

**South Downs National Park Authority
Community Infrastructure Levy**

Viability Review Update

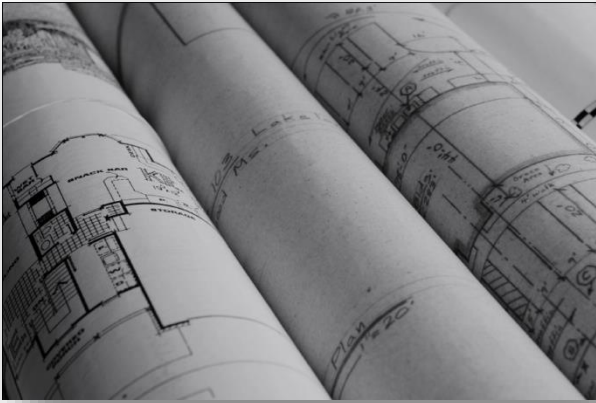
FINAL REPORT

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(DSP15352)

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

www.dixonsearle.co.uk



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Notes and Limitations

This has been a desk-top exercise based on information provided by the South Downs National Park Authority (SDNPA) supplemented with information gathered by and assumptions made by Dixon Searle Partnership (DSP) appropriate to the current stage of review and to inform the NPA's on-going work with regard to updating viability work previously carried out to inform the potential introduction of a Community Infrastructure Levy (CIL) for the NPA.

This review has again been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for CIL, local authority policy development as well providing as site-specific viability reviews and advice. In order to carry out this type of assessment a large number of assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.

Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances. Therefore this assessment (as with similar studies of its type) is not intended to prescribe land values or otherwise substitute for the usual considerations and discussions that will continue to be needed as particular developments having varying characteristics come forward. This is also true in respect of the long timescales over which the economy and development climate, national and more local influences and impacts are very likely to vary.

It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. 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 further informing the NPA's policy development and infrastructure review based work.

The high level viability testing is intended to review previous work undertaken and update it in light of changes to market conditions and to local and National policies where those are known at the point of carrying out this review.

It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point and so not just referring to the SDNPA's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by the NPA, having due regard to development viability. By this we mean the NPA being adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions, and being responsive to varying scheme types and circumstances. The various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding, numbers rounding and the like in formulating the detail from the targets basis – so, taking a view on how these things come together to impact and benefit schemes as part of the collective development requirements, by looking at what works best to optimise provision in the given circumstances.

The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium, "overbid" or sufficient level of incentive to sell. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment / use of the land, and a potential "overbid" relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing, with planning policies being reflected amongst these factors. The planning requirements will be necessarily reflected in the land values that are ultimately supportable.

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle LLP (Dixon Searle Partnership - DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

To the extent that the document is based on information supplied by others, Dixon Searle LLP accepts no liability for any loss or damage suffered by the client or others who choose rely on it.

In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the NPA's policies continue to be applied practically from case to case.

Executive Summary

1. The South Downs National Park Authority (SDNPA) has for some time been preparing proposals for a Community Infrastructure Levy (CIL).
2. Having carried out a comprehensive Viability Assessment completed in January 2014, experienced consultancy Dixon Searle Partnership (DSP) has been engaged by SDNPA to provide a further review in order to update and keep topical the authority's viability evidence.
3. Therefore the purpose of this additional (Viability Review Update) report is to build on the 2014 assessment and to inform the authority's consideration of the impact of changing market values, development costs movements and the various changes that have been seen in National level policy.
4. The SDNPA has also been considering the representations submitted to it through the consultation on its Draft CIL Charging Schedule held in the Autumn of 2015. As a part of reviewing that feedback, the authority discussed the points received with DSP. This further report includes, as requested, an outline of DSP's views on certain aspects of those submissions – where viability angles / concerns were raised or considered by the SDNPA to warrant further review.
5. This report does not repeat the context, principles and full methodology details set out in the 2014 assessment, since the basis here is the same. The required focus this time was to update the development values and costs assumptions to reflect changes in market conditions over time as well as new factors associated with Government policy updating.
6. Areas covered on national policy changes and viability influences include the Government's Housing Standards Review (incorporating aspects such as energy, water, access to and use of buildings), Nationally Described Space Standards, Affordable Housing and other matters (for example self / custom-build and starter homes / low cost housing). Several aspects of the new national standards are optional in that they may be implemented by planning authorities subject to evidence of both the local need for the requirements and the viability of policies to include them.
7. In many respects these are new areas with more time needed to settle the picture and understand all the implications. In the CIL setting context, where the collective costs of development are key and viability must not be taken to the margins, it has been considered important to review the various potential implications to make sure that

development locally will still have a the capacity to bear appropriate levels of collective costs - including the proposed CIL charging levels.

8. On review, overall we have found that the additional development revenue from market housing sales value increases over the period from the previous assessment has generally more than compensated for the updated view on development costs (including significant rises in the build cost data used). Using appropriately updated assumptions within sample comparison appraisals results, we generate residual land value (RLV) results that are improved from previous, and often significantly so. As a worse case overview we are able to say that, looking at what has happened to typical costs and values, we would not expect to see viability outcomes reduced from the 2014 assessment levels.
9. From a viability perspective, therefore, the updated review and findings point to the SDNPA being able to continue with the proposed levels of CIL charging (as set out in the Preliminary Draft and Draft Charging Schedule versions) without development being unduly affected.
10. On review of the representations, we also conclude that no changes are necessary viability-wise. However, looking at the residential rates, we also include as a result of this update an alternative to further simplify the Charging Schedule by removing the previous differential rate set specifically for Liss. Subject to considering the village's relevance to overall plan delivery and the site types likely to be relevant there, we consider that the SDNPA may now take the view that just two CIL charging rates could provide an equally or potentially more suitable basis compared with including any further differentiation for residential development. If appropriate on consideration by SDNPA allied to its Plan proposals, the two residential charging rates based on this simplified route would be £150/sq. m (applicable to all main settlements – Lewes, Petersfield, Midhurst, Petworth and Liss) and £200/sq. m (all other areas).
11. Again following review and consideration with the SDNPA, no rates changes or differential zones are proposed in response to the representations received on the approach to non-residential CIL charging. There were however some points raising uncertainties about definitions – relating to how CIL would be applied in certain circumstances. Looking at the details, there may be some Charging Schedule wording adjustments that the SDNPA could consider, as noted below for the authority's review.
12. In respect of specialist housing for the elderly, for example, we discuss this and feel that some further consideration could be given to ensuring through the definitions that, consistent with our evidence and views, care homes and extra-care based housing are not charged CIL whereas independent sheltered / retirement and similar developments that are part of the market housing spectrum are sufficiently viable to support the CIL at the prevailing rates.

13. Also on definitions and with the aim of maximising clarity, the report notes the possibility that the 'large format retail' definition (as was intended by DSP to relate to a charging rate of £120/sq. m to supermarkets, superstores and retail warehousing) might benefit from a minor wording review to aid its use in practice.
14. DSP is happy to assist SDNPA with any further information required, or enquiries, on any of these or other aspects - as further progress is made with its CIL.

1. Introduction

1.1 Background to the Viability Update

1.1.1 The South Downs National Park Authority (SDNPA) is currently in the process of preparing its Local Plan to guide future development in the area and manage development to 2032. Alongside this the SDNPA is in the process of preparing to implement a Community Infrastructure Levy (CIL) for the NPA.

