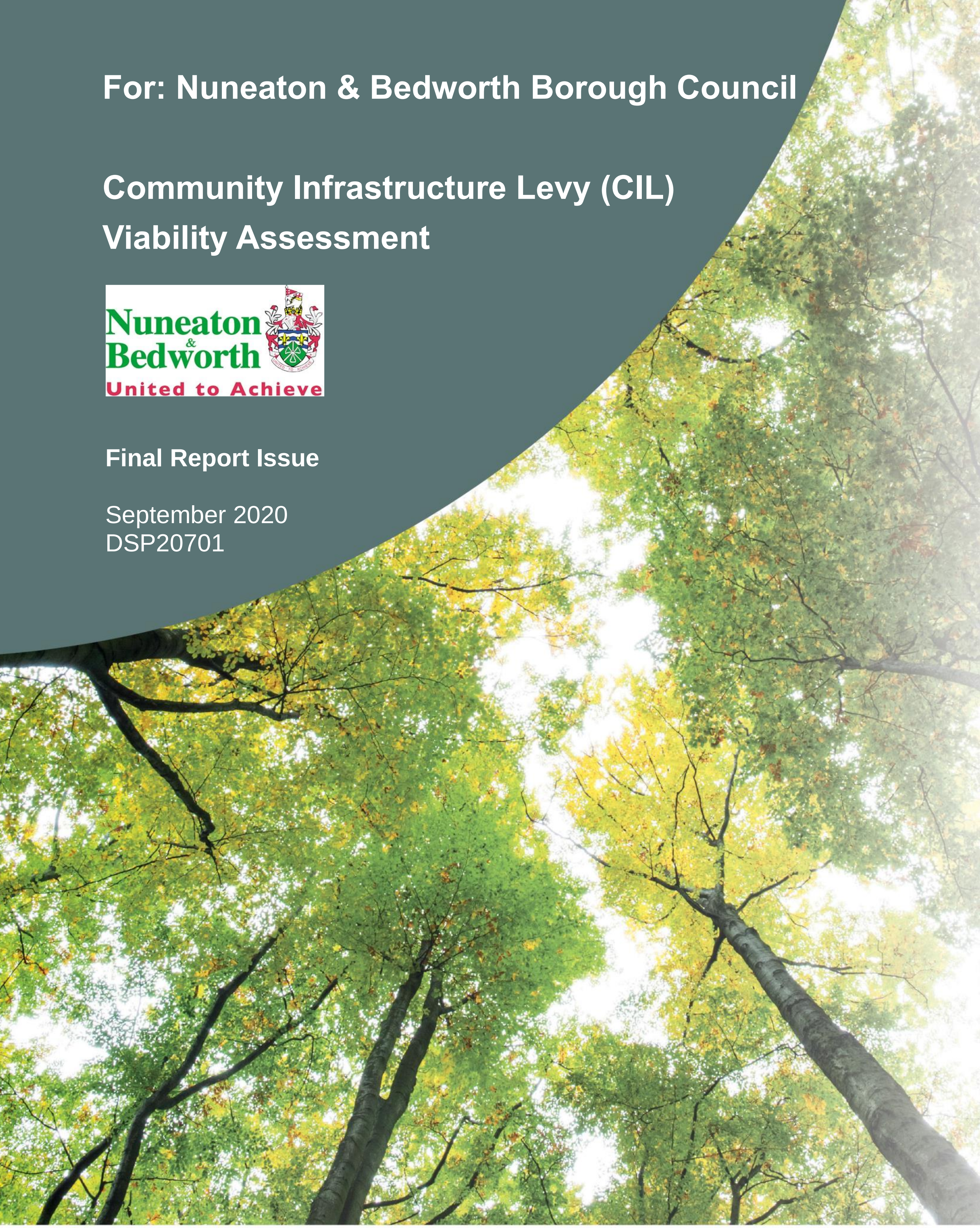
For: Nuneaton & Bedworth Borough Council

Community Infrastructure Levy (CIL) Viability Assessment



Final Report Issue

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Notes and Limitations

1. The purpose of the assessment reported in this document is to inform and support the Council's work on further considering and progressing through further consultation the intended introduction of a Community Infrastructure Levy (CIL) Charging Schedule for the borough.

2. This report sets out options to inform the Council's consideration of potential CIL charging rates from a viability perspective whilst taking into account adopted local and national policies that may impact on development viability.

3. This has been a desk-top exercise based on information provided by Nuneaton & Bedworth Borough Council (NBBC) supplemented with information gathered by and assumptions made by DSP appropriate to the current stage of review and to inform the Council's preparation of a Community Infrastructure Levy (CIL) Charging Schedule for the borough.

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

5. It should be noted that every scheme is different, and no review of this nature can reflect the variances seen in site specific cases. Accordingly, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions. Specific assumptions and values applied for our test scenarios are unlikely to be appropriate for all developments. 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 and supporting the Council's approach to and proposals for a CIL.

6. 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 other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be

needed as particular developments with varying characteristics come forward. Nevertheless, the assumptions used within this study reflect the policy requirements and strategy of the Council as known at the time of carrying out this review and therefore take into account the cumulative cost effects of policies where those are relevant in developing a CIL Charging Schedule.

7. The research, review work and reporting for this further assessment has been assembled at a time when there remain economic uncertainties associated with Brexit. In terms of the latest context potentially having a bearing on all of this, the Global COVID-19 (Coronavirus) pandemic situation is now dominating all aspects of the news and economy.

8. This may run through into many potential areas of influence on matters affecting viability or deliverability, short term in particular. However, there could be a range of influences and effects, not necessarily all negative in their impact on viability or other matters. At the point of this assessment while there are unknowns, and potentially significantly so, it is possible to work only with the known – i.e. available information at this point in time and as continues to be reflected in the usual way through the stated established information sources. At this stage it appears that it will then be for Local Authorities and others to consider how this picture may change – monitor it as best possible and consider any necessary updating of the evidence and local response in due course.

9. This is consistent with the approach that typically is taken already when either a significant amount of time passes, or other circumstances change during the period of Plan or CIL preparation/review. In the meantime, this work contains information on the impact of varied assumptions. Additionally, in considering the assessment we have also sought to provide wide sensitivity testing to inform the Council's consideration of development viability in the wider plan delivery context.

10. 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 Partnership Ltd (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.

11. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd (DSP) accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.

12. 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 Council's policies will be applied from case to case.

13. DSP conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We are not involved in any other work within the Nuneaton & Bedworth area at the current time, nor have we been during the course of this assessment.

14. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment. Our project costs are simply built-up in advance, based on hourly/day rates and estimates of involved time.

DixonSearle Partnership

Executive Summary

Context and assessment approach

1. This summary aims to provide a brief overview of the full report that follows (Nuneaton & Bedworth BC Community Infrastructure Levy Viability Assessment (September 2020 – DSP ref. 20701). The report should be referred to for the detail of this assessment.

