through overall market research), we found the following general picture relevant to considering the viability of both affordable housing (for setting target % and considering any policy variance by area) and CIL (for setting a rate or differential rates):

- Values at the 3 main settlements of Tiverton, Cullompton and Crediton are very similar;
- An overview of the pricing of current new-builds that were found in these 3 towns suggested values at around or just above our VL2 overall, allowing for 5% deduction from asking prices;
- Our overall market (resales dominated) research suggested Tiverton values very slightly beneath those seen in Cullompton and Crediton (which appeared very similar by all measures reviewed) although Zoopla placed the Tiverton house prices slightly higher than Crediton and Cullompton;
- Viewed currently, values not exceeding the range VL2 to 3 but more usually between the two appear typical of new-build housing for Tiverton, Cullompton and Crediton;
- As at June 2014, main town new builds have been noted with marketing prices at or exceeding VL3; at around VL3 after adjustment from asking price to reflect likely sale price (e.g. in Crediton – Lauder Mews by Persimmon);
- Whilst there is less development focus on other areas, values are clearly higher at Bampton (which is also considered a main settlement and so attracts affordable housing on schemes in excess of 4 dwellings within the Adopted Local Development Framework) and there is evidence also for higher values more generally outside the 3 main settlements (as above);
- Current Bampton new-build examples were found at VL3 allowing for 5% deduction to sale price (north of the district);
- Current Silverton new-build examples were found at VL4 on the same basis (central south of the district);
- Although the current new-builds evidence is limited, from an overview of the various information sources (see Appendix III) we consider there is a picture of higher rural area / smaller settlement values generally than those seen at Tiverton, Cullompton and Crediton;

- Without being smaller settlement-specific or potentially creating a very complex picture, we have found it difficult to describe any clear area based differentiation within the rural areas / across the smaller settlements. This is because, based on available information, settlements showing as having values amongst the highest in the District appear in the West, North, East and South; and sometimes in close proximity to settlements that appear to attract lower values, closer to those more typical of Tiverton Cullompton / Crediton values;
- Whilst there is evidence of a grouping of lower rural area / smaller settlement values to the east of Tiverton / north of Cullompton (with values similar to those towns), again this appears not be very clear-cut;
- A variety of values is seen in all main settlements and across the rural areas, but fitting broadly with the above findings bearing in mind that an overview has to be made;
- All in all, and given its likely lower level of contribution to the new Plan delivery growth overall, we consider that this picture on the rural area / smaller settlements typical values and related viability outcomes points towards justification for continuing to seek more affordable housing, or potentially exploring some level of CIL rate differential (but probably not both). Behind this, many of the results show a notable improvement from VL3 upwards;
- As is usually the case, however, there is some blurring of this general picture.

3.2.5 As a reminder, this picture is again demonstrated by the following (see Figure 10 below), as per the overview basis also included at Figure 6 within Chapter 2 of this report (at 2.3.7 above) and as summarised also at Appendix I:

Figure 10: Residential value levels range and patterns

VL	£/sq. m (£/sq. ft.)	Indicative settlement relationship to Value Level (VL) - Range		
1	£2,000 (£189)	Lowest Mid Devon values – Primarily a falling new-build values sensitivity Test		
2	£2,250 (£209)	Tiverton / Cullompton / Crediton		
3	£2,500 (£232)		Bampton	
4	£2,750 (£255)			
5	£3,000 (£279)			Rural Mid Devon
6	£3,250 (£302)			
7	£3,500 (£325)	Upper Mid Devon Values Sensitivity Test		

(Source: DSP 2014)

3.2.6 Given the Local Plan development options, the variety of potentially relevant locations and scheme types, our research and results picture on residential development suggests that the Council should consider the following themes:

- Affordable housing is the primary viability consideration and in our view CIL rate(s) should only be set once affordable housing has been considered; at the very least, the two need to be considered together;
- The higher values and typical scheme types coming forward away from Tiverton, Cullompton and Crediton are likely to drive improved viability in the rural areas / smaller settlements and our view is that this could support some level of ongoing affordable housing policy or, perhaps, newly introduced CIL differentiation for all areas outside these 3 main settlements;
- A single suitable affordable housing policy treatment and CIL charging rate is likely to be appropriate for the main settlements of Tiverton, Cullompton and Crediton – no differentiation between those;
- Consideration of the site-specific infrastructure and any other costs affecting the strategic scale development options sites will be a key factor. At present, there is no CIL differentiation. However, assuming affordable housing to be an important element of those proposals, the current stage viability review suggests that the

application of the standard CIL charging for such schemes may need to be reviewed and will be dependent on how the infrastructure information comes together alongside our viability review;

- 3.2.7 Further commentary and advice on these residential development themes and the potential policy options and CIL scope that arises from them is provided below, following our detailed review of the appraisal results.
- 3.2.8 Similar consideration of the relevant values ranges and any clear patterns was also given in respect of the various commercial / non-residential development use types reviewed.
- 3.2.9 DSP considered that the main types of commercial / non-residential development, and particularly the viable types relevant to potential CIL charging (any larger scale retail proposals only in the Mid Devon context), would be likely to occur in a limited range of location types within the district and Local Plan context. Between these (e.g. main settlement towns of Tiverton, Cullompton and Crediton for any further supermarket or retail warehousing type development) it would be difficult to distinguish values and costs for these uses with any real clarity at this level of review. Such developments appear highly unlikely to occur elsewhere in the district. Beyond those, the other forms of retail development that DSP has discussed with the Council as potentially occurring are within new local centres developed as part of strategic scale housing schemes and rural provision as part of farm diversification or local community shops etc. In practice, it is most likely that smaller unit retail provision will occur through the re-use of existing buildings that does not trigger significant CIL liabilities.
- 3.2.10 In terms of local relevance and seeking an appropriate balance in the Mid Devon context, overall our research supports a simple approach to limited non-residential / commercial CIL charging whereby any differentiation should be as needed based on viability associated with varying development use; and not by location as well.
- 3.2.11 This view is reinforced by and linked to the nature of the commercial scenarios results which, as will be discussed below and can be seen at Appendix IIb, currently do not show CIL charging scope in respect of the key area of B (business) use development, regardless of the specific assumptions in any event. Away from the potential for the Council to consider CIL charging for some forms of retail (larger

formats – supermarkets, and potentially retail warehousing), the results clearly indicate there to be no CIL charging scope at the current time.

### **3.3 Overview of results – Residential scenarios – Affordable Housing Policy and CIL charging scope**

- 3.3.1 The following commentary is provided by reference to the assumed VLs, as those rise through the range reviewed (VL1 – 7) and are considered representative of the various locations / areas that will be relevant to the plan delivery overall, in varying degrees. The Council will need to consider this information not in isolation, but alongside its options proposals and monitoring information on the performance of current policy positions as have been applied to date with the existing arrangements for planning obligations (s.106).
- 3.3.2 We look at these by reference to the review scenarios undertaken to date based on the information available although necessarily acknowledging that further more site-specific review of particular proposals, and especially with regard to the details of any further strategic scale development scenarios, may need to take place. The Council has work on-going on the further building and updating of its Infrastructure Development Plan (IDP) understanding and this will need to be factored into the rolling review type process that we envisage, usually carried out through joint working with the service providers and any larger site promoters.
- 3.3.3 The current stage involves reviewing the findings as best represented, based in the main on assumptions rather than on known or fixed factors, by the relevant areas of the scenarios range and value levels (VLs) over which the plan policies and DSP's range of affordable housing % tests and trial CIL charging rates have been tested. The indications of potential occurrence by locality are simply that. In practice a range of scheme types could come forward in many localities, and particularly within or around the main settlements, so the discussion is aligned to example scenarios, considered representative of sample situations from the emerging overall site supply picture. The use of the VLs in conjunction with Figure 10 above (3.2.6) informs and supports the review of this.
- 3.3.4 It is not possible or necessary to cover all results variations, so here we provide an overview. Ultimately, it will be necessary for the Council to fix the AH % policy target proposals in order to more closely assess any adjustment to its previously proposed

(but now unlikely to be implemented) CIL charging rates. The CIL viability review and rates setting process must assume that those targets are incorporated in full.