1.1.2 The SDNPA commissioned a Viability Assessment: Community Infrastructure Levy & Affordable Housing report in January 2014 (Dixon Searle, Ref: DSP13197). Following an earlier Preliminary Draft Charging Schedule consultation stage, in September 2015, SDNPA published a Draft CIL Charging Schedule for consultation. In order to keep up to date the available evidence informing its CIL preparations, and as part of taking into account relevant representations arising from the Draft CIL Charging Schedule consultation, a review of the key assumptions informing the previous Viability Assessment has been commissioned (this review).

1.1.3 Since the preparation and publication of the Viability Assessment, there have been considerable changes to key inputs. These include effects from market conditions and associated with national policy changes that warrant revisiting the previous assessment work on a similar appropriate high-level basis - so as to keep the information as topical as is practically possible.

1.2 Policy & Guidance (including changes to policy)

1.2.1 This viability assessment review has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the Planning Practice Guidance ('PPG' – the online resource for national planning guidance and now incorporating the previously separate CIL guidance).

1.2.2 The 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 that 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.

- 1.2.3 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 landowner 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'.

- 1.2.4 Having regard to this guidance the NPA needs to ensure that the Local Plan, in delivering the overall policy requirements, can address the requirements of the NPPF.

- 1.2.5 Further guidance is set out in the PPG which re-iterates these messages where it says *'Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging*

policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development’.

- 1.2.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the plan-making process.
- 1.2.7 The SDNPA’s CIL & Affordable Housing Viability Assessment (VA) was published in January 2014 prior to changes to the Community Infrastructure Levy made through amendments in February 2014¹ and again in March 2015². Although the CIL (Amendment) Regulations 2014 were officially published after the publication of the SDNPA VA, the report nonetheless took into account as far as possible the direction anticipated in the 2014 CIL Regulations (Amendment).
- 1.2.8 The CIL (Amendment) Regulations 2014 introduced the following:
- 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 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

¹ Community Infrastructure Levy (Amendment) Regulations 2014 (24th February 2014)

² Community Infrastructure Levy (Amendment) Regulations 2014 (20th March 2015)

effects of the levy on the economic viability of development across the area.

Previously the authority only 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.

1.2.9 The CIL (Amendment) Regulations 2015 were introduced following response 'to comments made during the 2013 consultation suggesting that housing relief should be extended to include charitable bodies providing affordable housing that are not local housing authorities or registered providers. These Regulations extend mandatory social housing relief to persons who are not local housing authorities, private registered providers of social housing in England or registered social landlords in Wales, that let dwellings at no more than 80% of market rent to households whose needs are not adequately met by the commercial housing market'³.

1.2.10 The changes were reflected as far as possible within the VA and again have been in the current review process; in both cases so far as those affect the provision of viability evidence for the NPA.

1.2.11 Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of Technical Housing Standards in England. This has been accompanied by a new set of streamlined standards. The DCLG statement said: 'From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code... For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building

³ http://www.pas.gov.uk/3-community-infrastructure-levy-cil/-/journal_content/56/332612/15149/ARTICLE

Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'.

1.2.12 The new approach introduces optional Building Regulations requirements for access (volumes 1 and 2) and water efficiency, which provide for a higher standard than the minimum national Building Regulations. A nationally described space standard has also been introduced which can be implemented through the planning system.

1.2.13 In addition, a new security standard has now been included in the Building Regulations (Part Q).

1.2.14 The review also clarified statutory Building Regulations guidance on waste storage - to ensure that is properly considered in new housing development.

1.2.15 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application.

1.2.16 At the point of carrying out the viability assessment for the NPA, the Technical Housing Standards had not been introduced. As such those were not tested and are now required to be tested as part of this viability update.

1.2.17 As further background, in November 2014, following a Ministerial Statement, the Government revised national policy on s.106 thresholds as follows:

- *'contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*
- *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of*

between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.

- *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*
- *Additionally local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure pots, from developments of Starter Homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure’.*

1.2.18 The national policy changes also included a ‘vacant building credit’. This intended to incentivise the use of brownfield (previously developed) land, by reducing the affordable housing through a credit based on the floor area of any existing vacant buildings.

1.2.19 The introduction of these policies via the Written Ministerial Statement (WMS) and subsequent changes to the PPG were subject to legal challenge by West Berkshire Council and Reading Borough Council. The legal challenge was successful and those policies were quashed as of August 2015. This has led to the re-introduction of lower affordable housing thresholds (where viable to do so) or allowed planning authorities to continue to adopt lower thresholds through the Local Plan process. In carrying out this viability review we have therefore not taken into account the November 2014 WMS policy changes, but we understand that the Government has won the right to Appeal the decision and as such the NPA will need to be aware that further national policy changes may impact on its ability to set some of these policies locally.

1.2.20 The NPPF at paragraph 50 also states on affordable housing (in respect of local authorities’ approaches):

‘where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of

broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.'

1.2.21 Within the Glossary of the NPPF, the Government defines affordable housing as follows:

*'**Affordable housing:** Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision'.*

*'**Social rented** housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency'.*

*'**Affordable rented** housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable)'.*

*'**Intermediate housing** is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing'.*

‘Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.’

1.2.22 The evolving area of housing mix is wide-ranging. Recent Government announcements have suggested that the last paragraph above may be changed in the near future so that low cost market homes (i.e. low cost / discounted sale homes) may be treated as affordable homes for the purposes of planning (the current Government consultation on the NPPF refers). As further detail develops, for example through legislation and regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered. The Starter Homes initiative (for example) together with specialist housing (e.g. for the elderly and regarding accessibility) and custom-build may be other aspects of overall housing provision to consider as proposals develop.

1.2.23 In addition, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will have to cut social housing rents by 1 per cent each year for the next four years from April 2016; a reversal of the rental formula which currently allows RPs to raise rents in line with the consumer prices index (CPI) plus 1 per cent. As part of this viability update, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer). However we have not, at this stage, taken into account any changes to the definition of affordable housing given that there is as yet no detail from the Government’s announcement on which to base any meaningful viability modelling at this stage. Initial indications are that whilst affordability could be greatly reduced when considering low cost sale or similar compared with affordable rented or even shared ownership tenure, we could see positive impact (and potentially a very significant one) on overall scheme viability. We suggest that the NPA should keep open its consideration of these matters.

1.3 Aims & Outputs

1.3.1 DSP has been commissioned to provide further viability overview information that will assist the NPA through the following:

- Identify key national policy changes introduced since the previous viability assessment and identify to what extent those changes would have either a negative or positive effect on viability (relative to the earlier stage findings);
- Review and update the technical information in the viability studies, including values, development and build costs and run appropriate sensitivity testing based on updated inputs;
- Review recommendations - so as to validate or otherwise the continued use of the earlier findings regarding CIL rates, thresholds and zones.

1.3.2 It is important that the introduction of a CIL for the NPA does not deter development through adding too much further cost to developments, ultimately having the effect unduly reducing the supply of land brought forward for development more widely. Alongside this, any charge must balance delivery of affordable housing, planning obligations and other planning policies with maintaining a sufficient incentive (reasonable land value levels) for landowners to release land – allowing developers to promote and bring forward schemes. We understand that separately the Council will be commissioning viability work in relation to whole plan viability in due course.