2. Nuneaton & Bedworth BC (NBBC) adopted its new Local Plan development document, the Borough Plan, in 2019. The Council intends to support the infrastructure requirements associated with the Plan by putting in place a Community Infrastructure Levy (CIL).

3. Local Authorities have the option to set up a CIL as well as continuing to use section 106 (s.106) planning obligations agreements for site-specific contributions or works that are needed to make a development acceptable in planning terms. Where they become charging authorities, their CIL Charging Schedule lists and describes the level or levels at which the CIL will be charged within their area - i.e. the charging rates.

4. The CIL Regulations have been amended since their inception in 2010, most recently with effect from 1st September 2019. The Regulations set out in standard terms the basis for the levy and how it is to be charged, collected, administered and spent (as well as the details of various Exemptions and Reliefs). The charge is made on a £/sq. m (£ per square metre) basis, essentially with all new dwellings (except for self-build homes and affordable housing) and most other developments of 100sq. m or more being chargeable.

5. The Government's guidance on the CIL is contained within a specific section of the on-line Planning Practice Guidance (PPG) resource; again, last updated on CIL on 1st September 2019.

6. Following these further changes, charging authorities have had considerably more flexibility over the use of s.106 planning agreements alongside CIL. Generally, however, with a CIL in place the use of s.106 will be significantly scaled-back.

7. This defined approach leaves the charging authority to consider and set only the charging rate or rates (including for any development types that will be nil-rated i.e.

charged at £0/sq. m) at which the levy will be raised locally. These rates are set by reference to evidence on viability, which looks at the varying strength of relationship between the values and costs involved in a range of types of development and particularly those that are relevant to the delivery of the Local Plan. So 'viability' in this sense means the financial "health" of development.

8. Through preparing a required 'Infrastructure Funding Statement' the authority also decides which types of infrastructure the CIL receipts will be spent on, and how this will work alongside the use of planning obligations.

9. The charging proposals need to be consulted on using a Draft Charging Schedule, the consideration and publication of which is NBBC's next step. In this case, as there were previously two consultation stages required, the Council consulted on a Preliminary Draft Charging Schedule version in late 2015. That was informed by viability evidence also prepared by Dixon Searle Partnership (DSP) to support the Local Plan and begin informing the development of a CIL - Whole Plan and Community Infrastructure Levy Viability Study (2014).

10. To further inform the development of the Borough Plan DSP provided a Plan Viability Assessment - Update (2016). This 2020 assessment and report is a distinct, stand-alone exercise, and builds on that earlier work. This has also been conducted in a way that is consistent with both the national policy and guidance (as is now mainly contained within the CIL section of the PPG as above) as well as with good practice involved in CIL (and Local Plan) i.e. 'plan making' viability assessment, together with DSP's depth and breadth of experience of these processes.

11. The assessment is based on residual valuation principles. These offer the most established and suitable, robust approach used in conducting strategic level viability assessments such as this.

12. As described in detail in the following full report, the method involves deducting development costs from the end sale values using estimates (assumptions) to reflect those and how they may vary across various development types and / or by location. The resulting surplus hence 'residual' (or in some cases deficit) from the development value minus cost calculation is known as the residual land value (RLV) and indicates the sum that could be available to buy land (i.e. as a supportable land cost) in the case of an example development type (typology). Applied across different types of

development in this way (both residential and non-residential/commercial) we can also see the key influence of the strength of the values that may be available to support viability (known as gross development value or 'GDV'). Therefore, we also assess viability as the GDVs vary (using a range of test value levels (VLs)) whether by scheme type or location, to explore this.

13. This approach links with the scope under the CIL Regulations to set varying rates, often referred to as differential rates, according to the type and scale of development, and potentially also by reference to different localities (or 'zones') which reflect varying viability and need to be mapped if they are to form the basis for any differential charging rates.

14. This is considered in the context of the Borough Plan backdrop (allowing for the development cost impacts of Local Plan policy set – for example on key matters such as affordable housing (AH)) and the relevant characteristics of the local area, including the typical and expected development activity in the borough. The local policy costs are considered alongside the usual costs of development - including the build and other works costs, build cost contingencies and fees, finance, costs of sale and development profit. Viewed together, this enables the full collective ('cumulative') costs of development to be considered, and the scope for CIL to be viewed in this context.

15. Using suitable assumptions reflecting these costs, and making judgments from the appraisal results (again as set out in the report and appendices) enables us to test and consider at a proportionate and appropriate high-level how this relationship and scope, i.e. available headroom for CIL, varies. This shows through the varying strength of the RLV appraisal results and then informs the review of both suitable parameters for NBBC CIL charging rates across various types of and locations for development.

16. The varying levels of the appraisal output RLVs are considered against a view taken on reasonable levels of land value, as a comparator, also known as benchmark land values (BLVs) for various potentially relevant site types in the area. We refer to these as 'viability tests'.

17. By testing including varying levels of CIL cost, using a series of trial CIL rates that gradually load-in CIL cost in small steps, the assessment builds up a picture of how

much scope there is considered to be, in viability terms, to bear the costs of a LBB CIL in the various relevant local development circumstances.

18. A "buffered" approach to considering CIL setting is required. This means that CIL rates are not to be set too close to the margins of viability, because the CIL is a fixed, non-negotiable cost and in practice other costs and influences on viability may well move around to some extent. This element involves a judgement and may vary.

19. The buffering or buffer factor is not a fixed margin or allowance but means allowing for some level of cushioning i.e. some leeway to help ensure that all the potentially available viability headroom is not taken for the CIL charging.

20. The key test applied as charging authorities move forward to the independent examination of their draft charging schedules before adoption, is the need to consider and be able to show how their CIL proposals will strike an appropriate balance between the desirability of funding infrastructure and the viability of development. In doing this, the guidance recognises that while they are expected to show how the available information has informed the approach, the viability evidence does not have to be exactly followed. The PPG notes that there is 'some room for pragmatism', as it refers to nature of these considerations.

Findings Overview

21. Following this further review, and continuing to reflect the earlier assessment findings, there is sufficient viability scope in the borough to support a Nuneaton & Bedworth BC CIL Charging Schedule that will provide funding towards the infrastructure requirements associated with new development.

22. This is the case without unduly impacting on development viability, such that in our view an appropriate overall balance between this and the funding of infrastructure can be struck.

23. While, as is often the case, there are also possibilities around a more complex charging approach for a local CIL here, in our view this would be unnecessary, and a relatively simple charging approach would be able to serve well.

24. Nevertheless, differential charging rates are considered necessary in relation to varying development type here. This is a typical finding, as below.

25. The background to and parameters considered suitable for the Council to consider as part of its overall balance are as briefly summarised below. First an outline relevant to residential development is provided, followed by the findings as relate to commercial/non-residential development uses.