- 3.3.5 This process does not tie-down the Council to a particular affordable housing policy or revised / updated CIL charging approach at this stage. The clarity referred to at 3.3.4 above is simply necessary in order to view the CIL scope based on a particular level of affordable housing since that has such a significant viability impact and CIL payments are non-negotiable.
- 3.3.6 The Government's consultation on a potential national affordable housing threshold of 10 dwellings may of course override any local evidence for affordable housing to be sought from smaller developments than that. From our viability perspective, this will have an effect on the CIL charging scope aligned to the potential introduced in 2014 for local authorities to set up differential CIL charging by scale of development. In this event, the 10 threshold will move a large number of Mid Devon developments out of the existing affordable housing policy scope and therefore significantly boost their viability relative to the existing situation; and relative to the position on sites above that threshold.
- 3.3.7 In general the 1 and 2 units scenario results indicate that the Council's current policy approach not to request affordable housing from such schemes is likely to be appropriate if individual local authorities retain flexibility on this
- 3.3.8 Some of these smallest schemes will now be classified as self-builds, which will not attract CIL – those have been exempted from CIL charging under the 2014 Regulations changes. The Council's January 2014 Options consultation outlined at section 4.20 that it is considering including plan policy, as at Teignbridge, whereby self-build housing might be addressed more specifically. This could be with a view to some (larger) housing site allocations including a proportion of self-build plots. So far as we can see, the setting-aside of self-build plots within a larger market housing scheme that also included a proportion of affordable homes would allow the overall develop to remain viable. From a high level review of the principle of acquiring and servicing land, facilitating the selling-on of plots to self-builders at likely profitable prices, it appears that development viability prospects would at least be maintained and may even be enhanced dependent on the pricing of the readied plots. Dependent on the Council's application of such ideas, there may also be a contracting role producing a level of profit and a cashflow element involved in any construction

arrangements that the market housing developer has with self-build plot buyers (envisaging a similar relationship to that between the developer and RP for the affordable housing delivery). At this stage, without a policy basis on which to base any meaningful calculations, we have not included any appraisal work on this possibility. This could be added at a subsequent point if required by the Council.

3.3.9 Whilst those smallest scenario results are pulled down by the significantly higher build cost assumption used, in our view those costs levels will not always be applicable. Where they are, schemes are likely to be supported by significantly higher sales values characteristic of relevant sites and locations, and in order to make them work. At the mid to higher VLs often likely to be appropriate to this form of development the previously proposed £40/sq. m level of CIL is not considered to pose a threat to the deliverability of schemes (when viewed against a £0/sq. m – nil CIL – outcome). Indeed, a gradually rising CIL rate is seen to have a limited effect on viability across the range tested, with no affordable housing assumed.

3.3.10 In general, the results tables at Appendix IIa can be used to consider alternative scenarios (affordable housing % and CIL rate combinations) that provide similar RLV outcomes.

3.3.11 The 4 dwellings scenario (Appendix IIa table c) points to the following:

- Upper greenfield land value enhancement or former commercial land value level of £500,000/ha reached at VL1 with 0% AH and £80/sq. m CIL maximum;
- Same land value level only reached at VL1 with 25% AH (i.e. 1 unit affordable of the 4 total) in combination with £0/sq. m CIL. Base greenfield land value enhancement of £250,000/ha reached with approximately £100-120/sq. m CIL maximum;
- At VL 2, greenfield land value enhancement level (and a range of PDL site values) is reached with up to the £180/sq. m upper CIL trial level (depending on site type) CIL alongside the same 25% AH assumption;
- The VL3 assumption provides scope to meet or exceed higher PDL site value expectations with the same 25% AH, although with results from the CIL tests

of more than £40/sq. m CIL falling short of the highest viability test of £1.2m/ha;

- The VL4 and higher values tests provide RLVs in excess of £1.2m/ha across the range of CIL rates trialled;
- A step-up to include 2 affordable units in this scenario, amounting to 50% AH, would not be workable.

3.3.12 The 9 dwelling scenario (Appendix IIa, table 1d) allows us to consider the effect of increased AH provision beyond the single unit (25%) considered above. The indications are:

- With 0% AH (e.g. revised national threshold of 10 dwellings; or Council position to raise existing thresholds) base greenfield land values (£250,000/ha) are reached at VL1 with almost £140/sq. m CIL maximum. Upper greenfield land values / lower PDL values at £500,000/ha are reached at VL1 only with the £20/sq. m CIL test;
- At VL2 £500,000/ha is exceeded at more than £180/sq. m CIL and an RLV of £750,000/ha is reached at £100/sq. m CIL maximum. At VL3 a wide range of strong viability outcomes are shown, exceeding all land value benchmarks except the highest with CIL tested at more than £80/sq. m. The highest land value benchmark is met with a maximum of £80/sq. m CIL.
- The significant impact of introducing AH requirements can then be seen. With 2 AH units (i.e. 20% or 25% after rounding), the above noted VL1 outcome very approximately halves the CIL scope – to not more than about £80/sq. m maximum.
- With 20/25% AH, VL2 values (most indicative currently of the lower end of the range for new builds in the main settlements) are needed to meet the £500,000/ha viability test, with approximately £140/sq. m CIL (i.e. maximum CIL scope reduced by around £60/sq. m compared with the 0% AH outcome).
- The next step-up in AH requirement, to include 3 units after rounding based on 30/35% shows a further significant decline in viability outcomes. This time,



no outcomes look workable at VL1 with any CIL test. Only at £0/sq. m CIL (or potentially in the range £0-20/sq. m maximum, do we see the lowest land value test reached. Whilst VL2 appears to support £250,000/ha across the full range of CIL tests, the £60/sq. m outcome is the highest that supports an RLV of £500,000/ha. As a further comparison, the £140 - 160/sq. m maximum CIL scope with 20/25% AH at VL2 has to be reduced to approximately £60/sq. m CIL achieve the 30/35% AH level (2 AH units).

- Sales values at VL3 (i.e. at the current time the upper-end for Tiverton, Cullompton and Crediton, or for other areas) are needed to support schemes with more confidence at this level of affordable housing (30% AH or more). There are indications here that amongst the options open to consideration, typically higher value rural areas / smaller settlements could support a level of affordable housing closer to these levels. Policy differentiation could be considered.

3.3.13 The 10, 15, 30 dwellings and larger test scenarios (up to the strategic scale scenarios) are seen to continue the same general results trends. The following points are noted, however:

- At 10 or more dwellings (table 1e) the Council's renewable energy policy (if continued) takes effect and explains the difference seen on viewing, compared with table 1d (9 dwellings). Should this policy proposal be maintained and operated in this way (as per AIDPD reference AL/IN/6 – Carbon Footprint Reduction), this may become another factor to consider either alongside any imposed 10 dwellings threshold or in any event.
- The further 30 dwellings trials with results at tables 1s, 1t and 1u show the improvement in RLVs, as would expected, from removing the renewable energy and / or lifetime homes costs (as per the proposal within DM14 – part g) from the appraisal set behind table 1g. Our view at this stage is that, based on the assumptions made, the renewable energy policy aspect (as noted here) could be traded for in the order of £20/sq. m CIL (or, alternatively, viewed as additional viability buffering).
- The introduction of flats to the scenario mixes at 15 or more dwellings is generally seen to reduce viability outcomes to some extent compared with

the results from the all houses scenarios. This is not considered a critical effect and is not a policy driven scenario in a specific sense (although the Council's policies are expected to continue to promote mixed housing provision), but a DSP assumption based on larger schemes usually providing a mix.

- The 30 flats scenario outcomes at table 1h (representing retirement/sheltered apartments at a density of approximately 125/ha and with premium values to counteract the non-saleable floorspace and other usual characteristics) show that this form of market housing should not be differentiated for in CIL terms. This is consistent with DSP's wider experience of considering differentiation for this housing type. We do not consider there to be appropriate justification for differential CIL rates applicable to these developments. The majority of the RLV indications all exceed the highest land value (viability tests) used here (including with 30% AH and a maximum of £100/sq. m CIL at VL7 or £60/sq. m CIL maximum at 35% AH). The full range of CIL trial rates are accommodated at up to 35% AH (applied to all units) if lower land value expectations are sufficient. With 40% AH tested, the lowest value trials do not work against the highest land value test, although the results improve to show consistent good viability prospects against that measure at the VL8 tests.

3.3.14 Our understanding is that the 100 units mixed (estate type) housing scenario (results at Appendix IIa table 1i) is most likely to occur in the Mid Devon context on a greenfield site – e.g. as a potential small scale urban extension. With this in mind, an RLV of £500,000/ha is reached with £40/sq. m. CIL in combination with 25% AH assuming VL2. Reducing the AH to 20% improves the CIL scope to a maximum within the range £60 - 80/sq. m. Whilst the lower greenfield land value indication of £250,000/ha is met with more than £160/sq. m CIL, the 20% and 25% results here at VL2 as most relevant to Tiverton, Cullompton and Crediton are telling in our view since the lowest land values likely to be applicable should not be relied upon as fixed levels that will be relevant consistently. There are clear indications from the results that, if possible, consideration should be given to reducing the AH % target levels. Alongside these findings, from the Council's information we understand that AH delivery has typically been in the range 20 – 25%.