1.3.3 At this stage, this update re-assesses the (financial) viability evidence base that informs the development of the NPA's CIL charging schedule. This review uses the same principles as set out in the previous viability work for the NPA and as such this report does not repeat the detail set out in those earlier reports. This report should therefore be read in the context of the existing viability assessment.

1.3.4 The emphasis here is to provide additional and updated evidence to further inform the Council's proposed CIL charging approach. The purpose is also to update the previous work and provide additional information as part of the Council's consideration of the representations made in respect of these areas.

1.3.5 With respect to retail, the relevant factors informing the setting the CIL charging rates are still considered to be the various types of retail development, how those should be best described and the expected level of occurrence of those based on the Plan (i.e. their relevance in the National Park area); potentially involving the use of any further definitions or distinctions considered necessary with the aim of adding clarity to the operation of the Charging Schedule.

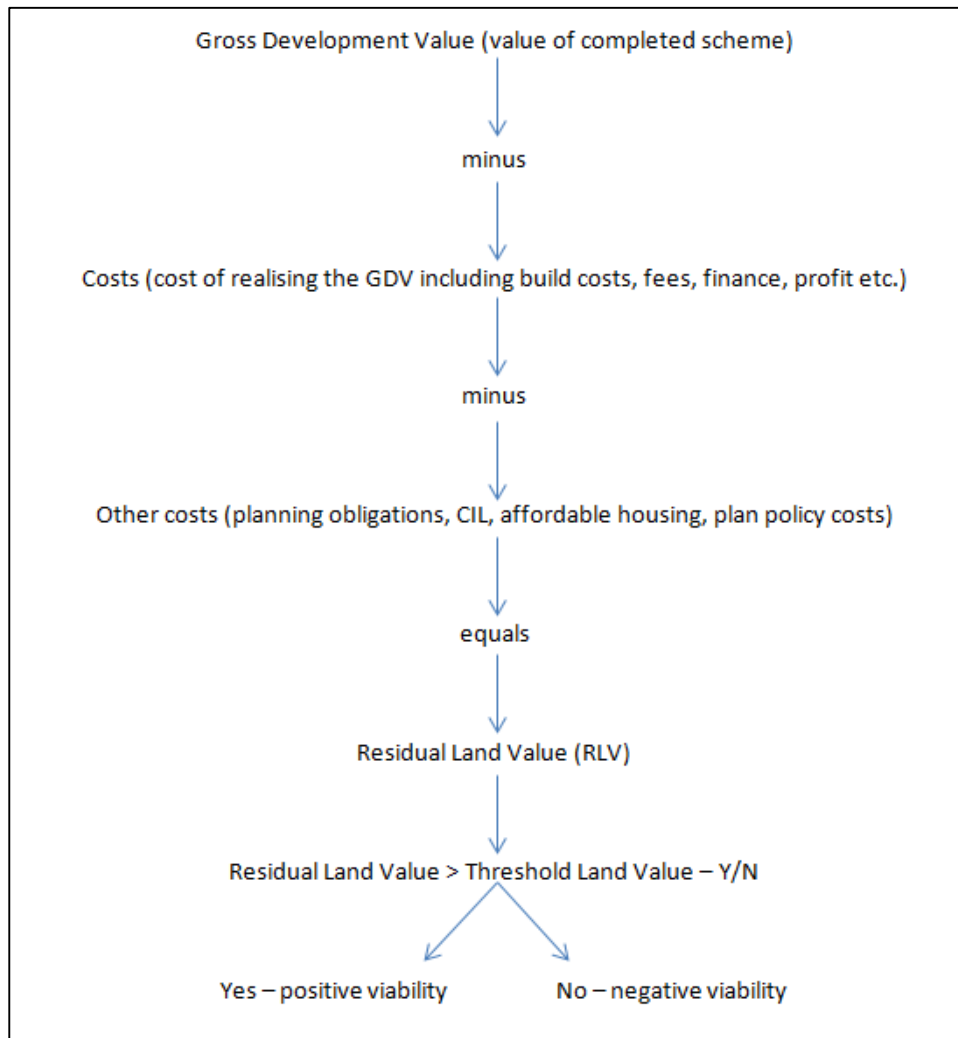
- 1.3.6 Other areas considered in this report include extra-care housing, rural workers accommodation and the relationship of CIL to the proposed strategic site locations in the emerging Local Plan.
- 1.3.7 This further work uses the same methodology and development assumptions as used for the earlier stage viability work except where updated at this review point (more detail is provided in Chapter 2 and Appendix I).

2 Methodology

2.1 Approach

- 2.1.1 This viability update applies the same principles, methodology and many of the same assumptions as used for the NPA's earlier viability work. This further report therefore does not repeat the methodology and assumptions again here in full and this viability update should be read alongside and in the context also of the existing evidence base as listed above.
- 2.1.2 Put simply, the residual land value (RLV) produced by the potential development under review is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (again, the GDV). The application of these principles is consistent with the approach that underpins the wider viability assessment work and with the established approach used in most similar viability studies as well as for more detailed site-specific assessments; an area of work that DSP is also engaged in on a daily basis.
- 2.1.3 The diagram below (Figure 1: Residual Land Value) illustrates the principle by showing the basic relationship between the main appraisal areas (the strength of the relationship between development values and costs that is being explored in all such viability work):

Figure 1: Residual Land Value



2.1.4 A viable development can be defined as *‘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’*⁴. Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing or alternative use value (sometimes with an element of uplift required to incentivise the sale of the land) then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed.

2.1.5 Having determined the RLV results for each development scheme typology and each sensitivity testing layer through running a range of these appraisal calculations, we then need to compare those results with a range of land value levels that could relate

⁴ Financial Viability in Planning – RICS Guidance note (August 2012)

to potential existing / alternative site uses. This comparison can vary significantly. 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. For the purposes of this report we have taken a very high level view on the potential threshold land values (land value comparison levels) based on the original assessment and updated where necessary.

- 2.1.6 The basis for this viability review is to test the *relative* impact of any changes to market conditions, development costs and policy (local and national) cost impacts.
- 2.1.7 The ability of a scheme to produce a residual land value in excess of some form of comparative land value or “benchmark” (often based on existing or alternative use value, potentially plus a premium to incentivise release of land for development depending on the circumstances) is a key factor in determining development viability. If insufficient value is created by a development proposal then land will not come forward for development, ultimately putting at risk housing targets (for both open market and affordable) if this becomes too regular an occurrence. This also has important implications for the appropriate wording of the policy so that it will need to be applied sufficiently practically as development circumstances vary.
- 2.1.8 The following section briefly sets out the policies that are considered by the NPA to be impacted by changes at a national level and thus potentially affect the proposed CIL charging schedule approach. This is then followed by our approach to sensitivity testing using, as a basis, a selection of appraisals from the existing assessment by reviewing changes in the property market, development costs and the removal or introduction of costs in respect of national policies.
- 2.1.9 A separate section is provided in relation to specific representations indicated by the NPA as in need of a considered response.
- 2.1.10 Appendix I summarises the assumptions used in the existing viability assessment and identifies the key changes made at this point. Appendix II provides a results summary and Appendix III includes an outline of the updated market / house prices research that has informed the adjustment of the assumptions.