26. In practice, all sites and schemes will be different. Only a specifically set rate per individual development would respond fully to the potential range of issues and outcomes. Clearly such an approach is not realistic or necessary in CIL terms.

27. While reference to the Use Classes Order can help clarity in some cases, it is worth noting that it is not essential to set out the charging rates formally by reference to development Use Class. Rather, the authority needs to ensure the ease of operation of the charging schedule by using clear descriptions, and particularly when applying differential rates. In DSP's experience to date, we have not yet found it appropriate to recommend a single CIL charging rate that could be suitably applied across all chargeable developments. Consistent with wider assessment experience, we have found some level of differentiation to be needed here in order to reflect viability within an appropriate balance.

28. As regards to the CIL charging scope related to different development uses, the 2020 findings presented in the current assessment are broadly similar in nature to those contained within the Council's 2015 CIL consultation. That proposed the following charging rates (consulted on in October 2015):

Use	Charge £/sqm
Residential including strategic sites in the Borough Plan coming forward in a non strategic manner	£50
Strategic Sites allocated in the Borough Plan	£0
Retail (large) and warehouse development	£100
All Other Uses	£0

29. Following this comprehensive viability review and based on the findings set out above, as a quick guide, these are the guide parameters for CIL charging rates that are put forward to NBBC for consideration based on the viability findings (brief summary only – the full reporting provides the details):

2020 Findings - Residential development

30. **Suggested parameters for potential charging rates - residential (borough-wide):**

- Sites with affordable housing (policy H2 triggered i.e. at 11+dwellings: Rate - £50 – 80/sq. m

- Sites beneath AH policy threshold (up to and including 10 dwellings): Rate - £70 – 100/sq. m (upward differential possible @ c. +£20/sq. m)

- Possibility of higher rate for any small-scale uncomplicated greenfield development (subject to CIL basis in terms of description/zoning or similar) – Potentially at £100+/sq. m if relevant (with AH)

- Sheltered/retirement and extra-care housing - £0/sq. m

2020 Findings - Commercial and other (non-residential) development

31. **Suggested parameters for potential charging rates – commercial/non-residential (borough-wide):**

- Any development of larger retail units (foodstores, retail warehousing and similar) – Rate c. £100/sq. m

- Any other retail (smaller shops development) – e.g. smaller convenience and comparison shops, development in centres and neighbourhoods, any new local centres – Rate £0/sq. m

- Employment (offices, industrial and warehousing) and all other development uses - £0/sq. m.

32. In our experience, it is not unusual for most non-residential forms of development to show poor viability or at best mixed results within strategic viability testing or indeed at decision making stage. Generally, the same themes as were seen through the 2014 and 2016 assessment work have come through again at this new review stage specifically focusing on CIL.

33. However, the report notes that poor viability outcomes as seen through the nature of this and similar assessments do not necessarily mean that development will not happen. The particular drivers and interests of involved parties will ensure this in some cases, when this may be supported through flexibility in development appraisal inputs and negotiations. These are factors that we cannot assume in assessing viability suitably for informing CIL setting, however.

34. The selected approach needs to be informed by the evidence rather than needing to exactly mirror it, while remaining consistent with the guidance (PPG). Bearing in mind there is some room for pragmatism as recognised by the guidance (in the PPG) the report also acknowledges a potential alternative approach of a nominal/low CIL rate for all other development uses not charged specifically as listed above. This could be considered within the overall balance that will need to be struck (i.e. between the desirability of funding infrastructure and the potential effects on viability). However, while NBBC could consider this in respect of development uses that are not able to support CIL charging scope directly through the viability evidence, in our view this would involve caution and, particularly at the time of writing, the current economic backdrop might play into the review of any such alternatives. The guidance is also clear that CIL charging rates should not be set at the margins of viability.

35. The research, review work and reporting for this further assessment has been assembled at a time when there remain economic uncertainties associated with Brexit. In terms of the latest context potentially having a bearing on all of this, the Global COVID-19 (Coronavirus) pandemic situation is now dominating all aspects of the news and economy.

36. This may run through into many potential areas of influence on matters affecting viability or deliverability, short term in particular. However, there could be a range of

influences and effects, not necessarily all negative in their impact on viability or other matters. At the point of this assessment while there are unknowns, and potentially significantly so, it is possible to work only with the known – i.e. available information at this point in time and as continues to be reflected in the usual way through the stated established information sources. At this stage it appears that it will then be for Local Authorities and others to consider how this picture may change – monitor it as best possible and consider any necessary updating of the evidence and local response in due course.

37. DSP will be happy to assist NBBC with any enquiries or further information required on any of these or other aspects as further progress is made with the Council's CIL proposals.

Executive Summary Ends - Main report follows

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1. Introduction

1.1 Introduction and Background to the Study

1.1.1 The purpose of this report is to provide viability advice to support the preparation of a Community Infrastructure Levy (CIL) Charging Schedule for Nuneaton & Bedworth Borough Council (NBBC).

1.1.2 In October 2013, NBBC appointed Dixon Searle Partnership (DSP) to undertake an independent viability analysis of the Borough and provide recommendations to the Council in relation to introducing a CIL, having regard for local economic conditions and the emerging Borough Plan. The resulting December 2014 assessment[1] undertook a review of all policy requirements in the emerging Borough Plan, and assessed the development costs associated with all types of development in the Borough, alongside CIL rate testing at between £0 and £120 per square metre (sq. m), to determine appropriate CIL charging rates for the area.

1.1.3 Based on the recommendations of the 2014 Viability Assessment, the NBBC Preliminary Draft Charge Schedule (PDCS) was published by the Council for a six week public consultation in October 2015. The CIL was not progressed further by the Council following the PDCS consultation.

1.1.4 In December 2016, DSP produced an update to the 2014 Viability Assessment[2] to take account of changes to national and local policies, new proposed site allocations within the emerging Borough Plan, and changes to key assumptions and inputs associated with development costs and revenue. The purpose of this update was primarily to support the production and progression of the Borough Plan.

1.1.5 The NBBC Infrastructure Delivery Plan (IDP) was published in 2017 to further support the production and progression of the Borough Plan. The IDP covered a wide range of infrastructure types, outlining the baseline position of infrastructure provision in the Borough, and considered what infrastructure improvements may be required in the future to support growth proposed for allocation in the Borough Plan. The IDP provided general information on potential infrastructure needs, deferring specific

[1] Dixon Searle Partnership: Viability Assessment: Whole Plan and Community Infrastructure Levy Viability Study (2014)
[2] Dixon Searle Partnership: Local Plan Viability Assessment - Update (2016)

details of proposed infrastructure improvements, schemes, and costs, to be outlined within a separate Infrastructure Delivery Schedule (IDS).

