

South Downs National Park Authority



**Viability Assessment:
Community Infrastructure Levy & Affordable
Housing**

Ref: DSP13197

**Final Draft Report
January 2014**

Dixon Searle LLP
The Old Hayloft
28C Headley Road
Grayshott
Hindhead
GU26 6LD

www.dixonsearle.co.uk

Executive Summary

Context

1. This summary provides a very brief background introduction to the Community Infrastructure Levy (CIL) and Affordable Housing (AH) viability assessment undertaken for the South Downs National Park Authority (SDNPA). The purpose is to inform and support the Authority's development strategy preparation, within the context of the emerging Local Plan (the development plan) for the Park area and its related local CIL proposals.
2. There is no bespoke adopted development plan for the Park area, since it crosses the boundaries of many former local Council areas. The emerging version will develop into the first that fulfils the Park-wide development planning role. Whilst it is expected that key policies relevant to development viability will be broadly consistent with the nature of the prevailing or developing policies in the numerous abutting local authority areas, clearly it will not be possible to reflect all of those. A key purpose of this assessment, alongside reviewing the viability potential for and recommending suitable CIL charging rates for the Park area, is therefore to provide the SDNPA with a broad picture on affordable housing viability with a view to setting suitable targets for that.
3. The CIL was introduced by the Government as a means of Local Authorities pooling development contributions to help fund the provision of the local infrastructure needed to support the planned growth (plan-led development) in their area. In essence, currently by April 2014 it will replace s.106 as a means of securing those wider area infrastructure contributions. However, during April - May 2013 the Government consulted on further proposed CIL reforms, which should be confirmed through amended CIL Regulations and new associated Guidance early in 2014, and are set to extend the April 2014 date by one year. The proposed reforms, largely confirmed at the end of 2013, also contain other measures which the full report outlines – where those could influence the SDNPA's future thinking on the local CIL and, potentially, how that combines with affordable housing requirements. The viability information can be updated readily if required in response to where these aspects settle in due course.

4. In most cases, therefore, local authorities that do not put a CIL in place will see their scope to secure those planning obligations (compared with existing mechanisms) severely reduced. S.106 will become a vehicle for securing only planning obligations relating to site-specific infrastructure and mitigation requirements. Based on the current CIL regulations, s.106 will continue to be used for securing affordable housing in the established way, however.
5. The CIL principles and charging structure are set-out under the regulations. Those provide a framework which the local authority (the 'charging authority' for the CIL, and in this case the SDNPA) has no flexibility over; CIL must be implemented and charged in the prescribed way. Charging authorities can however decide on the local charging rate(s), including whether to vary those by development use type and / or locality; as may be driven by varying development viability in their area.
6. Under the regulations, the CIL will be chargeable on a per square metre (sq. m) basis on all new development which adds more than 100 sq. m gross internal floor-space. This covers all types of property (residential and commercial / non-residential, including extensions). In addition, the development of all new dwellings will be chargeable, including new dwellings of less than 100 sq. m. Affordable housing and developments by charities will not be subject to CIL charging under the current regulations. Subject to certain criteria, CIL charging will not apply to any pre-existing accommodation on a development site. Therefore within the CIL payment calculation, the existing floor area may be deducted ("netted-off") from the chargeable development floor area. This will have a variable, usually positive, viability impact on developments where existing floorspace is allowed-for in this way. Within this viability study, no allowance is made for this potentially positive viability influence because it is likely to be such a variable and site-specific factor.
7. The National Planning Policy Framework (NPPF) sets out the overall approach to the preparation of Local Plans. It states that planning authorities (in this case the SDNPA) 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. In accordance with guidance such as exists within the NPPF but also within documents such as the June 2012 Local Housing Delivery Group (Sir John Harman) Report 'Viability testing Local Plans', this viability assessment takes into account the likely development strategy and policy-set of the SDNPA's emerging Local Plan. However, on an on-going basis the Authority will need to consider the viability context and the policies that are likely to have key impacts on that as it continues to build the Plan proposals from here.