### **Sustainability - Carbon reduction sensitivities**

- 3.3.15 Turning to the further sensitivities reviewed for the non-strategic sites, and tables 1k to 1r of Appendix IIa (covering affordable housing and 0% and then increasing from 20% to 40% in 5% steps), we can view the effect of increased costs assuming the meeting of zero carbon requirements, albeit based on a current view of those costs. Looking at the 30 units scenario for example (foot of tables 1l and 1m compared with the base assumptions version at the top of table 1g), we can see the need to rely on VL2 to 3 values (i.e. levels relevant to the overall range of current Tiverton, Cullompton and Crediton typical new-build prices) to support a meaningful level of CIL alongside 20-25% AH. Looking at the 30 unit mixed scenario with the zero carbon assumption and 25% AH (bottom of table 1m) at VL2, the CIL indication is a maximum of £20 - 40/sq. m to reach an RLV of £500,000/Ha. At VL2 with 25% AH, the RLV exceeds £250,000/Ha comparison with a maximum of approximately £120/sq. m CIL.
- 3.3.16 For wider context in reviewing these results sensitivities, it is worth noting that this clear deterioration of results with increasing requirements is not unusual by any means. There is a national level issue building around the viability impact of increasing carbon reduction standards; even though the approach to using currently known / estimated costs with current / projected trial level values may well not be reflecting how this will move with developing technologies and a greater market place for those. Having also noted the further uncertainties around the Government's proposed wholesale review of housing standards; only further time will allow us to see how these aspects develop and settle down to further inform the review of viability.
- 3.3.17 These same principles apply to other areas that increase scheme costs.
- 3.3.18 At the current time, we can only advise that the Council should consider any aspect of its policy (and the practical operation of it) that develops beyond the scope of building regulations or other requirements, and should monitor and keep under review such areas. This means review in the context of other collective requirements on development (affordable housing %s or make-up, just for example), as have been reflected in this study; not just single policy effects in isolation.

### Strategic scale developments

- 3.3.19 The strategic sites testing using current stage assumptions based on information so far as available for site 'TIV1' (appraisal summary to the rear of the Appendix IIa results tables discussed above) indicates that at VL2-3 values (a mid-point of £2,375/sq. m sales price was used), as are considered appropriate currently, can support up to 25% affordable housing alongside the Council's other proposed policy costs (including sustainable design and construction / lifetime homes) and the circa £10,000 per unit (£14.8m provisional total) site-specific infrastructure costs noted from latest information provided by MDDC.
- 3.3.20 The above combination of assumptions supports an RLV equating to just over £400,000/ha, together with a blended developer's profit level at approximately 18% GDV / 21.6% on cost. This appears to DSP a result indicating potential overall viability of the scheme, subject (based all on current views and information) to the site specific infrastructure costs not exceeding the overall average level indicated in combination with the revenue levels being assumed now. This assumes no CIL specifically, but does include allowances for the base smaller sites appraisals levels of sustainability costs, renewable energy provision and currently lifetime homes (subject to review). Nevertheless, based on VL2-3 values, it is considered that an AH requirement beyond the 25% trialled here, or an increased costs burden beyond the overall levels assumed, could currently render this fairly marginal looking outcome unworkable – again, based on the current stage review. No growth in sales values has been relied upon, however a sensitivity test at VL3 (i.e. values increased by £125/sq. from the main test assumption level) indicated that the RLV increases by approximately £7.7m; an increase of 35%. Under such a scenario, the capacity to support planning obligations increases significantly.
- 3.3.21 In respect of the 1,000 and 3,000 dwellings test scenarios (indicative of CU1 and CU11 / J27 respectively), the RLVs produced by the base £10,000/unit s.106 tests and sensitivities at £2,000/unit steps either side of that were as follows:

1,000 dwellings test – CU1 indicative – RLVs with £10,000/unit s.106 (base) and sensitivities:

**Residual Land Value (£) –  
20% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s.106 test (£/unit)	£0	-£18,290,736	<b>-£24,131,780</b>	-£29,967,212
	£2,000	-£16,502,775	<b>-£22,344,056</b>	-£28,179,663
	£4,000	-£14,714,815	<b>-£20,556,331</b>	-£26,392,115
	£6,000	-£12,926,855	<b>-£18,768,606</b>	-£24,604,566
	£8,000	-£11,138,895	<b>-£16,980,882</b>	-£22,817,017
	<b>£10,000</b>	<b>-£9,350,935</b>	<b>-£15,193,157</b>	<b>-£21,029,469</b>
	£12,000	-£7,562,975	<b>-£13,405,432</b>	-£19,241,920
	£14,000	-£5,775,015	<b>-£11,617,708</b>	-£17,454,371
	£16,000	-£3,987,054	<b>-£9,829,983</b>	-£15,666,823
	£18,000	-£2,198,812	<b>-£8,042,258</b>	-£13,879,274
	£20,000	-£408,763	<b>-£6,254,534</b>	-£12,091,725

(negative = appraisal land cost and therefore a positive RLV)

**Residual Land Value (£/ha) - 20%  
AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s.106 test (£/unit)	£0	-£599,696	<b>-£791,206</b>	-£982,532
	£2,000	-£541,075	<b>-£732,592</b>	-£923,923
	£4,000	-£482,453	<b>-£673,978</b>	-£865,315
	£6,000	-£423,831	<b>-£615,364</b>	-£806,707
	£8,000	-£365,210	<b>-£556,750</b>	-£748,099
	<b>£10,000</b>	<b>-£306,588</b>	<b>-£498,136</b>	<b>-£689,491</b>
	£12,000	-£247,966	<b>-£439,522</b>	-£630,883
	£14,000	-£189,345	<b>-£380,908</b>	-£572,274
	£16,000	-£130,723	<b>-£322,295</b>	-£513,666
	£18,000	-£72,092	<b>-£263,681</b>	-£455,058
	£20,000	-£13,402	<b>-£205,067</b>	-£396,450

**Residual Land Value (£) –  
25% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s.106 test (£/unit)	£0	-£13,953,217	<b>-£19,547,014</b>	-£25,135,666
	£2,000	-£12,165,256	<b>-£17,759,290</b>	-£23,348,117
	£4,000	-£10,377,296	<b>-£15,971,565</b>	-£21,560,569
	£6,000	-£8,589,336	<b>-£14,183,840</b>	-£19,773,020
	£8,000	-£6,801,135	<b>-£12,396,116</b>	-£17,985,471
	<b>£10,000</b>	<b>-£5,012,875</b>	<b>-£10,608,391</b>	<b>-£16,197,923</b>
	£12,000	-£3,224,614	<b>-£8,820,666</b>	-£14,410,374
	£14,000	-£1,436,353	<b>-£7,032,942</b>	-£12,622,825
	£16,000	<b>£443,305</b>	<b>-£5,245,217</b>	-£10,835,277
	£18,000	<b>£2,459,784</b>	<b>-£3,457,368</b>	-£9,047,728
	£20,000	<b>£4,476,263</b>	<b>-£1,669,408</b>	-£7,260,179

(negative = appraisal land cost and therefore a positive RLV)

**Residual Land Value (£) –  
25% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s.106 test (£/unit)	£0	-£457,483	<b>-£640,886</b>	-£824,120
	£2,000	-£398,861	<b>-£582,272</b>	-£765,512
	£4,000	-£340,239	<b>-£523,658</b>	-£706,904
	£6,000	-£281,618	<b>-£465,044</b>	-£648,296
	£8,000	-£222,988	<b>-£406,430</b>	-£589,688
	<b>£10,000</b>	<b>-£164,357</b>	<b>-£347,816</b>	<b>-£531,079</b>
	£12,000	-£105,725	<b>-£289,202</b>	-£472,471
	£14,000	-£47,094	<b>-£230,588</b>	-£413,863
	£16,000	<b>£14,535</b>	<b>-£171,974</b>	-£355,255
	£18,000	<b>£80,649</b>	<b>-£113,356</b>	-£296,647
	£20,000	<b>£146,763</b>	<b>-£54,735</b>	-£238,039

3,000 dwellings test – CU11/J27 indicative – RLVs with £10,000/unit s.106 (base) and sensitivities:

**Residual Land Value (£) –  
20% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s106 test (£/unit)	£0	-£52,544,802	<b>-£66,637,463</b>	-£80,605,694
	£2,000	-£48,349,970	<b>-£62,482,578</b>	-£76,467,291
	£4,000	-£44,135,602	<b>-£58,323,176</b>	-£72,326,892
	£6,000	-£39,884,005	<b>-£54,157,665</b>	-£68,184,127
	£8,000	-£35,479,479	<b>-£49,984,361</b>	-£64,038,721
	<b>£10,000</b>	<b>-£30,671,613</b>	<b>-£45,799,760</b>	<b>-£59,889,914</b>
	£12,000	-£25,584,121	<b>-£41,597,517</b>	-£55,737,153
	£14,000	-£20,282,722	<b>-£37,356,460</b>	-£51,579,330
	£16,000	-£14,799,983	<b>-£32,714,435</b>	-£47,415,043
	£18,000	-£9,156,962	<b>-£27,681,760</b>	-£43,241,376
	£20,000	-£3,368,640	<b>-£22,424,968</b>	-£39,053,083

**Residual Land Value (£/ha) –  
20% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s106 test (£/unit)	£0	-£547,342	<b>-£694,140</b>	-£839,643
	£2,000	-£503,646	<b>-£650,860</b>	-£796,534
	£4,000	-£459,746	<b>-£607,533</b>	-£753,405
	£6,000	-£415,458	<b>-£564,142</b>	-£710,251
	£8,000	-£369,578	<b>-£520,670</b>	-£667,070
	<b>£10,000</b>	<b>-£319,496</b>	<b>-£477,081</b>	<b>-£623,853</b>
	£12,000	-£266,501	<b>-£433,307</b>	-£580,595
	£14,000	-£211,278	<b>-£389,130</b>	-£537,285
	£16,000	-£154,166	<b>-£340,775</b>	-£493,907
	£18,000	-£95,385	<b>-£288,352</b>	-£450,431
	£20,000	-£35,090	<b>-£233,593</b>	-£406,803