1.1.6 Following requests from the Borough Plan inspector for updates to the IDP during the examination of the Plan, the IDS was published in February 2019 as an examination document. The IDS lists all known infrastructure projects which are required to support growth planned in the Borough Plan.

1.1.7 Following the adoption of the Borough Plan in 2019, the Council is now in a position to continue building the evidence base towards the publication and consultation on a Draft Charging Schedule.

1.1.8 The purpose of the CIL viability assessment is to identify appropriate CIL rates for inclusion within a draft CIL Charging Schedule. In accordance with the recommendations of the PPG[3], this report seeks to set out a CIL viability assessment that is proportionate, simple, transparent, and allows all calculations to be made publicly available. The assessment will show the potential effects of proposed levy rates on the viability of all types of development across the Borough area taking into account and building upon previous viability assessments published by the Council as discussed above.

1.1.9 To that end, DSP were appointed by Nuneaton & Bedworth Borough Council to provide the viability advice and evidence to determine appropriate CIL rates for the borough. To be clear, although appropriate and available evidence has been considered in compiling this study (including previous viability work undertaken by DSP) this CIL Viability Study is not an update of previous work but a new study to inform the Council's consideration of the potential for CIL across the borough.

1.1.10 Key outputs required by the Council from the CIL viability assessment include:

i. Advice on appropriate CIL rates for all types of development across the Borough.

ii. Recommendations on the need for and implementation of an instalments policy.

[3] Paragraph: 019 Reference ID: 25-019-20190901

iii. Consideration of how locally specific development costs could impact upon the extent of levy which could be charged in the area (Borough Plan, Supplementary Planning Documents, IDP and IDS).

iv. Potential for differential charging zones based on differences in costs and values across the Borough if identified.

v. The ability of strategic sites allocated in the Borough Plan to remain financially viable with the imposition of a levy, in addition to locally specific development costs and policy and infrastructure requirements within the Borough Plan, IDP and IDS.

vi. How the proposed CIL rates can maximise the potential CIL revenue to be obtained within the Borough, while also ensuring that the viability of new development in the Borough is maintained.

1.1.11 This study therefore investigates the potential scope for CIL charging in Nuneaton & Bedworth Borough, taking into account the adopted Borough Plan policies. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the borough. The review takes into account the range of normal development costs and obligations (including costs associated with local and national planning policies, as would be borne by developments as well the Community Infrastructure Levy payments and affordable housing provision). The aim is to provide the Council with advice as to the likely 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 likely planning obligations (including affordable housing) alongside other usual development costs.

1.1.12 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies that are likely to have a close bearing on development costs.

1.1.13 To this end, the study requires the policies and proposals in the local plan to be brought together to consider their cumulative impact on the viability of introducing a CIL. The Council's adopted local plan comprises the Nuneaton & Bedworth Borough Council Borough Plan 2011-2031 (referred to in this document as the 'Borough Plan' or just local plan for ease). The relevant policies in this document and within SPD, the IDP and

IDS have been taken into consideration alongside any national and regulatory issues in carrying out this study.

1.1.14 This report sets out our findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a new CIL.

1.1.15 This study has been carried out between May and August 2020.

1.2 Background to the CIL

1.2.1 The CIL regulations came into force in April 2010 and have been revised on a number of occasions since, with the most recent revisions (and to the associated guidance) - The Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019 – coming into force on 1st September 2019. The Regulation details are not repeated in full here, but we have summarised below some of the key aspects: -

- Local Authorities in England and Wales may put a CIL in place to raise funds from new development in their area to deliver the infrastructure needed to support that development (in this case Lichfield District Council is and will continue to be the charging authority).
- CIL is charge payable on 'development which creates net additional floor space' over 100sq. m.
- Residential annexes and extensions are exempt regardless of size
- The creation of any new dwelling regardless of size will pay the charge[4]
- The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area.
- Charging Authorities must allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas.
- Where a neighbourhood development plan (NDP) is in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development[5].
- Where an NDP is not in place but CIL is still charged, the neighbourhood will receive a capped share of 15% of the levy revenue arising from development in their area.

[4] The latest 2019 amendments have not altered these key points of principle.
[5] The proportion would be paid directly to the neighbourhood planning bodies and could be used for community projects. PPG provides further information on spending of Levy receipts including distribution to local neighbourhoods. Also see https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph: 072 Reference ID: 25-072-20140612 Revision date: 12 06 2014)

- AH and development by charities will not be liable for CIL i.e. in respect of residential development, only market dwellings will be liable to pay CIL at the rate(s) set by the charging authority.
- As reflected above, the CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

1.2.2 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated local plan level of growth to be accommodated across the borough as a whole through the development of an Infrastructure Delivery Plan (IDP) and subsequently and Infrastructure Delivery Statement (IDS). Both documents were produced to support the adopted Borough Plan and as such the Council do not consider it necessary to produce a full update of the IDS to support the potential introduction of a CIL. Instead an updated draft IDS has been produced[6] which presents the aggregate borough-wide infrastructure funding gap (to evidence the need to a CIL), total potential future s106 and CIL contributions towards infrastructure projects and a summary of potential infrastructure costs for each strategic residential site allocation in the Borough Plan. It is clear from this document that there is a clear infrastructure funding gap and thus need for a CIL in the borough, subject to any viability constraints.

1.2.3 Infrastructure is taken to mean any service or facility that supports the Borough Council area and its population and includes (but is not limited to) facilities for transport, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements.

1.2.4 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England): '*an authority must strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments… this balance is at the centre of the charge-setting process*' and '*in meeting the regulatory requirements, charging authorities should be able to show and explain how their*

[6] DAC Planning: Amended Infrastructure Delivery Schedule (March 2020)

proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area'.[7]

1.2.5 To achieve this: '*a charging authority should use an area-based approach, involving a broad test of viability across their area, as the evidence base to underpin their charge. The authority will need to be able to show why they consider that the proposed levy rate or rates set an appropriate balance between the need to fund infrastructure and the potential implications for the economic viability of development across their area*.'[8].

1.2.6 Although we have not set out fully the sections of the PPG viability guidance that are relevant in assessing viability in (for both CIL and plan-making), some of the key points are summarised below:

- 'Appropriate available evidence' must be used to inform the charging rate(s);
- An appropriate range of site types (or 'typologies') should be tested based on the range of site types likely to come forward for development over the plan period;
- Costs within the viability assessment should be based on evidence reflective of local market conditions (see paragraph 012 of the 'Viability' PPG);
- Land value should be based on the Existing Use Value of the site, plus a premium (known as the 'EUV plus' approach);
- There is no requirement for the charging authority to directly mirror the rate(s) proposed within the viability study;
- A 'viability buffer' should be included so that the charges are able to support development through economic cycles;
- Differential rates can be applied if appropriate in relation to geographical zones (including for strategic sites) and/or by varying type and scale of development, although undue complexity should be avoided noting specifically that charging authorities '*should be aware that it is likely to be harder to ensure that more complex patterns of differential rates are State aid compliant*'.
- Stakeholders should be appropriately consulted to inform the viability assessment process;
- The viability assessment should be proportionate, simple, transparent and publicly available.