Study and process

8. The SDNPA appointed Dixon Searle Partnership (DSP) to review the viability scope for affordable housing together with testing a range of development use types (residential and commercial / non-residential) for their capacity to support CIL funding in the Park area – combined with the emerging work on the development strategy and new Local Plan proposals.
9. Alongside supporting information on the local infrastructure requirements, the viability assessment is a key piece of evidence required to inform and support the Plan development, particularly in respect of planning-led affordable housing policy thresholds and targets (%s) and the CIL proposals. DSP is amongst the leading consultancies in this field, having taken Local Plan policies through Examination on numerous occasions and now taken its CIL viability work through Examination in Public (EIP) stage successfully for six other authorities. We are working currently with a range of other authorities. The most recent outcomes to reach that stage were for Sevenoaks District and West Berkshire Council District – both after Examinations in the Autumn of 2013. The assessment for SDNPA is informed by these positive experiences.
10. The study investigates the potential scope for CIL charging in the South Downs National Park in combination with the thrust of policies expected to be within the Local Plan, with the aim of ensuring that the overall approach will not put at serious risk the delivery of the Plan as a whole. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the Park area; 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 CIL). The aim is to provide the

Authority with advice as to the likely viability of both the policies within the emerging Plan and viability of seeking developer contributions towards infrastructure provision through the CIL. 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 planning obligations alongside other usual development costs.

11. The study approach does this through exploring the collective effect of key development costs and obligations. The methodology explores a range of reasonably representative development scenarios and involves testing those for a variety of sensitivities, including the following factors varying:
 - Completed scheme (sales) values ('gross development value – GDV');
 - Sensitivity testing of SDNPA potential affordable housing policies (across an overall range of 10% - 50% affordable housing on sites of 1 or more new dwelling(s));
 - Varying potential land value expectations;
 - Range of "trial" CIL charging rates;
 - Build and other development and policy costs varying by scheme type.
12. Affordable housing targets should be appropriately challenging, but their framing should acknowledge the key role of viability and they should be operated flexibly where necessary. This is with the aim of to delivering optimum levels of this much needed housing, whilst maintaining a reasonable level of viability as tested through appropriate land value levels (for the land owner, to secure the release of sites) and via suitable profit levels, being the developer's appropriate risk-reward.
13. With CIL, the Authority must seek to strike an appropriate balance between contributing to local infrastructure funding needs (meeting the infrastructure 'funding gap' that CIL aims to bridge) and development viability. In doing so, a range of other factors need to be considered, such as site supply and likely frequency and development plan relevance of various development types to the area. This question of balance has been confirmed through the latest, consolidated, guidance on CIL (published by DCLG April 2013). Similar principles apply to testing the Local Plan generally whereby the policies and proposals in the draft Local Plan can be brought together to consider their cumulative impact on development viability.

14. DSP aims to provide parameters and options, where possible, and this approach has been appropriate in informing client local authorities' work to date. The viability work need not be followed slavishly, but the Council should consider the viability information and sensitivities set out by DSP – culminating in the scope of our recommendations (see later). However, it should be emphasised that it is an essential requirement for the CIL Charging Schedule to be justified by evidence of viability. The key test at Examination will be whether the rates are set at reasonable levels in order not to unduly compromise development viability (in the context of the delivery of the plan as a whole rather than necessarily in respect of each individual site). This is a vital part of seeking the right balance in setting the local approach to the CIL. The Council will also need to show how its CIL proposals will contribute positively to the development of the area.

15. In summary, the study involved the key stages of research, assumptions setting (including inviting development industry stakeholders to submit information), running a wide range of development viability appraisals and finally, analysis and review. The appraisals used residual land valuation principles - an established approach to this type of study, used over a number of years to consider affordable housing and other aspects of viability review for planning policy development. The full study report (as follows this summary) comprehensively sets out the process and outcomes.