2.2 South Downs National Park Authority – Impact of Changes to National Policy

Energy & Water

- 2.2.1 As a result of the Housing Standards Review, the NPA will need to alter policy (where applicable) to remove any reference to achievement of the Code for Sustainable Homes, and ensure that any specific policy in regard of water consumption is set at no more than 110 litres/person/day. The previous assessment included an allowance for attainment of Code for Sustainable Homes (CfSH) Level 4 based on the Cost of Building to the Code for Sustainable Homes - Updated Cost Review (August 2011)⁵ cost data assuming Building Regulations 2010 baseline. All appraisals assumed a cost uplift of 5.85% to achieve CfSH L4. For development sensitivity analysis using the same Updated Cost Review document, an allowance was applied to meet increased levels of compliance over time.
- 2.2.2 This study assumes that the Sustainable Design / Construction Standards costs have reduced from those assumed for the existing evidence base due to the Government's withdrawal of the Code for Sustainable Homes (as discussed above). Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment⁶ (average £ per unit E/O cost) for meeting the energy requirements for Code for Sustainable Homes Level 4 has been used as a proxy for building regulations compliance.
- 2.2.3 No allowance was made within the original assessment to cover any local policy on water consumption other than that included within the Code for Sustainable Homes and additional sensitivity testing for zero carbon carried out at that point. For this review we have assumed that the NPA would introduce the minimum level of compliance (i.e. 110 litres per person per day (lpppd) and for that no additional cost allowance is required in our opinion⁷. No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

⁵ DCLG – Cost of Building to the Code for Sustainable Homes – updated Cost Review (August 2011)

⁶ DCLG – Housing Standards Review – Costs Impact (September 2014)

⁷ N.b. extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). This would have such a marginal impact on scheme viability that it has not been included in this review.

Affordable Housing

2.2.4 The Government’s November 2014 introduced national affordable housing threshold was quashed by the High Court after a legal challenge by Reading and West Berkshire Councils. The existing viability assessment recommended scope for an affordable housing policy based on a “sliding scale” of requirements as follows:

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

2.2.5 Within the emerging Local Plan, the NPA indicates a requirement for affordable housing based on *‘a target of at least 40 per cent of all net dwellings (C3 use class) on schemes of 6 or more units will be provided as affordable homes in perpetuity to meet local needs. Development proposals of 11 or more net dwellings will provide affordable housing on-site unless in exceptional circumstances when the Authority, at its discretion, may accept an alternative form of delivery in a cascade of forms with first preference for provision on an alternative site, then the provision of serviced land in lieu and then a financial contribution in lieu. Development proposals of 6 to 10 net dwellings will provide affordable housing on-site where possible’*⁸.

2.2.6 We understand that the policy pre-dates the quashing of the Government introduced minimum affordable housing threshold and is subject to change.

2.2.7 Affordable housing has been included in this viability update based on previously tested levels with the addition of a sensitivity test at 0% affordable housing on sites of 5 or fewer dwellings - to provide information on the viability effects of a reduced affordable housing policy as currently set out on sites of 5 units or fewer in the emerging local plan. More detail is provided below and at Appendix I.

⁸ SDNPA – South Downs Local Plan – Preferred Options (September 2015)

Nationally Described Space Standards

- 2.2.8 The Government's Technical Housing Standards have introduced national space standards for C3 housing which can be used in a Local Plan policy if there is sufficient evidence of need and viability.
- 2.2.9 The national space standards have been included in the modeling for this viability update as a standard assumption – previously a range of unit sizes were used based on typical typologies but not related to a nationally described standard. See Appendix I for detail.

Access to and use of Buildings

- 2.2.10 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations⁹, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.
- 2.2.11 Again, as with residential space standards, there needs to be evidence for both need and viability. Within the NPA's existing evidence base, an allowance was included within the viability appraisals to account for the NPA's policy to require all new dwellings to meet Lifetime Homes standards. Data was taken from sources at the time indicating an average extra over cost of complying with LTH to be £575 per unit. At this stage we are unsure as to the Authority's approach to Accessibility and as such have not included any additional costs within the modelling; but we set out below the likely additional costs for including policies that meet the optional Category 2 and 3 requirements of Part M of the Building Regulations
- 2.2.12 As part of the Government's Housing Standards Review consultation, costs analyses were produced by EC Harris (and subsequently updated)¹⁰ relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access cost per dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per dwelling

⁹ Approved Document M of Schedule 1 of the Building Regulations – (Access to and use of Buildings)

¹⁰ EC Harris – DCLG Housing Standards Review - Potential Cost Impacts Summary (June 2013)

EC Harris – DCLG Housing Standards Review - Potential Cost Impacts (September 2014)

(£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling).

2.2.13 For Part M4 (3) the same report indicates average extra over costs to be £15,691 for flats and £26,816 for houses.

Starter Homes & Custom Build

2.2.14 Related to the type of PDL sites on which the starter homes initiative is envisaged to be focused, DSP's view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure and in our view based on 80% market sale values is, at the very least, likely to be no less viable on such a site than a combination of full market and regular affordable housing in the sense that has been required to date.

2.2.15 From DSP's experience of considering custom/self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process.

2.4 Other Updated Assumptions

2.4.1 In addition to the above, DSP has also considered changes to property values, build costs, any other development costs and affordable housing revenue. In all cases we have assumed that the Community Infrastructure Levy would be applied as set out in the NPA's Draft Charging Schedule. Appendix III provides the detail of the property market reporting and will not be repeated here.

2.4.2 In carrying out this update we have taken a selection of scheme types from the existing studies. These are shown in Appendix I and reflect a selection of site types that could come forward for residential development across the NPA area. For each site a notional but representative mix of residential dwellings was used. All of the assumptions used in formulating the test scenarios on each of the site types are as per the NPA's existing evidence base. Appendix I should be referred to for the detail of each scenario type including scheme size, unit mix, density, affordable housing

proportion, tenure, values assumptions, affordable housing transfer value assumptions, etc. More detailed explanations are provided here where it was felt necessary to expand on the details provided in Appendix I.

Affordable Housing

- 2.4.3 In each case affordable housing has been assumed at a level in full compliance with the NPA's emerging policy positions (with a tenure mix reflecting the positions tested previously – 70% affordable rent / 30% intermediate tenure where that works in practice for on-site affordable housing). The value of the affordable rented and shared ownership element of each scheme has again been based on the same principles and calculations as in the previous assessment but for this update we have deducted 10% from the calculated figures to take account of changes to the rent structure from 2016 – 2020 as referred to above. This is based on work undertaken by DSP into the potential impact of rent reductions on affordable rented transfer values (reflecting payments for the affordable homes to a developer from a Registered Provider).
- 2.4.4 Effectively the value of the affordable housing is based 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 low cost/affordable home ownership – i.e. typically shared ownership). For SDNPA, up to 80% of market rent has been assumed, using as a proxy the average Local Housing Allowance (LHA) from the Broad Rental Market Areas (BRMAs) that cover the National Park. It was (and has been again) assumed that the intermediate tenure would be in the form of shared ownership based on a conservative assumption of 60% of market value. This is all as per the existing evidence base.
- 2.4.5 Where the appraisals have assumed a financial contributions approach to affordable housing (rather than provision on-site), a mechanism was needed to be adopted to calculate a reasonable contribution. At this stage it is not clear as to the approach to be adopted by the NPA or whether a financial contributions policy would ultimately form part of the suite of affordable housing policies. However, *for the purposes of this study only* we have based the calculation on a methodology used in the existing assessment; as adopted by local authorities elsewhere and as devised and supported by DSP in the past. Effectively this seeks a financial contribution that would allow affordable housing providers to secure the land in lieu of and equivalent to on-site provision. This is based on the land subsidy (cost benefit) that would be provided on-

site if the developer were reimbursed reasonable build costs for the on-site affordable homes provision. In summary the calculation steps are as follows:

- Step 1 – Open Market Value (OMV) of the relevant or comparative development
- Step 2 – Multiply the OMV (Step 1) by the residual land value percentage (30%)
- Step 3 – Add 15% of the result of Step 2 to reflect site acquisition and servicing costs.
- Step 4 – Apply the affordable housing policy percentage target (i.e. Step 3 x 10%, 20%, 30% or 40%)

2.4.6 The residual land value percentage as a percentage of GDV is itself an average of the results of the appraisals carried out with 0% affordable housing (creating in this instance an approximate RLV as a percentage of GDV of 30%).