[7] https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph 010 Reference ID: 25-010-20190901 Revision date: 01 09 2019
[8] https://www.gov.uk/guidance/community-infrastructure-levy#evidence-and-setting-rates (Paragraph 020 Reference ID: 25-020-20190901 Revision date: 01 09 2019

1.2.7 Within this study, allowances have been made for the cost to developers of providing affordable housing and complying with other planning policies fully (based on assumptions relevant to testing allied to the adopted local plan). This is whilst factoring-in the usual costs of development (build costs, fees, contingencies, finance, costs of sale, profit and land value).

1.2.8 The consideration of the collective planning obligations (including affordable housing, other requirements and CIL, together with any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others, which links back to 'striking a balance'. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.

1.2.9 In most cases, where adopted, CIL replaces or largely replaces s.106 as the mechanism for securing developer contributions towards infrastructure. The 2019 updated CIL Regulations and PPG reflect the greater flexibility that authorities now have to use funds from both section 106 planning obligations and the Levy to pay for the same items of infrastructure, regardless of how many planning obligations have already contributed towards an item of infrastructure (the previous s.106 'pooling restrictions' have been removed).

1.2.10 As noted above, a key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

'When deciding the levy rates, an authority must strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments.

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements, charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their *relevant plan and support development across their area (see regulation 14(1), as amended by the 2014 Regulations).'*[9]

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

1.2.12 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[10]). 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.

1.3 Nuneaton & Bedworth Borough Profile

1.3.1 Nuneaton and Bedworth Borough is one of five boroughs within Warwickshire. It is the smallest in the area, but has the second largest population of 125, 400, resulting in a high population density of 1592 per sq.km (the average for Warwickshire is 275 persons per sq.km). Largely urban in nature the borough has three main settlements; the towns of Nuneaton and Bedworth and the large village of Bulkington all of which are separated by areas of countryside that are designated Green Belt. There are also several smaller settlements located in the south of the borough between Bedworth and Bulkington.

1.3.2 Nuneaton is the borough's main retail and commercial centre serving the borough and wider area. Bedworth has a more local role.

1.3.3 The Borough Plan sets out strategic targets for housing and employment development within the borough to 2031 including at least 14,060 homes and 107.8ha of employment land.

[9] https://www.gov.uk/guidance/community-infrastructure-levy (Paragraph 010 Reference ID: 25-010-20190901 Revision date: 01 09 2019
[10] 'Local Housing Delivery Group – Viability Testing Local Plans' (Harman, June 2012)

1.3.4 Of the 14,060 new homes planned for, approximately 10,250 are expected to come forward on strategic sites allocated in the Borough Plan. The following table sets out a summary of the site allocations and their current status (as of May 2020):

Figure 1: Status of strategic sites allocated in the Borough Plan (May 2020)

Ref	Planning app no.	Address	Position at April 2020	Total capacity
HSG1	032246	The Long Shoot, between 48-130 Davidson Developments, Nuneaton	Complete	66
HSG1	032399	The Long Shoot, land rear of 28-44 (Bellway Phase 1)	Under construction	125
HSG1	033184	Site 18C002: Land at Lower Farm, Weddington Road, Nuneaton (Milby Hall at the Farm)	Under construction	193
HSG1	033184	Site 18C002: Land at Lower Farm, Weddington Road, Nuneaton (Cotton Grange at The Farm)	Complete	221
HSG1	032992	Site 31B007 Land off", The Long Shoot (Bellway Phase 2), Nuneaton	Under construction	250
HSG1	033758	"Site 29B002 - Land off", Weddington Road, Nuneaton, (South of Lower) (Barratt - St James' Gate)	Under construction	245
HSG1	034571	Dubh-Linn, 431 Higham Lane	Complete	1
HSG1	034360	Site 31B004 - Land rear of 194-262, The Long Shoot, Nuneaton (Davidsons)	Under construction	120
HSG1	034361	Site 31B004 - Land rear of 194-262", The Long Shoot, Nuneaton (Davidsons)	Under construction	35
HSG1	034969	Cresswells Farm, The Long Shoot, Nuneaton, (Jelsons Ltd)	Under construction	150
HSG1	034076	Site 31A002 - Land off, Higham Lane, Nuneaton, (adj Nuneaton Fields Farm) (Persimmon Homes Eaton Place)	Under construction	453
HSG1	035279	Remaining land at Top Farm	Outline application submitted – to be determined	1700
HSG1	034615 (outline) 03692 (reserved matters for 450 dwellings - TBD)	Calendar Farm	Resolution to Grant – outline only Reserved matters for 450 dwellings - TBD	850

Ref	Planning app no.	Address	Position at April 2020	Total capacity
HSG1	036873	Land to rear of 28-44 The Long Shoot, Nuneaton (Bellways Phase 3)	Full application - TBD	75
			HSG1 total	**4,409**
HSG2	-	Arbury	No application submitted	1640
HSG3	035037	Gipsy Lane	Outline application approved recently	575
HSG4	-	Woodlands	No application submitted	689
HSG5	-	Hospital Lane	No application submitted	398
HSG6	035503 (outline) 037022 (full for 133 dwellings TBD)	School Lane	Outline application 035503 (up to 150 dwellings) for part of allocation approved. Reserved matters application 037022 (for 133 dwellings) submitted and TBD.	220
HSG7	-	Land East of Bulkington	No application submitted	196
HSG8	036491 (full application)	Land West of Bulkington	Application for northern parcel of the site only (188 dwellings). Decision deferred until Concept Plan SPD is adopted in July 2020.	495
HSG9	037122 (hybrid)	Land off Golf Drive	Hybrid – full for 621 dwellings, outline for community centre - TBD	621
HSG10	033926	"Site 52D067 - Land off" (Land adj Crematorium), Eastboro Way, Nuneaton	Planning approved. Not Started	360
HSG11	035595	Land adjacent Judkins Quarry, Tuttle Hill	Outline application submitted – TBD	200
HSG12	036870 (full app. for 212 dwellings)	Former Hawkesbury Golf course	Full application for 212 dwellings, outline to be submitted shortly for 288 dwellings. [N.B Hybrid application submitted previously for 500 dwellings] - TBD	380 [500 applied for]
EMP1	034901	Faultlands	Outline application approved	
EMP2	-	Phoenix Way/Wilsons Lane	No application submitted but pre-app public consultation held with some more detailed plans available at: https://www.landatwilsonslane.co.uk/	73
EMP3		Prologis Extension	No application submitted	
EMP4		Coventry Road	No application submitted	
EMP6	037021	School Lane/Longford Road, Bedworth	Full application - TBD	
EMP7		Bowling Green Lane, Bedworth	No application submitted	
			Total dwellings on strategic allocations	**10,256**

2 Methodology

2.1 Residual valuation principles

2.1.1 This study investigates the potential for a range of development types to contribute to infrastructure provision funding across the Borough Council's area through the collection of financial contributions charged via a Community Infrastructure Levy (CIL).