(negative = land cost and therefore positive RLV)

**Residual Land Value (£) –  
25% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s106 test (£/unit)	£0	-£39,289,807	<b>-£52,699,003</b>	-£66,030,402
	£2,000	-£35,125,270	<b>-£48,555,387</b>	-£61,897,328
	£4,000	-£30,953,872	<b>-£44,408,785</b>	-£57,763,065
	£6,000	-£26,773,329	<b>-£40,258,940</b>	-£53,627,265
	£8,000	-£22,579,685	<b>-£36,105,384</b>	-£49,489,688
	<b>£10,000</b>	<b>-£18,365,670</b>	<b>-£31,946,802</b>	<b>-£45,349,989</b>
	£12,000	-£14,110,022	<b>-£27,781,875</b>	-£41,207,792
	£14,000	-£9,661,590	<b>-£23,608,669</b>	-£37,062,829
	£16,000	-£4,820,267	<b>-£19,423,115</b>	-£32,914,534
	£18,000	<b>£507,727</b>	<b>-£15,217,049</b>	-£28,761,844
	£20,000	<b>£6,500,429</b>	<b>-£10,940,703</b>	-£24,603,797

**Residual Land Value (£) –  
25% AH**

	£0/m <sup>2</sup> CIL	2,250.00 pm <sup>2</sup>	<b>2,375.00 pm<sup>2</sup></b>	2,500.00 pm <sup>2</sup>
s106 test (£/unit)	£0	£409,268.82	<b>-£548,948</b>	-£687,817
	£2,000	-£365,888	<b>-£505,785</b>	-£644,764
	£4,000	-£322,436	<b>-£462,592</b>	-£601,699
	£6,000	-£278,889	<b>-£419,364</b>	-£558,617
	£8,000	-£235,205	<b>-£376,098</b>	-£515,518
	<b>£10,000</b>	<b>-£191,309</b>	<b>-£332,779</b>	<b>-£472,396</b>
	£12,000	-£146,979	<b>-£289,395</b>	-£429,248
	£14,000	-£100,642	<b>-£245,924</b>	-£386,071
	£16,000	-£50,211	<b>-£202,324</b>	-£342,860
	£18,000	<b>£5,289</b>	<b>-£158,511</b>	-£299,603
	£20,000	<b>£67,713</b>	<b>-£113,966</b>	-£256,290

(negative = land cost and therefore positive RLV)

3.3.22 The Council could consider the nature of the infrastructure requirements and any degree of linkage to other schemes in deciding how best to provide the requirements, supported as far as possible by the optimal level of planning obligations that appears to be of this order. If the s.106 burdens are likely to take up the approximate £10,000 per dwelling current view of the funding scope, or the majority of that, the strong indications are that for this form of development (unless

those site-specific costs fall significantly) the Council should consider a nil CIL (£0/sq. m) charging rate for such scenarios amongst its options review. This would be likely to provide the most delivery flexibility. As with the CIL assumption here, no other base level of s.106 has been allowed for.

3.3.23 At whichever level the AH targets are settled, and even if at a very low %, all viability issues may not be removed. Poor viability, i.e. a weak relationship between the development values and costs, may be inherent in the scheme and / or site. In any event they must be treated as targets, to be operated practically where the viability circumstances show flexibility to be necessary. Circumstances may dictate local priorities and the most appropriate balancing of other objectives, etc. Some compromises will inevitably be necessary irrespective of the particular AH policy positions. The Council's approach will need to recognise these aspects of the overall viability picture, particularly as the delivery detail and guidance develops around the plan and its development strategy.

3.3.24 Affordable housing, along with the market conditions and other factors (as noted previously) consistently has a far greater effect on viability than CIL does. We observe this throughout our extensive work on CIL and it is relevant to stress this in the Mid Devon context too. CIL typically has a relatively small impact on overall scheme viability. This is seen reading from left to right in the results tables, compared with reading vertically between rows for scenarios representative of varying sales values or variant affordable housing trials. However, it cannot be added as a fixed cost to scenarios which are lacking a sufficiently positive viability starting point and always the collective cost involved in development is the most important to bear in mind.

3.3.25 The employment land areas were assumed to be acquired, improved and serviced as part of the wider strategic site scenario; and sold ready for development. In context, that approach produced very limited negative impacts within the overall scenarios and therefore, given the scale of the overall sums involved, essentially meant a broadly cost/value neutral effect on the overall RLV (and therefore on the planning obligations scope and potential viability) in each case.

### **3.4 Residential – Affordable Housing and CIL Approach**

#### **Affordable housing**

- 3.4.1 Some level of reduction to the current affordable housing (AH) policy proportions (%s), should be considered in our view, still allied to an acknowledgment of the role of viability and the need to operate flexibly.
- 3.4.2 In summary on affordable housing targets and CIL as effect residential development, our suggestions for the Council's review are as follows. These are based on the focussed consideration of a 20 – 25% AH target being most suitable, following review of the wider range of outcomes and consideration of the Council's delivery rates.
- 3.4.3 In looking at this range for the potential affordable housing target(s), discussions at length with the Council have considered its recent affordable housing delivery track record too. On average overall, this falls around the middle of the range 20 to 25% AH. Weighing-up the evidence picture from the assessment together with this local delivery experience, a 20% AH target was considered to under-play the typical scope and not represent a sufficient balance with the local housing needs. All in all, at 25% an AH target relevant to the towns and to designated larger scale development areas is considered appropriate.
- 3.4.4 Seeking not more than 25% AH affecting the majority of the planned development does not involve such a significant level of reduction as it appears, given the way the Council's AH policy thresholds are currently set up. In summary, we suggest consideration of:
- 25% affordable housing target applicable to the strategic sites;
  - 25% affordable housing target applicable to the settlements of Tiverton, Cullompton and Crediton and to any extension of those;
  - 30% affordable housing as a target elsewhere in the district.

#### **Community Infrastructure Levy**

- 3.4.5 At the current time we put forward for consideration alongside the affordable housing positions at 3.4.4 above a continued CIL charging base rate at the previously confirmed rate of £40/sq. m applicable to all forms of residential development



normally chargeable under the CIL regulations across the district except the strategic housing locations where, based on current emerging information, we expect the site-specific infrastructure costs to displace any meaningful scope for CIL. As will be seen below, however, there is wider picture of detail and options associated with this.

- 3.4.6 The £40/sq. m base level is based on stepping-back from what we consider to be the maximum CIL rate of £80 – 100/sq. m assuming development predominantly on greenfield land with its associated values and allowing for buffering given that site-specific considerations will usually vary. Utilising the full scope to those levels may well leave too little flexibility given the variation in the results that we have found. As noted above, there are additional options, however. For example consideration could be given to increasing this base rate to say £60/sq. m, on the basis of also looking at a trade-off with the AIDPD AL/IN/6 and currently proposed renewable energy policy that we have commented to be equivalent to a cost of circa £20/sq. m. applicable to all dwellings on sites of 10 or more. Given the current Housing Standards Review, the Council may wish to consider in any event whether its independent renewable energy approach will be compatible with a move towards a more standardised approach.
- 3.4.7 DSP anticipates that it will be necessary to consider a differential CIL charging rate approach for the strategic developments; potentially at £0/sq. m subject to the Council's ongoing review of the type and cost of site-specific infrastructure obligations / works. Certainly, it appears that the CIL scope alongside likely s.106 requirements will be very limited in those circumstances given the relatively modest sales values available to support the high levels of costs that seem likely to be relevant. S.106 is considered more likely to provide a more flexible and appropriate delivery mechanism for the infrastructure requirements related to those developments.

### **Wider information - Government consultations and reforms – Affordable Housing Thresholds**

- 3.4.8 A key aspect of the CIL reforms brought in by the 2014 regulations and guidance is the change to allow differential rates to be set with reference to scale of development. DSP's view and experience is that this does not necessarily affect our recommendations on some areas (e.g. retail differentiation) - covered later in this chapter – but could have some significant effects on residential CIL charging

depending on the Council's choice of affordable housing policy targets and especially given the Government's current consultation on a potential national policy threshold of 10 dwellings. There is a key viability differential related to scale of development between sites with a requirement for affordable housing and sites without – e.g. a site of 10 with a requirement for affordable housing has very different viability characteristics from a site of 9 units with no affordable housing requirement even though the site costs and values may be very similar.