2.4.7 There are many possible routes, to calculating a financial contribution. Ultimately there are various options for the NPA to consider (if required), depending on the level of complexity thought appropriate in the local circumstances; and the degree of resourcing the various routes might need in terms of guidance, updating and site specific discussions / negotiations.

2.4.8 There is no Government or other formal requirement, or widely recognised guidance, as to how affordable housing contributions of this type should be calculated or set out. In essence, the precise calculation method and accompanying text is a means to an end in that the important aspects are to arrive at a suitable figure or figures which can be clearly explained; and that do not unduly affect development viability so that site supply is not restricted by the implementation of the approach.

2.4.9 For the purposes of this study we have assumed a residual land value percentage of 30%, as above. In practice this value may need to be reviewed should this mechanism be utilised in calculating financial contributions. As an example with our 5 unit housing scheme example at Value Level 5 (uplifted in line with Land Registry data – see below), the financial contribution would be equivalent to the following (5 x 3-bed houses):

A – GDV (3-bed house) = £440,000

B - Residual land value percentage = 30%

C – Uplift for servicing costs = 15%

D – Affordable Housing Proportion

E – Number of units

$(A \times B + C) \times D \times E = \text{Financial Contribution}$

$£440,000 \times 0.3 \times 1.15 \times 0.2 \times 5 = £151,800$

Values - Land & Property – Property Market Reporting & Build Costs

- 2.4.10 Comprehensive property data reporting and analyses are contained within Appendix III to this document and so will not be repeated in detail here. In running this viability update study we have reviewed a number of sources of information that in summary indicate (as a conservative estimate) that property prices have increased by approximately 15 to 18% across the Counties that form part of the National Park area over the period between the research for the existing viability assessment and the research for this viability review. The existing viability assessment was published in early 2014 using data gathering and assumptions setting from the summer of 2013. For the purposes of this review we have applied a representative level of uplift to the typical value level associated with the previous viability assessment work – Value Level 5 ('VL 5'). Previously at £3,750/sq. m (£348/sq. ft.), trial appraisals were re-run for this update review (with other adjusted assumptions as outlined in this report) based on a sales value of £4,400/sq. m. (approximately £408/sq. ft.). This is equivalent to a sales values increase of 17.3%. Referring back to the range of data sources used, this level of uplift is just below the Land Registry average house price increases when viewed across East Sussex, West Sussex and Hampshire (see Appendix III section 3); and is also slightly lower than the Zoopla sourced house price indications (information at Appendix III section 4).
- 2.4.11 Land value benchmarks have been used that are consistent with the earlier assessment work. These are assumptions which are in practice one element of a set of figures that will inevitably vary through different circumstances.
- 2.4.12 Over the same period, build costs have also increased across the area. Again Appendices I and III provide the detail but in summary the RICS Building Cost Information Service data (BCIS) indicates that build costs have increased by approximately 28.5% for flats and 25% for houses on average. We have used the latest BCIS figures in carrying out this viability update.
- 2.4.13 In addition to an inflationary rise in build costs over the period between the studies, the RICS (on behalf of the Federation of Small Businesses) has recently published a

report on the additional cost of construction for small sites¹¹. This suggests that the costs of construction for houses is higher on sites of 10 dwellings or fewer than for those of more than 10 dwellings with the actual cost increases varying by project size and type of unit (and with flatted development on small schemes having a lower cost than larger schemes). Although the detail of the report is yet to be considered in depth and a number of commentators have pointed out that there are a number of factors that benefit smaller developments (in terms of development viability), to reflect the variable nature of the findings of the report we have made additional allowances on the build costs within our updated trial appraisals of sites of 10 dwellings or fewer.

2.5 Strategic Sites & Draft Charging Schedule Representations

2.5.1 As part of this viability update, DSP were asked to also consider and comment on the relationship of CIL to strategic sites identified within the draft Local Plan (particularly in respect of Fernhurst Syngenta site Policy SD33 and Lewes North Street Quarter – Policy SD34). Information and commentary in this regard and related to specific representations made in the course of the Draft Charging Schedule are discussed in Chapter - 3.

¹¹ BCIS (for Federation of Small Business) – Housing Development: the economics of small sites – the effect of project size on the cost of housing construction (August 2015)

3 Results & Review Conclusions

3.1 Background

- 3.1.1 We have carried out sensitivity testing taking into account the changes in costs and values as described in the previous Chapter. The site types tested include a scheme of 5 houses (0%, 20% and 40% affordable housing both with a financial contribution in-lieu of on-site provision and assuming on-site affordable housing provision).
- 3.1.2 The results are all shown within the appendices and will not be discussed in detail here. For each site type, appraisals have been undertaken as reflected in the results shown in Appendix II (Results Summary). The appraisals have been carried out on the basis described in Chapter 2. Tables 1 sets out the results of the SDNPA viability appraisal updates.
- 3.1.3 The results of the appraisals indicate a residual land value (RLV – i.e. the value remaining once all development costs are subtracted from the gross development value, including finance and profit). The RLV is then also indicated as a per hectare figure (£/ha) for comparison with the indicative benchmark land values (as are shown beneath each table). The coloured cells then provide an indication of the result (i.e. the RLV in £ /ha) as it compares to each of the land value benchmarks. This follows an identical process to the existing evidence base studies and again, this report and its appendices need to be read in conjunction with and in the context of those reports.
- 3.1.4 It is important to note that the colour-coding at Appendix II provides only a rough guide to the trends – it helps to highlight the general results trends. Based on the accepted nature of such an exercise, i.e. this not being an exact science, this 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 proving to be workable. We can see the results trends as indicative outcomes vary with changing scheme type and changing affordable housing content with that.
- 3.1.5 Taking into account the above comments, the colours therefore indicate general trends as follows in accordance with a general grading that indicates increased confidence levels in the viability outcomes ranging from red (representing poor outcomes – negative RLVs – i.e. clear non-viability) to the boldest green-coloured

results (indicating the greatest level confidence in viability outcomes across a wider range of land value comparisons representing different host site types). The footnotes to the Appendix II describe these as a series of viability tests, referring to the various land value comparison levels considered – noted there as Viability tests 1 to 5 increasing across the range shown:

Residential (tables 1 to 6) –

- Boldest green colouring - Considered to be good viability prospects - RLVs exceeding £2.0m/ha (PDL upper level – residential) – Viability test 5;
- Paler green colouring (graduated) – Considered prospects with reducing confidence in scheme viability i.e. where the RLVs exceed the lower land value comparison levels and so could be viable in a reduced range of circumstances – representing lower grade residential or former industrial / commercial PDL sites - RLVs between £1.5m/ha and £2.0m/ha (viability test 4); £850,000 to £1.5m/ha (viability test 3); £500,000 to £800,000/ha (viability test 2) and £370,000 to £500,000 (representing greenfield enhancement values range – viability test 1);
- Red colouring – poor outcomes – although some with RLVs just beneath viability test 1 may be marginally viable in certain circumstances, these are RLVs at beneath viability test 1 (i.e. RLVs of less than £370,000/ha) and in many cases negative RLVs (schemes showing a deficit with no land value generated).