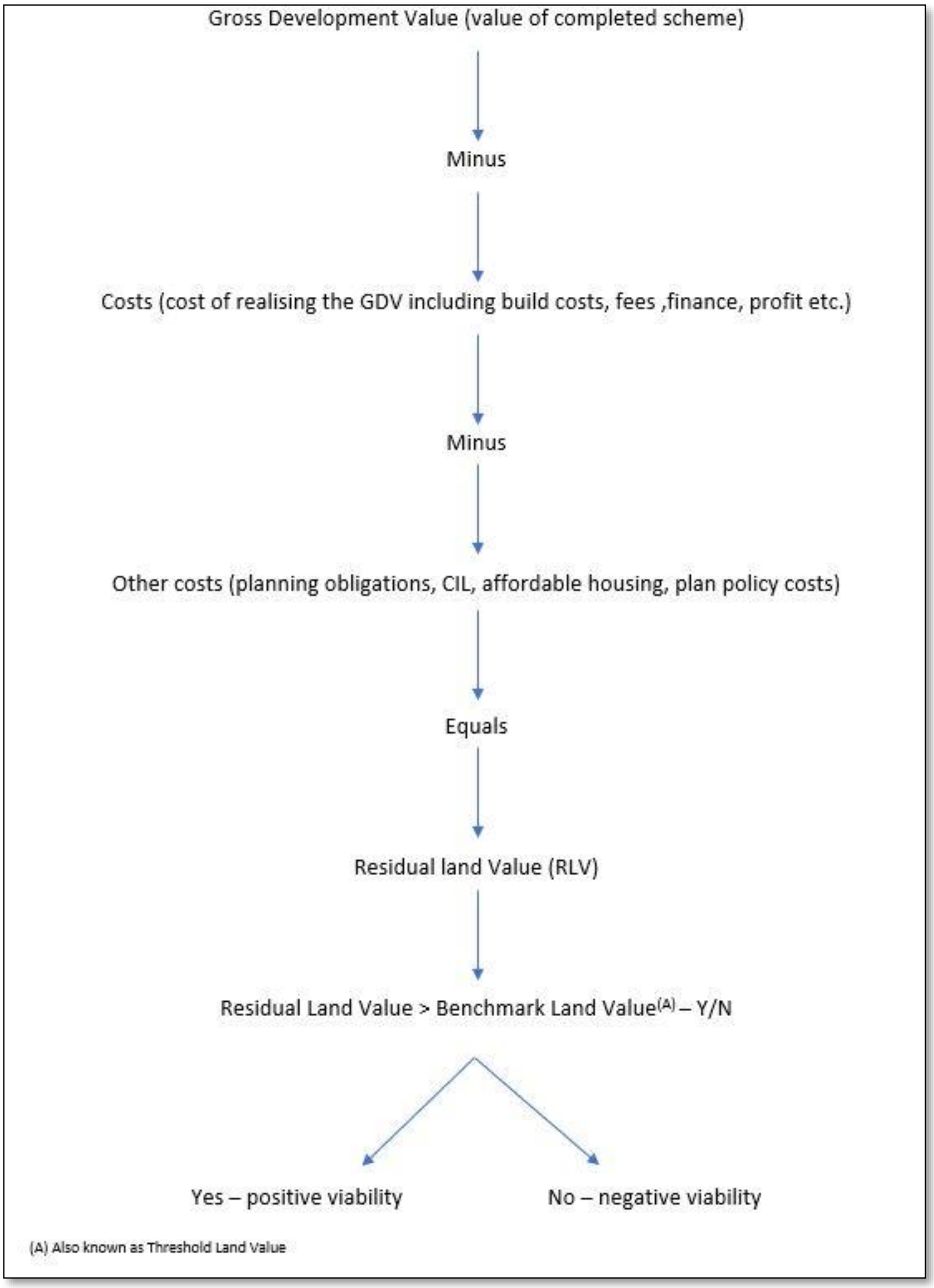
2.1.2 Prior to fixing assumptions, necessarily at a point in time, and running appraisals using those (as outlined in the following paragraphs) we undertake an extensive information review, property market research and development industry stakeholders' survey. As part of this approach, we undertake a review of the established policies – enabling an assessment of which are considered likely to have a particular development cost impact, or additional cost implications over and above the typical costs involved in the development process (for example build costs utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS), associated fees and contingencies, finance, sale costs, development profit; and land costs).

2.1.3 Appendix I to this document also provides a quick reference guide to the assumptions used and includes a policy review schedule indicating the view taken with respect to the policies contained within the Borough Plan and associated SPDs that are likely to influence viability.

2.1.4 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential / commercial.

2.1.5 The most established and accepted route for studying development viability at a strategic level, including for CIL viability, but also used for site-specific viability assessments, is residual valuation. This is also consistent with the relevant guidance described above. Figure 2 below sets out (in simplified form only) the principles of the residual valuation calculation, which is the methodological basis of the appraisals sitting behind our results and recommendations.

Figure 2: Simplified Residual Land Valuation Principles



2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV. This assessment is consistent with the NPPF and accompanying PPG on Viability, with the NPPF no longer containing any reference to competitive returns to a 'willing landowner' and 'willing developer'. The emphasis has moved away from a market value approach to land that may have been used or carried greater influence in the past. The PPG on Viability has for some time now made it clear this benchmark land value (BLV) should be based on Existing Use Value (EUV) and states:

'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+)'.

2.1.8 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics.

2.1.9 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III.

2.2 Stakeholder Consultation

2.2.1. The national policy and guidance reflects the need and value of stakeholder engagement. Consistent with our established practice for strategic viability assessments, DSP sought soundings as far as were available from a range of development industry stakeholders as the assumptions were considered. This offered an engagement opportunity to a wide range of locally active organisations and interests, with a few to gathering feedback on our emerging study approach and inputs - to help inform the assessment.

2.2.2. This engagement process was conducted primarily by way of three bespoke survey type questionnaires seeking information and views with which to help test our emerging assumptions at the early project stages, followed up with any subsequent dialogue as appropriate. The questionnaires set out our initial draft assumptions and testing parameters, with the opportunity provided for the stakeholders to then comment on those emerging positions or suggest alternative assumptions with reasoning. The survey proformas were issued as follows:-

- **Development Industry** – range of active stakeholders in the district as per the Council's contacts lists and supplemented where appropriate from DSP's experience, including local property agents, developers, housebuilders, planning agents, industry representatives and others.