- 3.4.9 In the Mid Devon current context we have worked on the basis that the Council is likely to continue to place a high priority on affordable housing and will if possible continue to spread those obligations to some degree across smaller developments too – through the use of low thresholds, as per existing adopted policy. That being the case, then there is a significantly less clear viability differential than where a “cut-off” type threshold (i.e. a straight “with and without” affordable housing scenario) exists based on policy.
- 3.4.10 If the Government brings in a threshold at say 10 dwellings, so that sites of 9 or fewer dwellings are expected to provide no affordable housing contribution, the Council may wish to consider using this study's results to inform a balancing of the resulting viability step (differential); consistent also with the recently introduced scope for differential CIL charging rates by reference to scale of development. This area will need to be monitored. The type of information provided in this report, including the range of comparative results from different assumptions combinations, could be used by the Council in this regard and could be readily updated in future if required.
- 3.4.11 With no (0%) affordable housing, looking at our 9 unit scenario gives us a reasonably representative test that indicates up to approximately £60/sq. m maximum additional CIL scope over and above the 20% AH related CIL level. As at 3.4.4, stepping back from the maximum rate - now at about £180/sq. m - we could envisage a CIL rate for such scenarios at say £80 – 100/sq. m; up to around twice the £40/sq. m base level noted at 3.4.4. Further consideration of the detail may be necessary, but a meaningful level of CIL charging differential (at around £40/sq. m allowing for buffering) may well be appropriate.

**Wider information – other aspects associated with the residential CIL**

- 3.4.12 Clear maps will need to be prepared for any updated CIL consultation stages, showing the extent of the proposed charging zones relevant to any differentials taken forward – e.g. in relation to the strategic development areas.
- 3.4.13 The following paragraphs offer additional observations relating to our findings, CIL viability assessment and Examination in Public (EIP) stages experience.
- 3.4.14 The CIL principles are such that ideally Charging Schedules should be as simple as possible; i.e. as simple as the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the district and even within the larger settlements (as the more detailed picture of values is blurred away from the general trends), such variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. This need to look at high level value and viability patterns, rather than seeking to reflect highly localised effects, is consistent with CIL principles.
- 3.4.15 For clarity, these residential findings are considered to also apply to sheltered / retirement housing development types that could form part of the wide spectrum of market housing delivery. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites. By sheltered / retirement housing we are referring to housing-led (rather than care provision based) schemes the generally high density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements on a negotiated basis (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses). They are distinct in our view from care / nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this study purpose. There are

various forms of similar developments, so that the Council will need to consider the characteristics of forms such as “extra-care”. As above, the relevant Use Class and applicability of affordable housing requirements is likely to be a key indicator. In DSP’s view, where the care provision is central to the development, so that it is not purely housing-led (where any visiting / part-time care would more likely be incidental), this may indicate characteristics closer to care / nursing homes development rather than market housing. All affordable schemes would be nil-rated for CIL in any event, by virtue of the statutory exemption under the CIL regulations.

3.4.16 To reiterate, there may be instances of lower value residential schemes (of a range of types) and localities / particular schemes where developments struggle for viability in any event (i.e. prior to the consideration of CIL). It is important to stress that this could occur even without any CIL or similar (s.106) contribution / obligation. Wider scheme details, costs and obligations or abnormal costs can render schemes marginally viable or unviable before factoring-in CIL. As a common finding across our studies, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all these individual schemes on a guaranteed basis. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. In this sense, CIL is unlikely to be solely responsible for poor or non-viability. These are not just local factors; we find them in much of our wider viability work. The same principles apply to commercial schemes too. The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan delivery; it is accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.

3.4.17 Associated with this, it will be necessary for the Council to monitor outcomes annually as part of its normal monitoring processes, with a view to informing any potential / necessary review of its CIL in perhaps 2 to 3 years’ time or so, as other Government or local policy developments may take place; and / or potentially in response to market and costs movements, or indeed any other key viability influences over time.

3.4.18 In reviewing the findings and putting forward the above, although not part of the viability testing, in the background we have also had some regard to the proportional cost of the potential (trial) CIL rates relative to scheme value (GDV). These aspects are considered further where some guide information and comparisons are provided towards the end of this chapter.

### 3.5 Values and other characteristics – Findings: Commercial

- 3.5.1 A similar review process was considered with respect to commercial and non-residential scenarios. Again, this involved a refreshed look first at whether or not there were any particular values patterns or distinct scenarios that might influence the implementation of a next version CIL charging schedule for the Mid Devon district area (non-residential aspects).
- 3.5.2 As with residential, the starting point aim should be a simple approach to the charging regime as far as development viability, and the relationship of that to the emerging plan relevance, permits.
- 3.5.3 In essence, after considering the forms of development most relevant and the research on values, we decided that the focus for differentiation should be on varying development use types as informed by the viability findings. Variance also by locality was considered not to be justified for commercial / non-residential uses. If a route including that were chosen, in our view the local CIL charging approach could well become unnecessarily complex. As with residential and the potential values variety over short distances, we found no clear justification for further complexity in the circumstances. Further and potentially unnecessary differentiation could not be expected make the approach more reflective of actual viability variations in any event.
- 3.5.4 In arriving at this, a number of aspects were considered alongside the values research (see Appendix III). This also helped to determine the scope of the commercial / non-residential scenarios modelling carried out overall.
- 3.5.5 **Here we summarise key high-level commercial / non-residential points and findings** (more detail then follows in later report sections):
- Retail: While DSP understands that at present the emerging plan identifies no significant requirements for retail, we completed the range of testing that usually forms the basis of our CIL studies because a range of scenarios could come forward and an equitable approach would be necessary to all developments that could support CIL.

- In practice, as reflected by the development strategy, any new retail development (as opposed to the usual “churn” of existing units) is most likely to occur on an ad hoc basis. In the Mid Devon context, other than for Supermarkets or other larger formats such as any new retail warehousing units, additional developments of smaller units within the main and smaller settlement centres within the district (or similar new developments) would be likely to have poor to marginal viability based on current assumptions and on-going underlying commercial market weakness locally.
- From what we can see, the same would certainly apply to any new farm based / rural retail provision, and would also be relevant at the current time to any smaller retail units at new local centres within strategic developments. The results show that the poor level of viability likely to be associated with most retail development points towards the need to nil rate development of new shops other than supermarkets / superstores and retail warehouses.
- Although larger format retail unit development (larger supermarkets, superstores and retail warehousing) is not specifically envisaged in the local context at the present time and is unlikely to come forward in significant quantities, it could occur through market forces subject to the meeting of the emerging plan and national principles on impact assessments and suitability of location, etc. The only potential for development of this nature to occur was considered to be supermarket development in the main settlements or associated with strategic scale development, although based on discussions with Council officers even this seems unlikely in the short term and probable life of the early CIL charging schedule(s). In viability terms, should they come forward these forms of development would not support the level of CIL that we and other consultants have identified for such developments in some locations owing to the lower rental profiles here than we tend to see in more significant shopping locations. They are considered generally able to support CIL charging rates of approximately £100/sq. m based on review of the 5.5% and to a lesser extent 6% yield tests (tables 2 and 3 at Appendix IIb). This allows for stepping back from maximum theoretical CIL rates, which look to be around £200/sq. m here based on the 5.5% yield test and meeting or exceeding the highest of the land value benchmarks at £1.2m/ha. The Council will need to consider the viability findings alongside the recurring themes that we have noted – i.e. around the local relevance of development types; the likely frequency and nature of

development. In our view, such a CIL rate could not be considered prejudicial to the overall emerging plan delivery in any event and could be applied to all larger format retail development types. On the accepted CIL principles, any individual schemes that proved non-viable here would not threaten overall plan delivery.

- The appraisals run following extensive research show that other forms of retail development would not reliably support CIL charging in the district, and the Council's selected approach probably needs above all to be responsive to any potential for smaller shops development, especially within the main town and other centres, so as not to add undue delivery risk to any marginal proposals (as they look likely to be at best in the short term).
- Business development (offices and industrial / warehousing – of all types): Experience from elsewhere along with firmed-up early stage findings for Mid Devon suggested again that viability outcomes here would not be sufficient to support CIL charging from this range of ('B' class) uses at the present time at least. This is a finding in common with all of our viability studies to date. If robust assumptions are used, of the type necessary to underpin Local Plan and CIL viability studies, then those and the resulting viability outcomes would be unlikely to improve sufficiently to enable clear evidencing CIL charging scope, regardless of any area based variation or particular use type. Therefore, we formed the view that any area based differentiation would not be relevant for these uses. There are no major commercial centres. Even in the better locations / scenarios our findings indicate that there is no clear CIL charging scope without adding further risk to schemes that at best struggle for viability. This takes into account the level of uncertainty and risk inherent in such schemes at present, prior to considering fixed (non-negotiable) CIL levels being added to scheme costs.
- Hotel and care home development scenarios were considered, overall with a similar tone of findings from each of these. As noted at the Appendix I scenarios / assumptions summary, hotel appraisals were run to allow us to consider the sensitivity of outcomes to the relationship between their value and build costs, following the review of web based, BCIS and any other available information. With assumptions considered relevant at the current time, these scenarios were considered non-viable locally – as shown by the extensive 'negative RLV' results areas on tables 4 and 5 at Appendix IIb.

- We found that what we considered to be potentially over-optimistic assumptions had to be made in order to consistently provide development viability outcomes that support clear CIL charging scope for such developments. Detailed information on development is particularly hard to come by for these sectors, but from our research it appears that the longer term business model associated with the trading / operational (revenue) side of the care homes business is often what underpins or largely underpins the progressing of schemes for this use; as opposed to the development activity.