3.1.6 Land owners' situations and requirements will vary. While, as stated, those will need to be realistic and take account of policy requirements (and, as part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from existing or alternative uses in the prevailing market), they could be outside the ranges that we have explored in making our overviews; including at higher levels.

3.1.7 In the results table the scenarios tested show the results of the comparable previous study appraisals shown alongside the current updated viability appraisals. This enables us to view the results relative to each other having taken into account the various policy and cost changes that have taken during the period between the original evidence base studies and this viability update.

3.2 Results & Conclusions – SDNPA CIL Viability Review Update

- 3.2.1 The results of the sensitivity appraisals (Appendix II – Table 1) indicate that taking into account all of the various changes in revenue, costs and policies overall across the scheme types tested there is an increase in the RLV per hectare generated compared with the earlier stage findings. The increase seen is between 0% and 35% dependent on the scheme type, size and affordable housing level tested.
- 3.2.2 This indicates that the net effect on viability of the cumulative impact of changes in market conditions, development costs and national and local policies is positive. This also indicates that if the previously recommended affordable housing policies and CIL rates are maintained, viability is certainly no worse than at the base review stage. In fact this suggests that there is scope for any currently applicable upward pressure on land values and / or build or other costs to be absorbed whilst maintaining viability, in a strategic overview sense (as opposed, necessarily, to all individual site-specific scenarios remaining more positive than previous once all the highly variable factors are considered at that level).
- 3.2.3 With regard to Approved Document Part M4 (2) - Accessibility, although at this stage we have not added any additional costs, although there would be a minor impact on viability, this is likely to be marginal and we are of the opinion that the sensitivity of the results to the change in costs is not one that would be easily differentiated. On that basis, at this stage, it is unlikely that requiring a proportion or all of the dwellings to comply with Part M4 (2) would lead to a previously viable scheme becoming unviable. However, the NPA would still need to bear in mind the cumulative or collective impact of policy on development viability as with any other policy requirement and take into account whether the need for the policy can be shown. The Council may wish to have these policies tested however if they are likely to form part of the emerging Local Plan.
- 3.2.4 Overall the results can be seen to show significant residual land values when compared to all the land value benchmarks used, and are likely to support the existing CIL rates as proposed. The results indicate that the currently proposed charging rates would not jeopardise development coming forward across the NPA area and we would not recommend, at this stage, any changes to the CIL rates as proposed with, potentially, the exception that in our view it would now be possible to give updated consideration

to the previously recommended differential charging rate for Liss (see the further discussion below).

3.2.5 More as an informative at this stage, the introduction of low cost market homes (low cost / discounted sale or similar tenure models) as part of a legitimate tenure mix, whilst aiding viability overall, may lead the NPA to consider further the proportion of affordable housing sought and the level of CIL set in the future.

3.2.6 Previous additional recommendations and information points as discussed within the earlier viability assessment still also apply.

3.3 Commentary on issues considered further with SDNPA subsequent to DCS stage representations

3.3.1 The purpose of the following section is to provide brief commentary, from the perspective of our viability assessment work (including current stage revisiting) and our wider experience of these matters, to assist the NPA's consideration of any appropriate adjustments to its CIL proposals following the Draft Charging Schedule (DCS) stage consultation. The intention here is not to cover all representations received by SDNPA; our focus is on those identified by the authority for further in-depth consideration following the earlier stages of reflection on the range of points that were put forward by various parties.

3.3.2 Therefore DSP has been asked to provide updated views on the areas / representations noted below - bearing in mind that, through the CIL development stages to date, the NPA has been considering responses so this is a further layer of review and does not cover any entirely new aspects.

Previously proposed differential (lower) CIL charging rate for Liss

3.3.3 Through a letter to SDNPA on the DCS consultation in October 2015 Liss Parish Council reiterated its concerns over the differential rate proposals.

3.3.4 The Preliminary Draft and Draft Charging Schedule set out a lower charging rate for Liss (at £100/sq. m compared with the charge of £150/sq. m proposed for the other main settlements) based on DSP's January 2014 Viability Assessment findings. This was based on the typically lower development (property sales) values observed to be relevant to the main part of the settlement; linked with a view at the time that Liss

could potentially host development of a scale that was considered vital to the delivery of the NPA's development plan (new Local Plan) when viewed overall.

3.3.5 Information on Liss new-build housing values such as was available at the time of this review is included within Appendix III to this report. As can be seen, there remains a scarcity of examples that provide direct pointers to these value levels.

3.3.6 However, on review, we have a number of observations that we are able to make and which may inform the NPA's final (submission stage) CIL proposals in respect of Liss, as follows:

- i. We consider that typically, central Liss prices for new build property are still likely to be lower than those seen typically in the other main settlements. For example the Zoopla sourced information (at 4.2. / table 1a of Appendix III) clearly indicates lower values for Liss, although that will be largely based on a current market overview – resale property based. However, a range of indications exist. We consider that there is less clear evidence for a differential based on new-build values variation between Liss, Midhurst and Petworth – there are indications of higher values being typical in the latter two compared with Liss but the picture varies. As previously, in part this is due to having limited information to go on generally, and also bearing in mind that new-build pricing tends to vary from the prevailing market levels as well as be quite specific to a particular scheme in an area like this, where schemes are often more individual (have particular characteristics).
- ii. Overlapping values between and varying values within settlements remains a relevant characteristic. This is not unusual.
- iii. Overall, judgements are necessary. The low level of information relating to the value of typical new-build housing in many areas is perhaps also indicative of the relative roles of these settlements in terms of relative activity levels in what is a buoyant market within the Park area, and in terms of overall housing supply. It remains a challenge to reliably assess values for new-build larger scale / estate type housing development, for example, in Liss; although the same applies as well as in Petworth and to a lesser extent Midhurst. There are a range of indications and “standing-back” from potential highly localised /

scheme-specific variations as is appropriate for CIL setting leads in our view to a potential alternative, simplified approach.

- iv. Consistent with the wider update findings, values across the NPA area have increased significantly through market growth since the earlier Viability Assessment, so despite base build costs having also increased, in most cases higher land residuals are now created from equivalent appraisals. This means we would expect to see that developments undertaken at typically lower central Liss values have become more viable on the whole than they were previously.
- v. In pure values and viability terms alone, so far as we can see there remains a case to continue with a differential approach – that remains a relevant option for the CIL. However, the viability assessment work should inform rather than dictate by itself a CIL charging authority's approach. The prospective charging authority, in this case the NPA, needs to weigh-up a suitable balance in the circumstances – i.e. in this instance how the likelihood of lower values available to support viability particularly in central Liss (again from current limited information from new-build development) could impact in the context of the overall plan relevance of development here. Ultimately, however, there are always local values variations and CIL principles are such that, realistically, not all variations can be respected (or need to be followed). A charging authority needs to consider the relevance of the varying local characteristics to its Plan, not just look at the variations in isolation. As above, the scope of considerations extends beyond viability.
- vi. Although at the point of this update review the Local Plan has reached Preferred Options consultation stage and so there is further policy development work to be done, the indications are that development of a scale crucial to the plan overall is unlikely to occur in the currently typically lower value village centre. It is possible that any larger scale development outside the centre could set its own value level by providing a new offer. The Parish Council refers to greenfield land. Based on relatively small scale development of that nature, we would expect scenarios to optimise the local values potential and to be capable of supporting CIL at the £150/sq. m rate proposed for the other main settlements.