- **Strategic Site Interests** – in relation to further informing the more specific larger sites testing as far as possible, other relevant parties have been contacted using a separate bespoke (per-site) survey type document requesting any available information in connection with these sites including in relation to land value/ownership, any views on development values and costs any current stage estimates or similar on infrastructure requirements, potential site abnormals, site phasing/delivery trajectories, etc.

- **AH Providers** – range of locally active affordable housing providers, again through discussion with the Council. These parties were contacted with a directed survey form requesting guide information on likely AH revenue (payment to developer) levels as well as on underlying investment/valuation assumptions and any other commentary – again, all as far as available.

2.2.3. As part of this process, we keep a full record of all stakeholder interaction, including a log indicating the parties contacted, reminders issued, the feedback responses and level of response overall.

2.2.4. Given in some instances commercial sensitivities/confidentiality, the details of the responses received are not included within our published work. However, this remains a valuable contribution to help inform the assessment and consider the assumptions range. It also aids the review of and judgments made around the results in the later assessment stages. Overall the assessment is informed by a combination of sources, including the Council's information, our own extensive research process and experience and the relevant stakeholder sourced feedback.

2.3 Scheme Development Scenarios – Residential Development Scenarios

2.3.1 The site typologies modelled as part of this assessment reflect a range of different types of development that are thought likely to be brought forward through the planning process across the plan area. This enables viability to be tested in a way that reflects the likely range of future housing supply characteristics, informed also by the local experience of development to date. The residential scenarios chosen also allow us to test CIL in relation to policy thresholds (for example reviewing viability and the potential capacity for CIL above and below the adopted affordable housing threshold). This appropriately informs the development the residential CIL charge setting process, with the key aim of finding an appropriate balance between policy requirements (including complying with adopted policy and the desirability of funding infrastructure) and the ability of developments to continue to come forward viably.

2.3.2 While this cannot be and does not need to be an exhaustive exercise as the guidance recognises, in order to adopt a relevant range of residential development typologies, we have reviewed and analysed the housing supply expected to come forward over the emerging plan period – up to 2031 with an emphasis on smaller non-strategic allocations and windfall sites. In addition, the assessment considers the viability of specific strategic site allocations in particular to test the potential for those to contribute towards CIL as well as site specific mitigation measure through s106.

2.3.3 Each of the development typologies has been tested over a range of value levels (VLs) representing varying residential sales values as seen at the time of review across the borough by scheme location / type. A key part of the Council's Brief is to test if there is scope to be more refined in setting CIL by location ; to take account on any geographical variation in viability. As well as looking at the influence of location within the borough, this sensitivity testing approach allows us to consider the potential impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) as well as how this key assumption may vary by location, development type and scale.

2.3.4 A summary of the general residential scheme typologies tested as part of this study is shown at Figure 3 below, with the full detail set out in Appendix I.

Figure 3: Residential Scheme Typologies

Scheme Size appraised	Type	Site Type
3	Houses	PDL
10	Houses	Greenfield / PDL
11	Houses	Greenfield / PDL
15	Houses	Greenfield / PDL
15	Flats	PDL
30	Mixed	Greenfield
30	Flats (Sheltered)	PDL
60	Flats (Extra Care)	PDL
100	Mixed	Greenfield

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

2.3.5 As mentioned above, in addition to the site typologies tested, this assessment specifically reviews the viability and scope for CIL from a number of strategic site allocations from the Local Plan; those that do not already have consent or are not already under construction. We discuss these sites in detail later in this report.

2.3.6 As part of the site typologies testing and seeking to make these as representative of possible of future development, an assumption is made in relation to dwelling mix, for which we have adopted the principles set out in Figure 4 below and Appendix I. These dwelling mix principles are based on the detail set out in Local Plan which is informed by the most Strategic Housing Market Assessment[11] that supported the Borough Plan as well as detail set out in the Council's Affordable Housing SPD[12].

Figure 4: Dwelling Mix Assumptions

Type	Market Housing	Affordable Housing
1-beds	8%	40-45%
2-beds	25%	25-30%
3-beds	51%	20-25%
4-beds	16%	5-10%

2.3.7 In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility available; particularly in scheme typologies with small dwelling numbers. The assumed scheme mixes are by their nature hypothetical and are not exhaustive. Many other types and variations may be seen, including larger or smaller

[11] GL Hearn (2013). Coventry & Warwickshire Joint Strategic Housing Market Assessment: Final Report
[12] Nuneaton and Bedworth Borough Council: Affordable Housing Supplementary Planning Document (2019)

dwelling types in different combinations, according to particular site characteristics, localised markets and requirements etc. Appendix I also provides more information on the assumed dwelling mixes and associated revenue levels per tenure type.

2.3.8 For larger scale comprehensive development proposals much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount and type of housing that can actually be accommodated on site and the timing of its provision in relation to that of the accompanying infrastructure. At this stage, the finer details are not clear and, as such, the larger site appraisal testing for this viability assessment is based on a mixture of known requirements and costs (as available at the timing of appraisals), and typical assumptions informed by reference to sources such as the Harman Report (as mentioned above), stakeholder engagement and through experience - as is appropriate for this level of viability testing.

2.3.9 The dwelling sizes assumed for the purposes of this study are as follows (see figure 5 below):

Figure 5: Residential Unit Sizes

Unit	Market Size (sq. m.)
1BF	50
2BF	61
2BH	79
3BH	93
4BH	106

2.3.10 As with the many other variables considered through assumptions, there will be a large range and mix of dwelling sizes coming forward in practice, with these varying by scheme and location. Due to the high-level nature of this study process, a sample of scenarios and assumptions can be tested rather than every potential iteration. This approach is sufficient to generate a suitable overview, in accordance with guidance.

2.3.11 Since there is a relationship between dwelling size, value and build costs, it is the relative levels of the values and costs that are most important given the nature and purpose of this study (i.e. with values and costs expressed and reviewed in £/sq. m. terms); rather than necessarily the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Value Levels' (VLs) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. Although methods vary, an approach to focussing on values and costs per sq. m. also fits with a key mode that developers and tend to use to assess, compare/analyse and price schemes. It provides a more relevant context for considering the potential viability scope across the typologies approach, as part of considering relative policy costs and impacts, and is also consistent with how a CIL is set up and charged (as prescribed under the regulations).

2.3.12 The above dwelling sizes are expressed in terms of gross internal floor areas (GIAs) for houses (with no floor area adjustment – i.e. 100% saleable floorspace). For flats, the additional cost of constructing communal/shared non-saleable areas also needs to be taken into account. For the general flatted typology development tests, we have assumed a net:gross ratio of 85% (i.e. 15% communal space). The sheltered housing scenario assumes a lower proportion of saleable floorspace compared with typical general needs flats, at 75% (i.e. 25% communal) which is then further reduced through the selected assumptions to 65% saleable (35% communal) for the extra care development typology. We consider these to be reasonably representative of the types of properties coming forward within the scheme types likely to be seen most frequently providing on-site integrated AH, although again we acknowledge that all such factors will likely vary to some extent from scheme to scheme. It is always necessary to consider the size of new build accommodation in looking at its price per sq. m. rather than its price alone.