3.5.6 In summary, the meaningful CIL charging potential from commercial / non-residential development in Mid Devon is likely to be restricted to considering any relevance of and scope around any ad hoc larger format retail development that may occur.

3.5.7 These aspects are all put forward with respect to the first charging schedule, and therefore involve a fairly short term view - subject to future review.

3.5.8 Consistent with most other viability studies that we have dealt with, our viability findings seek to provide wider information enabling the Council to consider various approaches – including on the characteristics of and related advice on differentiation for varying retail formats (as those provide different offers and effectively are different development uses). If not now, this may be relevant at a future stage as part of continuing to seek the right balance to the CIL approach for Mid Devon. Further information is set out at 3.6 below. That may help to inform the PDCS drafting.

3.5.9 As would be expected, the commercial / non-residential appraisal findings are wide-ranging when viewed overall. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield as presenting a view of sample ranges within which capitalised net rents (completed scheme sales values - GDVs) could fall. Then we considered the strength of the relationship between the GDV and the development costs – the essence of the CIL viability study.

3.5.10 In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from negative or marginal outcomes (meaning nil or at best very limited CIL charging scope) to those which produce meaningful and in some cases considerable CIL charging scope. To illustrate



the trends that we see, the coloured tables at Appendix IIb use the same “coding” type principles as the residential results tables (strongest green colouring indicating the best viability prospects through to red areas indicating non-viability based on the assumptions used). Once again, these provide a guide to the strength of the results and the trends across them at varying value levels and trial (potential) CIL charging rates, but must not be interpreted too strictly.

- 3.5.11 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; the equivalent of residential scheme density. This can affect results considerably, combined with the assumed land buy-in cost for the scheme. We saw the effect of these factors in looking at the residential scenarios too.
- 3.5.12 Factors such as build costs clearly have an impact as well but, for the given scheme scenarios, are not likely to vary to an extent that makes this a more significant single driver of results than the values influences (rents and yields) outlined above. In practice, it will be the interaction of actual appraisal inputs (rather than these high level assessment assumptions) that determines specific outcomes. As with actual schemes though, again it is the interaction of the various assumptions (their collective effect) which counts more than individual assumption levels in most cases. There are some commercial or non-residential use types where build costs, or build and other development costs, will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development.
- 3.5.13 Having looked at varying forms of commercial / non-residential development for the viability review of CIL rates scope, the review process and findings also inform the Council’s on-going work on the local plan and its delivery details. The study inevitably has to take a view of looking at all of this now, influenced by the recent recessionary conditions and on-going economic backdrop constraints in mind. These cannot be fully projected out of the picture at the current time or, most likely, in the coming few years.
- 3.5.14 The Council will need to keep all of this under review, a repeated theme here, and in the meantime will also need to work-up up its delivery strategies for employment supporting development so as to maximise opportunities as the market is able to respond and work creatively over time.

3.5.15 We will now provide further detail on the assessment findings for the commercial development scenarios considered, bearing in mind that in practice scheme types and viability outcomes will be highly variable. In all cases, it is not necessary for the Council to link its approach to particular Use Classes – descriptions and added clarity to the CIL Charging Schedule may be better made by referring to locally relevant development types.

### **3.6 Potential CIL Charging Scope – Commercial / Non-Residential**

**Retail scenarios** (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.)

- 3.6.1 The ‘small retail’ unit appraisal results showed a significantly weaker viability picture compared with the indications from the larger format retail scenarios (upper sections of Appendix IIb tables 4 and 5, compared with the same areas of tables 2 and 3). This applied to all scenarios reviewed for the development type.
- 3.6.2 More generally speaking, whilst the retail scenarios overall showed amongst the best viability outcomes from the wide range seen, if the smaller shops scenarios are considered relevant to the plan delivery then this factor should be included in the consideration of the CIL charging rates. This would be reflected either through a very low or, more appropriate from a viability viewpoint, a nil charging rate (£0/sq. m) set for small format retail – applied to the whole of the Mid Devon district.
- 3.6.3 As a high level outcome this general viability distinction between larger and smaller retail formats is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases. This tone of results is shown by the range of red shaded ‘small retail’ results areas at tables 4 and 5 (representative of any new units at shopping parades / neighbourhood centres, individual units, farm shops, village or rural provision), compared with the larger format retail results and particularly those at table 2 associated with the 5.5% yield tests.
- 3.6.4 The results show that with our mid (‘M’) values assumptions at 5.5% yield the large retail scenario (town based supermarket) RLV beats the upper end commercial land value comparison (£1.2m/ha) all the way through to the highest commercial CIL trial

at £180/sq. m (and beyond). An RLV of £1.38m/ha is reached with £180/sq. m CIL. Table 2 within Appendix IIb shows these results.

- 3.6.5 In comparison, the best 'small retail' scenario outcomes at table 4 show only very marginally positive RLVs. These are generated with the 'H' rental values for those small units and really do not indicate any levels of viability my normal measures, with £0 – 20/sq. m CIL assumed.
- 3.6.6 DSP has experience of single and differential CIL charging rates approaches for retail development. We consider that a CIL charging rate for the larger retail types (supermarket and retail warehousing formats) could certainly be taken up to around £100/sq. m reflecting a rate not set right at the margins of viability but in any event non-prejudicial to overall plan delivery.
- 3.6.7 Although a supermarkets / superstores and retail warehousing / similar based charging rate might be taken higher than this in theory, the prospect that relatively high land values may be associated with this form of development needs to be kept in mind, together with the significant overall development costs. There are a range of factors which, together, suggest that setting retail up to the higher CIL trial rate levels explored (i.e. up £180/sq. m or perhaps more) may not be appropriate in the local context at this stage. We can see, for example at tables 2, 3 and 4 that at the lower rent level sensitivity ('L') and the trials with the 6% and 6.5% yields, the supermarket scenario results were notably lower.
- 3.6.8 Again, the Council will need to consider the plan relevance of the various retail types; and potentially the following factors:
- The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;
  - Non plan relevance would also suggest the prospect of a low level of increase in CIL receipts from setting a higher charging rate for certain development uses;
  - However, as part of considering the impacts of its CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any

unintended consequences for other forms of development, such as smaller shops in the larger centres, shops provided through farm diversification or other smaller settlements / rural areas / tourism and visitor based provision.

- 3.6.9 We also aim to provide wider information, having taken the exploration of this area of the study further (for any charging rates options based on differentiation by type) in the event that consideration of a differential rates approach is taken forward as a result of the Council's future work on this. If there is to be differentiation by use type, then (to reinforce the points made previously) the viability evidence is such that consideration should be given to a significantly lower or, more appropriately, a £0/sq. m. charging rate for smaller shops developments at this time.
- 3.6.10 As we noted previously, the Government (DCLG) has recently introduced scope for charging authorities to be able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been discussed above in relation to residential development). Whilst DSP's experience is that differentiation has been possible for scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that), it appears possible that this element of the reforms could expand and cement the scope to consider differentiation on CIL charging rates for retail development. However, DSP's experience is such that a retail use does not necessarily change characteristics at any specific floor area point other than that determined by the Sunday Trading provisions.
- 3.6.11 Overall, as with the residential findings, the Council may well be able to consider options for any renewed approach to its CIL charging. So in order to provide the Council with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area). These outcomes are not included in detail in this report, but further information can be supplied to the Council by DSP if required. In any event, this may be as much about considering the differing retail offers and development types associated with those, and therefore general principles around CIL and differentiation, rather than the viability outcomes alone.
- 3.6.12 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported

values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not produce a different nature of use and value / cost relationship. The same applies on altering the high levels testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary.

3.6.13 To reiterate, in our view any differentiation is more about the distinct development use, the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of the charging schedule in due course. In case of assistance, DSP has worked with a number of authorities on the details of these aspects. As an example, the adopted Wycombe DC CIL Charging schedule (see: <http://www.wycombe.gov.uk/council-services/planning-and-buildings/planning-policy/community-infrastructure-levy.aspx> ) included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

<sup>1</sup> 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.

<sup>2</sup> 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.

3.6.14 Only if differentiating between these smaller and larger retail formats, for example because of their plan relevance, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold as a secondary measure to the development use description that is the most relevant factor. This assumes the

threshold being used for clarity and to further explain the nature of the development use that the viability and CIL differential is linked to.

3.6.15 It is considered that, where these schemes may come forward in this district (currently assumed to be on an ad hoc basis only), they could be seen in a variety of circumstances; but with none of those being fundamental to overall plan delivery in any event.

**3.6.16 Overall for retail, therefore, we consider that these findings viewed alongside our wider work on this development use point to the Council considering:**

- Differential rates for larger format retail (at £100/sq. m) and smaller format retail of all types (put forward at £0/sq. m);

3.6.17 A single retail rate considered at this level (£100/sq. m), or at a lower level equivalent to the residential CIL scope, would be likely to place undue additional development risk on any smaller scale shops development, and so is unlikely to be appropriate here.

3.6.18 There are a range of retail related uses, such as motor sales units, wholesale type clubs / businesses, which may also be seen locally, although not regularly as new builds because these uses often occupy existing premises. Whilst it is not possible to cover all eventualities for ad hoc development, and that is not the intention of the CIL principles, we consider that it would be appropriate in viability terms to also link these to the retail approach that is selected based on the main themes of plan delivery, all as above.