- vii. Weighing-up the local characteristics and their likely relationship with the emerging Local Plan overall, our view is that unless redevelopment in central Liss is to provide a key site (assumed not the case currently), if appropriate in reaching a suitable balance, the SDNPA is now also able to consider simplifying the charging schedule by removing the Liss differential (as an equally valid alternative to carrying forward that element of differentiation into the final version).
- viii. A judgement has to be made – the appropriate balance reached, in the local circumstances, between the usual opposing tensions of viability and supporting infrastructure. Although a point not within DSP’s remit, the NPA might consider a simplified approach to be fitting also in the context of its CIL coming forward in advance of the Local Plan proposals being finalised.
- ix. Regardless of its charging rate decision after looking at the balance / alternatives outlined above, the NPA will need to consider mapping at a sufficient scale to show how its proposed charges will apply to Liss, presumably consistent with the emerging Local Plan approach. The same applies of course to the other charging zones. We are aware that the authority has been considering appropriate mapping to ensure compliance with the CIL Regulations.

Housing for the elderly / Specialist accommodation involving care provision

- 3.3.7 As DSP has experienced in other instances, the County Council (Hampshire - HCC) has understandably submitted points relating to the differences between residential accommodation (including for the elderly) and developments where care is to be provided.
- 3.3.8 From our review of the HCC points, very largely DSP is in agreement with the principles put forward. Whilst we note that in at least some cases the County appears to be referring to developments that would in any event be exempt from CIL charging under the CIL Regulations through providing a form of affordable housing, DSP’s Viability Assessment concluded that Care Homes and similar could not support CIL charges in any event at this stage (for example see para. 3.55 and section 3.9 of the DSP 2014 report). DSP’s findings were that housing-led development (including sheltered / retirement housing for independent living) should not be differentiated for. These may or may not include an element of accommodation available for or supporting “assisted

living” or similar, but in our view should in any event be CIL charged at the standard residential rate where they are commercial developments offering apartments or similar for market sale as the primary driver. This is viability evidenced. In those cases the apartments would very often command premium level values as new-builds and they form part of the wide-ranging provision within the spectrum of market housing. The viability evidence for this is quite different to that relating to accommodation for care provision. In contrast, regardless of their viability and whether as sheltered/retirement or extra-care schemes, developments brought forward by the affordable/public housing sector, by definition providing affordable housing, would not be charged.

3.3.9 The particular nature of a specialist housing scheme is always likely to need specific consideration at the planning delivery point - when planning obligations and CIL will be under review alongside the wide range of Development Management matters. Given the varied nature of such schemes, in our view it is unlikely to be possible to provide a definition that will solve all ambiguities. However, subject to our points here on private (commercial) housing-led scenarios in contrast to affordable housing-led ones, DSP believes its views are consistent in the main with the thrust of the County Council’s points. From discussion with officers we think that broadly there is a common understanding at SDNPA too.

3.3.10 In case of assistance to the SDNPA on this aspect, and purely as an example, these aspects were also put by HCC to Eastleigh Borough Council. That Council has not pursued its CIL further to date, but in July 2014 it published modifications to its charging schedule proposals. If considered appropriate by SDNPA to local circumstances here, those modifications may be viewed at:

<https://www.eastleigh.gov.uk/media/32596/dcsjuly14modshown.pdf> . Whilst not examined, in essence that Council proposed to refer to extra-care housing in seeking to clarify its relevance to the charging schedule. At that time a footnote was added to the draft charging schedule stating: *‘The residential rate does not include extra care housing but does apply to sheltered housing. The Council recognises the additional services and facilities provided by extra care housing. The Council will make an assessment of residential type, to determine the rate of CIL payable. Applicants are encouraged to seek pre-application advice to establish whether CIL will be payable, prior to submitting an application.’* (Source: Eastleigh BC 2014). We reiterate that in our experience some extra care developments will be “filtered-out” of the CIL charging

scope considerations by virtue of their affordable housing (or perhaps charitable status provider) nature in any event.

3.3.11 We would also like to note that there as well as specialist forms of housing for the elderly, there may also be some distinct housing provision for other vulnerable groups. DSP's assumption is that those would again be provided either by the public sector as a part of the wider social / health infrastructure or by affordable / charitable providers and hence also outside the CIL charging scope.

Further consideration of CIL in relation to strategic site proposals

3.3.12 The 2014 Viability Assessment acknowledged consistently the potential importance of considering any particular CIL setting treatment (e.g. by way of a differential rate based on a mapped zone) necessary for strategic scale developments. By this we mean any large scale schemes that, individually, are crucial to securing the overall delivery of the Local Plan. As was noted, these tend to have particular characteristics including, for example, significant site-specific development mitigation and s.106 packages. The report noted this theme throughout – e.g. at paragraphs 1.2.11, 2.10.3, 3.2.8, 3.1.25, 3.3.2, 3.4.7, 3.4.20 and 3.12.10.

3.3.13 At the time, however, it was not considered necessary within the scope of building and using appropriate available evidence to specifically assess any such strategic schemes. Looking at potential delivery timing, these were considered not likely to be relevant to the first CIL charging schedule and therefore insufficient firm information was available to inform meaningful appraisals in any event.

3.3.14 Given the SDNPA's further work towards its current Preferred Options stage consultation version emerging Local Plan, it has been possible to review this position and the relevance of any further viability work and particular CIL considerations on strategic sites at this point.

3.3.15 Taking the strategic sites in turn, and again applying the appropriate evidence base requirements, our observations are as follows.

3.3.16 In respect of Shoreham Cement Works (preferred option policy SD32) principles around a leisure based / mixed use redevelopment are within the emerging Plan. According to the broad aims and idea outlined, there would be no market housing element liable for CIL and no significant retail element at the site either. As the CIL

proposals stand, all other uses would be nil-rated in any event. CIL should be reviewed in the relatively short term (at say 2 to 4 years after inception, although currently there are no national criteria on review). Review in the normal course of events would provide an opportunity to reconsider any specific factors or requirements that should be taken into account in making any adjustments to the initial charging schedule necessary in light of knowledge of the cement works proposals at the time. So far as we can see, there is currently no need or justification for an amendment to the Charging Schedule as drafted in respect of this site. As noted here, this should be kept under review, however.

3.3.17 Looking at the Syngenta site, Fernhurst (SD33), which DSP has some knowledge of from earlier high level work on viability with SDNPA, the preferred option policy envisages development in the later Plan period – i.e. not being permitted before 2025. The principles outlined are for mixed-use development to include circa 200 homes. At the present time we consider that development of the scale and type envisaged would be unlikely to require a differential CIL rate from that proposed to “wash-over” the National Park area outside the main settlements. Again, however, this should be a matter for review at the relevant point – i.e. on CIL review for a subsequent charging schedule at a point closer to delivery when more is known about the proposals and the market in which they will come forward, etc. So, again, no further action is considered necessary or justified according to current circumstances in respect of this site.