Findings – Affordable Housing under the emerging Plan (High level)

16. In terms of affordable housing viability considered alongside the wide range of assumed collective development costs, including the CIL testing, the study process found that there is the potential to seek up to 40% affordable housing from schemes of 10 or more dwellings, with a sliding scale of reducing requirements suggested for use with smaller sites beneath that. This does not in any way fix the affordable housing policy positions at this level. Those will be considered by the SDNPA, informed by this assessment, however it sets out a suitable and viability tested starting and potential base-point against which the CIL and other aspects can also be considered; given the wider range of sensitivity testing that has been carried out. This is necessarily qualified though, owing to the early stages nature and high-level consideration of the values and normal costs relationships.

17. The wider information should be considered, but for the current purposes the summary recommendations for the viability scope on affordable housing (combined with CIL as set out below and based on the assumptions set all as provided with the full report detail) are as follows:

Recommendations Summary – Potential Affordable Housing Target %s

Scheme size (no of new dwellings)	AH mode	AH Target (allied to CIL recommendations)
1 - 4	AH FC	10%
5 - 9	AH FC / potentially consider on-site (not rigid)	20%
10+	Strong presumption for on-site provision	40%

18. The key points in respect of the Local Plan picture and made through the report are, in our view, the need to:

- Build and keep under review the viability picture as more becomes known – including on the building-up of the development strategy, working with neighbouring authorities and a more settled understanding of the Infrastructure Development Plan (IDP) requirements and costings;
- Continue to consider and operate development control policies and prepare information to guide delivery (development briefs, SPDs or other equivalent supporting guidance) in a responsive and adaptable way rather than having too rigid an approach to securing the necessarily challenging targets on aspects such as affordable housing and sustainability / carbon reduction;
- Balancing key objectives with viability, including potential compromise, as may be necessary. This will most likely need to be dealt with and settled in a bespoke way according to site specific issues and how those will change over time – e.g. with the market and over various phases of development.

Findings - CIL

19. For residential development, suitable overall parameters for CIL charging in the South Downs National Park were found to be £100 to £200/sq. m, depending on circumstances (see below) and taking account of the need not to set rates at the margins of viability.
20. A level of differentiation will be necessary given the broad range of locations and potential sites types to be incorporated within the development strategy. However, DSP's suggestion is to aim to keep the approach to both affordable housing and CIL relatively simple so that in essence consistent policies can be set and applied Park-wide. The overall development scope is associated primarily with some larger sites and limited greenfield land release, but also including a large number of proposed smaller sites from, where possible, the re-use of land (PDL – previously developed land such as former commercial sites) and small-scale infill / extension of settlements. The selection of rates based on these parameters is expected to be further informed by the match (best fit, necessarily on an overview basis) with the type and location of sites coming forward to support and protect the selected development strategy.
21. We have found that while a differential approach is likely to be necessary to reflect the likely characteristics of residential development varying between the main (SDNPA hierarchy Tier 1 and 2) settlements of Lewes, Petersfield, Midhurst and Pertworth; Liss (which although a Tier 2 settlement, is likely to require differential treatment; and the many smaller settlements within the very large rural area beyond those. A “wash-over” type rate is put forward for the latter. DSP considers that further differentiation for residential is considered unwarranted and in any event would only serve to complicate the approach still without reflecting the large range of highly localised differences that are found during our typical and appropriate CIL overview.
22. In all cases, (and applicable also to commercial / non-residential scenarios – see below) any rates considered below the levels and parameters that we set out are within the scope of our viability findings.
23. In avoiding setting rates too high, the wider characteristics and costs of development need to be considered. These include a range of factors such as potentially on-going

uncertain economic conditions, variable land value levels, the need to continue supporting other planning objectives (e.g. affordable housing and sustainable construction) to optimal possible levels in individual circumstances; and potential occurrence of variable abnormal costs, etc.