3.6.19 Similarly, we assume that where relevant any new fast food outlets, petrol station shops, etc., provided for example as part of large retail developments, would be treated as part of the retail scheme.

3.6.20 Other uses under the umbrella of retail would be treated similarly. Individual units or extensions would be charged according to their size applied to the selected rate as per the regulations and standard charging calculation approach.

### **3.7 Other development use types – including community and other uses potentially relevant to the district – agriculture, leisure, visitor facilities, etc.**

- 3.7.1 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).
- 3.7.2 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.
- 3.7.3 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of “lost opportunity” as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.
- 3.7.4 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL scope.
- 3.7.5 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.

**3.7.6 In any event, from our viability perspective, a zero (£0/sq. m) CIL rate is recommended in these instances.**

3.7.7 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA's Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).

3.7.8 Figure 11 below provides examples of the review of relationship between values and costs in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and complication in the local CIL regime. These types of value / cost relationships are not unique to the Mid Devon at all. Very similar information is applicable in a wide range of locations in our experience, although the largely rural nature of this district increases the relevance of certain types of development uses.

Figure 11: Other uses – example guide value / cost ranges and relationships

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications –BCIS**	Viability prospects and Notes
Cafés	£40 - £320 per sq. m	£400 - £3200 per sq. m	Approx. £1,150 - £3,460	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£20 - £40 per sq. m	£200 - £400 per sq. m	Approx. £1,265 - £1,740	Clear lack of development viability – subsidy needed



Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications –BCIS**	Viability prospects and Notes
Day Nurseries	£35 - £60 per sq. m	£300 - £600 per sq. m	Approx. £1,380 - £1,900	Insufficient viability to clearly and reliably outweigh the costs
Equestrian Stables / Livery	£160 - £360 per unit	£1,600 to 3,600 per unit	Approx. £650 - £1,430/sq. m	Insufficient evidence of viability to clearly and reliably outweigh the costs
Garages and Premises	£15 - £60 per sq. m	£150 - £600 per sq. m	Approx. £869 - £1,200	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls	£10 - £30 per sq. m	£100 - £300 per sq. m	Approx. £1,340 - £1,700 (General purpose Halls)	Clear lack of development viability – subsidy needed
Holiday centres	No comparable information readily available		Approx. £1,365 - £1,800	Limited evidence - Insufficient to justify CIL charging.
Leisure Centre - Health and Fitness	£100 - £120 per sq. m	£1,600 @ 7.5% yield	Approx. £900 - £1,820	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	£115 - £125 per sq. m	£1,533 @ 7.5% yield	Approx. £680 - £1,330	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No comparable information readily available		Approx. £1,065 - £3,380	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises – e.g. Agricultural	£20 - £60 per sq. m	£200 - £600 per sq. m	Approx. £340 - £480 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£15 - £130 per sq. m	£150 - £1,300 per sq. m	Approx. £1,240 - £1,660 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs
Visitor Centres	No comparable information available		Approx. £1,585 - £2,450	Likely clear lack of development viability – subsidy needed

\*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications –BCIS**	Viability prospects and Notes
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\*\*Approximations excluding external works, fees, contingencies, sustainability additions etc.

\*\*\*Small sample size

3.7.9 With the exception, potentially, of any retail linked types such as mentioned at 3.6.18 to 3.6.20 above (should the Council consider those sufficiently relevant to the plan delivery and include those with the CIL charging scope), our recommendation is for the Council to consider a zero (£0/sq. m) CIL rate in respect of a range of other uses such as these. As in other cases, this could be reviewed in future - in response to monitoring information. Our over-riding view is that the frequency of these other new build scenarios that could support meaningful CIL scope is likely to be very limited.

3.7.10 As alternatives, and we understand that there is no guidance pointing either way, the Council could consider leaving such other proposals to “default “ to a nominal rate; or to a higher rate to capture contributions from a small number of developments - but with the risk that others could present difficulties.

### 3.8 Charge Setting and CIL Rate Review

3.8.1 To further inform the Council’s CIL charging rates setting and on-going work, we have also considered the range of potential CIL rates that have been viability tested in terms of their proportion of (percentage of - %) completed development value (sales value or ‘GDV’).

3.8.2 The following figures (contained with the tables at Figures 12 and 13 below) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations at a selection of the potential CIL (trial) rates that were tested for viability. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the study (see chapter 2 and Appendix I).

3.8.3 Percentage of GDV figures are only provided here for the residential and example commercial / non-residential uses (viability study scenarios) that are capable of

supporting CIL charging in accordance with our findings (CIL rate as % of GDV figures for other non-viable uses are not provided). See Figures 12 and 13 below.

3.8.4 In our experience, CIL rates in the order of those proposed for MDDC are relatively small when viewed in the context of the gross development value with charging rates at the proposed levels equating to (approximately) less than 2% to 4% of GDV. In many other areas we see the CIL rate as a percentage of GDV tending to be within the range 3-5% of GDV; or not exceeding that, as a rough guide. To put this into context, upwardly moving house prices<sup>18</sup> are currently expected to increase significantly in the next few years with further annual growth indicated to occur in the each of the next few years on average<sup>19</sup>. Appendix II includes market context information in this regard.

Figure 12: Trial CIL Charging Rates as a Percentage of GDV – Residential

Scheme Type	CIL Trial Rate (£/sq. m)	Value Level						
		VL1	VL2	VL3	VL4	VL5	VL6	VL7
Capital Value (GDV - £/sq. m)		£2,000	£2,250	£2,500	£2,750	£3,000	£3,250	£3,500
Residential	£20	1.00%	0.89%	0.80%	0.73%	0.67%	0.62%	0.57%
	£40	2.00%	1.78%	1.60%	1.45%	1.33%	1.23%	1.14%
	£60	3.00%	2.67%	2.40%	2.18%	2.00%	1.85%	1.71%
	£80	4.00%	3.56%	3.20%	2.91%	2.67%	2.46%	2.29%
	£100	5.00%	4.44%	4.00%	3.64%	3.33%	3.08%	2.86%
	£120	6.00%	5.33%	4.80%	4.36%	4.00%	3.69%	3.43%
	£140	7.00%	6.22%	5.60%	5.09%	4.67%	4.31%	4.00%
	£160	8.00%	7.11%	6.40%	5.82%	5.33%	4.92%	4.57%
	£180	9.00%	8.00%	7.20%	6.55%	6.00%	5.54%	5.14%

(Source: DSP 2014)

<sup>18</sup> Office for National Statistics (ONS) – House Price Index

<sup>19</sup> Savills Residential Property Focus for Q4 2013 for example suggests up to 25% growth in house prices to 2018/19.

Figure 13: CIL Charging Rates as a Percentage of GDV – Commercial (for retail development uses for which CIL charging / potential charging is discussed in the report)

Scheme Type	CIL Trial Rate (£/sq. m)	7.5% Yield			6.5% Yield			6% Yield			5.5% Yield		
		L	M	H	L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		£2,194	£2,726	£3,258	£2,538	£3,153	£3,768	£2,739	£3,403	£4,067	£3,000	£3,727	£4,454
Supermarket	£20	0.91%	0.73%	0.61%	0.79%	0.63%	0.53%	0.73%	0.59%	0.49%	0.67%	0.54%	0.45%
	£40	1.82%	1.47%	1.23%	1.58%	1.27%	1.06%	1.46%	1.18%	0.98%	1.33%	1.07%	0.90%
	£60	2.73%	2.20%	1.84%	2.36%	1.90%	1.59%	2.19%	1.76%	1.48%	2.00%	1.61%	1.35%
	£80	3.65%	2.93%	2.46%	3.15%	2.54%	2.12%	2.92%	2.35%	1.97%	2.67%	2.15%	1.80%
	£100	4.56%	3.67%	3.07%	3.94%	3.17%	2.65%	3.65%	2.94%	2.46%	3.33%	2.68%	2.25%
	£120	5.47%	4.40%	3.68%	4.73%	3.81%	3.18%	4.38%	3.53%	2.95%	4.00%	3.22%	2.69%
	£140	6.38%	5.14%	4.30%	5.52%	4.44%	3.72%	5.11%	4.11%	3.44%	4.67%	3.76%	3.14%
	£160	7.29%	5.87%	4.91%	6.30%	5.07%	4.25%	5.84%	4.70%	3.93%	5.33%	4.29%	3.59%
	£180	8.20%	6.60%	5.52%	7.09%	5.71%	4.78%	6.57%	5.29%	4.43%	6.00%	4.83%	4.04%
Capital Value (GDV - £/sq. m)		£1,330	£1,663	£1,995	£1,538	£1,923	£2,307	£1,660	£2,075	£2,490	£1,818	£2,273	£2,727
Retail Warehousing	£20	1.50%	1.20%	1.00%	1.30%	1.04%	0.87%	1.20%	0.96%	0.80%	1.10%	0.88%	0.73%
	£40	3.01%	2.41%	2.01%	2.60%	2.08%	1.73%	2.41%	1.93%	1.61%	2.20%	1.76%	1.47%
	£60	4.51%	3.61%	3.01%	3.90%	3.12%	2.60%	3.61%	2.89%	2.41%	3.30%	2.64%	2.20%
	£80	6.02%	4.81%	4.01%	5.20%	4.16%	3.47%	4.82%	3.86%	3.21%	4.40%	3.52%	2.93%
	£100	7.52%	6.02%	5.01%	6.50%	5.20%	4.33%	6.02%	4.82%	4.02%	5.50%	4.40%	3.67%
	£120	9.02%	7.22%	6.02%	7.80%	6.24%	5.20%	7.23%	5.78%	4.82%	6.60%	5.28%	4.40%
	£140	10.53%	8.42%	7.02%	9.10%	7.28%	6.07%	8.43%	6.75%	5.62%	7.70%	6.16%	5.13%
	£160	12.03%	9.62%	8.02%	10.40%	8.32%	6.94%	9.64%	7.71%	6.43%	8.80%	7.04%	5.87%
	£180	13.53%	10.83%	9.02%	11.70%	9.36%	7.80%	10.84%	8.67%	7.23%	9.90%	7.92%	6.60%