3.3.18 At the point of finalising this update, planning permission has now been granted North Street Quarter etc. redevelopment proposals at Lewes (preferred option policy SD34). This is also a site that DSP also has some knowledge of, as we were engaged by SDNPA to overview the viability information that was provided confidentially to support the information on the deliverability of the affordable housing and other planning obligations. The current planning status of this site means that, whilst for different reasons, there is no need to bring this within the NPA’s CIL setting considerations at this stage either.

Retail considerations - by location, definition and development size threshold for positive charging rate

3.3.19 DSP’s 2014 Viability Assessment report adequately set out the context for the consideration of local CIL charging for retail development – for example at 3.55 and section 3.6. On review, we consider that that context overview applies now; as do the viability findings viewed in that context.

- 3.3.20 One representation (submitted by CBRE on behalf of Waitrose) sought further geographical differentiation in respect of the proposed CIL charging for retail development. In particular, this suggested that lower rates should be set for in-centre than for out of centre retail development.
- 3.3.21 DSP has experience of similar factors in some larger town scenarios. However, the use of differential rates has not been found to be of universal relevance in our experience; and has often been related more to general town centre zones within larger centres – where the limited viability of necessary additions to the wider town centre shopping offer (focused mainly on comparison shopping requirements) has been the key driver of any variation. In those cases differential CIL charging for larger foodstore developments and the like has more often been as a consequence of seeking consistency with the wider approach to town centre retail CIL charging.
- 3.3.22 So far as we are aware, additional larger format retailing is not a key theme of the SDNPA emerging Local Plan; there are no larger foodstore or other similar policy proposals upon which the Plan relies overall. It appears more likely that any such development could be adhoc, relatively small in scale or taking the form of extensions; and will only come forward if considered commercially viable.
- 3.3.23 We note that the representation cites an example of Peterborough City Council; an environment with very different characteristics. We do not see a similar situation here. In the South Downs National Park context, any limited amount of this type of development will by definition be most likely to come forward on sites sharing similar characteristics across the area – within the small market town settlements.
- 3.3.24 No supporting evidence or particular reasoning to the contrary has been provided and DSP's view remains that the relatively simple proposed approach for retail development CIL charging is entirely appropriate in viability terms for the NPA area.
- 3.3.25 Another representor (Rapeleys on behalf of Callstone Ltd, the Shoreham Cement Works site owners) agrees with the general approach to limit CIL charging to residential and larger format retailing development. They do not raise zoning for differential rates. However, they seek an alternative – much higher – floor area threshold point to accompany the definition of 'large format retail' in place of the Sunday Trading provisions based threshold that has now been accepted in a range of local authority areas and which DSP considers to be appropriate in the SDNPA context.

- 3.3.26 The alternative suggested is at 2,500 sq. m. Although no supporting details have been offered, promoting the application of a threshold principle in this way infers that either side of this floor area different viability outcomes are to be found (e.g. as a result of a sudden switch in investment values (rents and yields), build costs or other development appraisal inputs. Such a specific effect would need to be seen, given the way a threshold works. In DSP's experience this is not the case and in our view such an alternative threshold would be arbitrary and without a firm basis in viability terms; whereas the proposed approach has a clear and established basis and is considered to be locally relevant.
- 3.3.27 We can see that by altering the floor areas within our retail development appraisals, the outcomes (£RLVs and £RLVs/Ha) do not change materially. Altering the appraised 2,000 sq. m new store scenario to say 1,500 sq. m or 2,500 sq. m does not change the RLV outcome of £2m/ha (rounded figure) noted with the medium rent level applied at the 6.5% yield assumption with £120/sq. m CIL (appraisal RLV result at Table 2a, Appendix IIb - 2014 Assessment). This is the case unless we have a relevant and clear specific floor area point at which we need to change other assumptions that notably affect scheme viability; so that we then have a genuine threshold revolving around a change in characteristics and with viability step-changing in response to that. This exercise has been undertaken by DSP on various occasions, and does not result in meaningful additional evidence. Any differentiation in CIL charging is to be viability-led. As noted here, the related principles are outlined within our 2014 report.
- 3.3.28 The proposed approach is evidenced and remains appropriate in DSP's view.
- 3.3.29 Amongst the representations there was a further point - made in respect of garden centre development (by Notcutts Limited). This concerned whether the Draft Charging Schedule was unclear in how it would apply to development for use by outlets such as garden centres.
- 3.3.30 DSP is able to confirm that its intention was for such developments not to be within the scope of the 'large format retail' definition.
- 3.3.31 The second part of the footnote definition ('Also retail outlets specialising in household goods.....') was intended to describe retail warehouses, as were appraised and are also considered (along with the larger foodstores) to be sufficiently viable to support the proposed CIL charging if such schemes come forward in a modest way in the SDNPA context. This is consistent with the approach used in setting this approach at Wycombe

BC, where DSP worked with the Council using these principles for the first time. This matter of detail will be for SDNPA to consider and, whilst we think the existing footnote definition was intended to cover supermarkets, superstores and retail warehouses in the same way as applied at Wycombe, the relevance of the second sentence to retail warehousing could be made clearer perhaps with a minor wording amendment. For information, more on the Wycombe DC approach may be seen at:

<http://www.wycombe.gov.uk/council-services/planning-and-buildings/planning-policy/community-infrastructure-levy.aspx>

Homes for rural workers

- 3.3.32 DSP is not aware that this area of housing is likely to form a significant element of the overall housing growth.
- 3.3.33 We are also not familiar with the basis for an alternative viability view on these, particularly when it is considered that a valuable asset is likely to be created unless particular planning restrictions on use are imposed.
- 3.3.34 The existing forms of relief in place nationally for affordable housing, development for charitable purposes and for self-builds are also considered likely to offer the potential to develop such homes in various ways that would not attract CIL charging.
- 3.3.35 If a development does not fall into one of these categories, then in our view it is likely that the particular occupation arrangements are not a matter for CIL differentiation and a more equitable scenario is, as proposed, that any such developments are a part of the wider local market supply - which will contribute towards the provision of infrastructure needed to support the new housing.
- 3.3.36 The SDNPA will no doubt wish to consider these matters and any particular evidence to the contrary that has been received.

Monitoring and review

- 3.3.37 Our 2014 report noted the importance of monitoring and reviewing the operation of a CIL over time - once it is implemented. We emphasise this point again here as a subsequent CIL charging schedule (future update) may need to be different in terms of the rates, differentials or other matters.
- 3.3.38 There are currently no set criteria for review, but this is likely to require a relatively short term view and update compared with the Local Plan timeline. A review in due

course would be undertaken in response to a range of information and influences; with its timing and extent based on considering a variety measures that will vary over time and may in some cases also vary by development type and / or location. The influences, which we suggest would form part of the monitoring context, could include:

- the economy;
- housing and wider property markets – nationally / regionally and locally;
- developments costs trends (build and other costs);
- updated view on progress with planned development delivery, including any reviewed relevance of strategic sites to a subsequent charging schedule;
- national policy impacts / opportunities;
- how influences such as these come together when looking again at the local characteristics to inform any CIL rates and / or zones adjustments – so as to respond appropriately in taking a refreshed look over time at the balance between securing infrastructure to support new development and the viability of that necessary development – as identified through the Local Plan.

3.3.39 DSP is happy to assist further if required.

**Update Review Report Ends
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