24. These are general characteristics based on an appropriate high level overview and not necessarily reflecting all local or scheme-specific variations that may become relevant at the delivery point, but nevertheless this type of approach fits the Local Plan and CIL principles while respecting the key variations seen.
25. The viability of a range of commercial / non-residential development types in the Park area was found to be highly variable overall – with only retail development in some circumstances (larger format, envisaged in the local context primarily as potential town based supermarket development), considered capable of reliably supporting meaningful CIL contributions at the current time. The review for CIL viability also informs the Council’s ongoing work in respect of wider Plan delivery and economic objectives, acknowledging that it is important to work with partners to make the most of promoting choice and opportunities in the most appropriate locations. A proactive and creative approach will be needed, enabling the most to be made of opportunities as market activity goes through improved periods.
26. As with residential development, our findings show that there is a need and scope to support a differential approach to any retail development that comes forward during the life of the first CIL charging schedule. The approach to the right balance locally will be further informed by the plan relevance and incidence of the various types of retail development in the context of the SDNPA’s development and economic strategy priorities. The key finding on retail is that a significantly lower rate would be appropriate in viability terms for smaller shops development; at a minimal or, at a recommended nil rate £0/sq. m if the progression of any new small shopping unit proposals is considered important to the Plan overall.
27. The report (as follows) provides commentary relating to the involved viability considerations in dealing with retail development. It provides evidence should the Council consider it relevant to pursue differentiation for the different retail development use types that come with associated variable characteristics and viability results.

28. As with all charging rate levels, the results of this study could be kept under review for subsequent charging schedules with regard to economic circumstances, the updated value / cost relationships and the on-going / potentially changing relevance over time of various scheme types in the Park area.
29. 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 see some authorities aiming 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 here the viability evidence does not support that at the current time.
30. Whichever approach to CIL is progressed, we reiterate that the SDNPA 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. Again this is not just a local factor, but is a widely applicable principle. Under the latest CIL guidance (likely to be strengthened through the CIL reforms) charging authorities will increasingly need to make clear how CIL and s.106 will operate together in their area. This will include being 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.
31. The following table provides an outline of our CIL charging recommendations summary (as included at the final section of the full study report that follows) – see the table below:

CIL Charging rates Parameters & Rates for Consideration
A. <u>Residential</u>
<p>Based on the findings and discussion including at 3.2 – 3.4 of this report, and the above AH positions (subject to NPA review and confirmation):</p> <p>Overall parameters - £100 to £200/sq. m.</p> <p>Recommend a 3 zones approach, based on key characteristics:</p> <ul style="list-style-type: none"> - Overall “wash-over” rate – smaller settlements / rural areas - rate of not more than £200/sq. m, applicable to all scenarios National Park-wide except for in respect of differentiation for: - Tier 1 and 2 settlements excluding Liss - £150/sq. m (Lewes, Petersfield, Midhurst, Petworth) and; - Liss – £100/sq. m (assuming requires differentiation being relevant to overall plan delivery).
B. <u>Retail</u>
<p>Based on the findings and discussion including at 3.5 – 3.6 of this report:</p> <p>Overall parameters – £0 – £120/sq. m.</p> <p>Recommend larger format retail – retail warehousing and supermarkets – a charging rate of up to £120/sq. m.</p> <p>This rate would also be applicable to extensions of any size.</p> <p>All other retail at £0/sq. m.</p> <p>Any differentiation by type of retail should be linked to use rather than size (see 3.6.12 and associated text).</p>
C. <u>Business Development - Office and Industrial of all forms</u>

<p>Based on the findings and discussion including at 3.7 of this report: At the current time, although subject to future review - £0/sq. m</p>
<p>D. <u>Hotels and Care Homes</u></p>
<p>Based on the findings and discussion including at 3.8 – 3.9 of this report: At the current time, although subject to future review - £0/sq. m</p>
<p>E. <u>Community (and all other) uses</u></p>
<p>Based on the findings and discussion including at 3.10 of this report: Nil rate (£0/sq. m), on balance, in preference to a low / nominal “default” rate</p>

(Source: DSP 2013)

**Executive Summary ends.
 January 2014.**