(Source: DSP 2014)

- 3.8.5 The Council may wish to use the above information to consider the potential CIL charging rates parameters recommended, and the wider potential rates / options, as part of its balancing of objectives and overall assessment.
- 3.8.6 As an example a £40/sq. m residential CIL charge for the district (except potentially for strategic sites) amounts to approximately 1.78% GDV at VL2. A CIL at approximately twice that level (e.g. in the event of differentiation beneath a newly imposed 10 dwellings affordable housing threshold) would equate to approximately 3.56% GDV at VL2; 3.2% GDV at VL3.
- 3.8.7 A £100/sq. m proposed CIL charge is seen to represent approximately 2.68% GDV for the larger format retail (supermarket / similar) scenario – assumed at ‘M’ rental values and 5.5% yield.

### **3.9 Summary – Local Plan Policy Viability and CIL Charging Rates**

- 3.9.1 It has been necessary for us to acknowledge the various viability sensitivities, which are likely to mean that outcomes move around given the many variables.
- 3.9.2 Whilst we have made comments about affordable housing and sustainable construction impacts in this way, the key point will be for the Council to work up an adaptable approach for delivery. This will need to be expressed in its final policy positions.
- 3.9.3 There is a great deal of detail to be built-up and worked-through, all of which will be likely occur over a number of market cycles, several Governments and changing sets of planning and environmental requirements, etc. In this context we consider that it is not possible to give unqualified support to most plan proposals particularly in early stages, pending detail to be worked up; nor would this be expected. The engagement to date between the Council and its neighbouring authorities, service suppliers, developers, land owners and their advisers in respect of a range of proposals and sites provides positive signs of the delivery scope, and this should be a key indicator of the potential and a vital continued aspect of the planning and delivery processes across the range of development types relevant to the emerging plan.
- 3.9.4 In the meantime, particularly in respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In

addition to seeking to ensure that the CIL approach does not further impede investment, the Council could consider the following types of areas and initiatives (outside the scope of this report, but put forward as practical indications):

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;
- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;
- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) development;
- Scenarios for particular / specialist uses that are often non-viable as developments but are business-plan / activity led;
- As with residential, consideration of the planning obligations packages again including their timing as well as their extent.
- A likely acceptance that business development overall is unlikely to be a contributor to general community infrastructure provision in the short-term at least.

3.9.5 On CIL, in summary, from a viability point of view we recommend the following for consideration by Mid Devon District Council in taking forward its Affordable Housing

Policy headlines and setting of any revised CIL charging approach aligned to the new Local Plan (see Figures 14 and 15 below):

Figure 14: Recommendations Summary - Affordable Housing (AH) Target %s

Scheme size (no of new dwellings) & AH policy circumstances	AH mode	AH % <u>Target</u> (allied to CIL recommendations & applied conventionally – i.e. to all new dwellings on subject scheme size)
Main settlements (3 towns)  Existing thresholds (but only if no national threshold introduced)	On-site as target	25% target
Main settlements and strategic developments  10+ (i.e. if threshold selection beyond MDDC control through Govt. review)	Strong presumption for on-site provision – all sites	25% target
Smaller settlements, rural areas  Existing thresholds or 10+ (as above, depending on circumstances)	Strong presumption for on-site provision – all sites	30% target

Figure 15: Recommendations Summary - CIL charging rates

<b>CIL Charging rates Parameters &amp; Rates for Consideration</b>	
<b>1. Residential</b>	
<p>Overall parameters - £0 to £100/sq. m.</p> <p><b>Recommend a 2 zones approach, based on key characteristics:</b></p> <ul style="list-style-type: none"> <li>- <b>Overall “wash-over” rate – smaller settlements / rural areas - rate of not more than £40/sq. m, applicable to all scenarios district-wide except for in respect of differentiation for:</b> Potential to consider trade-off with policy options renewable energy requirements to an additional approximate. £20/sq. m – subject to ensuring adequate buffering scope.</li> <li>- <b>Strategic developments – review infrastructure requirements alongside DSP findings - consider alternative of £0/sq. m.</b></li> <li>- Additional approximate £40/sq. m associated with any differentiation beneath a new 10 unit AH threshold, if applicable; as above.</li> </ul>	
<b>2. Retail</b>	
<p>Overall parameters – £0 – £100/sq. m.</p> <p><b>Recommend larger format retail – retail warehousing and supermarkets – a charging rate not more than £100/sq. m.</b></p> <p>This rate would also be applicable to extensions of any size.</p> <p><b>All other retail at £0/sq. m.</b></p> <p>Any differentiation by type of retail should be linked to use rather than simply based on size (see 3.6.12 and associated text).</p>	
<b>3. All other development uses</b>	
<b>Nil CIL charge (£0/sq. m)</b>	

(Source: DSP 2014)



- 3.9.6 Provisional version residential charging zones maps should be considered in response to this reporting (allied to the strategic sites locations if taken forward by the Council) and should be made available as part of the consultation stages if the Council decides to proceed with a differential rates charging set-up (by geographical zones) for residential development as put forward in this report (with precise boundaries to be confirmed).
- 3.9.7 **Additional recommendation: To consider monitoring and review.** Although there is no fixed period or frequency for this we recommend that the Council begins to consider its more detailed implementation strategies around CIL, including how it will monitor and potentially review CIL collection and levels once adopted – i.e. informed by the experience of operating it once implemented at the levels fixed following the current review. In our view, monitoring or equivalent processes should take place whilst also maintaining an overview of the market context and development plan policies alongside which CIL will have been operating. The DCLG guidance touches on the intended open and transparent nature of the levy and in doing so states that charging authorities should prepare short monitoring reports each year.
- 3.9.8 **Additional recommendation:** As has been the case with s.106 obligations, **to consider the scope (as far as permitted) to phase CIL payment timings** where needed as part of mitigation against scheme viability and / or delivery issues. Through all of our development viability work, particularly in relation to larger developments and especially longer running / phased residential schemes, we observe the impact that the particular timing of planning obligations have. The same will apply to the payments due under the CIL. Front loading of significant costs can impact development cash flows in a very detrimental way, as costs (negative balances) are carried in advance of sales income counteracting those. Considering the spreading of the cost burden to some extent - as far as may be permissible - even on some smaller schemes, may well provide a useful tool for supporting viability in the early stages.
- 3.9.9 **Additional recommendation:** Following the same principles and potentially of great importance to the larger sites / strategic locations delivery over time, the timing and phasing of infrastructure works and planning obligations in general will need balancing with funding availability and viability positions as updated through on-going review.

- 3.9.10 **Additional recommendation:** Given that CIL takes the form of a fixed, non-negotiable charge once implemented, the Council will need to continue to operate its wider planning objectives and policies sufficiently flexibly – approach to be carried in to the delivery detail of the emerging plan. This should enable it to adapt where necessary to viability and other scheme constraints where developers can share their appraisals to demonstrate the need for flexibility on the overall planning obligations package. Abnormal development costs and other factors could also influence this process in particular instances. Prioritisation of objectives may be necessary, and such outcomes would be highly scheme specific – tailored to particular needs where proven to be necessary.
- 3.9.11 **Additional recommendation:** The Government’s CIL guidance (DCLG consolidated latest version 2014) outlines the linkages between the relevant plan (currently emerging development plan), CIL, s.106 obligations and spending of the CIL on infrastructure. One key aspect, as has been the subject of discussion at previous CIL examinations in our experience, is that the Council will need to develop its strategy to clarify the relationship between CIL and s.106. It will need to be able to reassure developers that there will be no double-counting (“double-dipping”, as it has been referred to) between the operation of the two regimes in terms of the infrastructure projects that each set of funds (or works provided in-lieu) contributes to. This includes the content of the Regulation 123 list for CIL (confirming the projects or types of infrastructure that CIL funds will be spent on, and therefore precluding the use of s.106 for those same items).

**Main text of study report ends – Final version (DSP v7).**

**June 2014.**

**Appendices follow.**