2.3.13 The range of prices expressed in £s per sq. m. therefore are the key measure used in considering the research analysis undertaken, working up the range of VLs for testing, and in reviewing the results. At this level of strategic overview, we do not differentiate between the value per sq. m. for flats and houses although in reality we often observe an inverse relationship between the size of a property and its value when expressed in terms of a £ sales value rate per unit area (£/sq. m or £/sq. ft.).

2.4 Strategic Site Allocations

2.4.1 As part of this study, the Council requires an updated assessment of the strategic site allocations that form a significant part of the Council's future residential (and employment) land supply in order to test whether a positive contribution to CIL can be made in addition to the site specific infrastructure provision.

2.4.2 DSP were provided with an update on the status of each of the strategic allocations (and any individual sites forming part of a wider allocation) as set out in Figure 1 above. A number of sites are either completed, under construction or have planning consent. For this stage of the study we have not carried out any further testing of those sites. The remaining sites that have been considered in this assessment are set out in detail in Appendix I including site specific assumptions allied to those sites. Figure 6 below summarises the sites appraised.

Figure 6: Strategic Site Allocations Tested

Site	**Indicative Capacity** (approx no. of dwellings)	Assumed Gross Site Area (ha)
HSG2 Arbury	**1640**	85.82
HSG4 Woodlands	**689**	38.07
HSG5 Hospital Lane	**398**	22.93
HSG7 Land East of Bulkington	**196**	10.25
HSG8 Land West of Bulkington	**495**	25.13
HSG10 Land off" (Land adj Crematorium), Eastboro Way, Nuneaton	**360**	15.3

Details provided by NBBC and may differ from Local Plan numbers

2.4.3 Differing from the general range of residential site typologies noted above, these strategic site allocations are specific sites and as such have bespoke value and cost assumptions applied (including for site specific mitigation through s106 as provided by the Council via the DAC Planning Preliminary CIL report[13]). Appendix I provides a summary of the specific assumptions for each strategic site based on a mixture of reviewing site promotion documents, other key documents (e.g. IDS) discussions with key Council officers and our own experience.

2.4.4 Although specific appraisals have been carried out for the above strategic sites, in reality the length of time over which development is planned (over the lifetime of the emerging plan) in combination with detailed site information (including costings) available at this stage, means that the results can only provide a high-level assessment of the potential viability of these sites.

[13] DAC Planning: Nuneaton & Bedworth Borough Council Community Infrastructure Levy Draft Charging Schedule Preliminary Report (March 2020).

2.4.5 The results of the appraisals are shown in Appendix IIb alongside summaries of the development appraisals. These show the potential residual surplus (or deficit) after allowing for typical build costs, external and site works, fees, finance, development profit, costs of sale and land purchase, as above. In addition, we have also applied a layer of sensitivity testing to each site with the level of sales value and construction cost is increased and decreased from the base position in a number of steps.

2.4.6 The 'Findings Review' section (3) below includes our review of the results for these Strategic Site Allocations as well as the general range of typologies (including non-residential typologies). Appendix IIb provides the strategic site results summary tables for each strategic site allocation tested.

2.5 Scheme Development Typologies - Commercial / Non-Residential Development Scenarios

2.5.1 This assessment also considers non-residential development with scenarios tested based on the type of development likely to come forward across the Borough. Figure 5 sets out the various scheme types appraised for this study again on a typologies basis, covering a range of non-residential development uses in order to test the likely impact on viability of requiring CIL contributions from different types of commercial development; types again as considered potentially relevant.

2.5.2 The commercial / non-residential aspects of this study adopt the same (residual valuation) methodology as described earlier in this report, considering the variable strength of the relationship between the development values and costs associated with different scheme types. Appendix I provides more information on the scope of assumptions used to assess the typologies outlined in Figure 7 below:

Figure 7: Commercial / Non-residential Development Typologies

Use Class / Type	Example Scheme Type
Large Retail	Large Supermarket - out of town
Large Retail	Retail Warehouse
Small Retail	Convenience/local store - various locations (including town centre shops context)
Business - Offices - Town Centre	Office Building
Business - Offices - Out of town centre / Business Park	Office Building
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate
Industrial / Warehousing	Storage & Distribution
Warehousing / distribution	Distribution unit
Hotel (budget)***	Hotel - edge of town centre / edge of town
Residential Institution	Nursing Home
Other / Sui Generis	Variable - considered on strength of values / costs relationship basis for a range of other development uses including community / clinics / fitness/ leisure / nurseries etc. / holiday lets

2.5.3 Following the same principles and general process as the residential scenarios, a variety of sources were researched and considered in support of our assumptions setting process; again, also informing the review of findings later on. This includes information on values, land values and other development assumptions; from sources such as CoStar Commercial Real Estate Intelligence resource, the VOA Rating List and other web-based review as well as feedback as available from the development industry consultation. Supplementary information sources included articles and development industry features sourced from a variety of construction related publications; and in some cases, property marketing details.

2.5.4 Collectively our research enables us to apply a level of “sense-check” to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. The full research review is provided within Appendix III to this report.

2.5.5 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.

2.5.6 Clearly there is potentially a very wide range of such schemes that could be developed over the life of the Local Plan, and any revised CIL charging schedule(s). Alongside viability, it is also relevant for the Council to consider the likely frequency, delivery and distribution of these over the Plan and Schedule periods. In advance of potentially expanded typology test appraisals, it was possible to review (in basic but sufficient terms) the key relationship between likely completed value per sq. m. and the cost of building such schemes – see Section 3 for more detail.

2.5.7 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the normal context that has been discussed above. This extends the iterative process, as an addition to the main appraisals, whereby a deteriorating strength of relationship between values and costs provides an indication of further reducing viability prospects compared with the more viable or marginally viable developments. This starts to indicate schemes that are considered more typically likely to require other financial support; rather than being clearly and consistently able to produce a surplus capable of some level of contribution to CIL. Through this process, we were able to determine whether there were any of those scenarios that warranted additional viability appraisals / testing.

2.6 Gross Development Value (Scheme Value) - Residential

2.6.1 A key part of the appraisal assumptions are the market housing sale values. Consistent with our established and examined assessment approach, determining these assumptions in the Nuneaton & Bedworth context involves a range of information sources being considered and analysis of the data reviewed. For a proportionate but appropriately robust evidence basis, it is preferable to consider information from a range of sources including those listed below. Our practice is to consider all available sources to inform our independent overview - not just historic data or particular scheme comparables, including:

- Previous viability studies as appropriate;
- Land Registry;
- Valuation Office Agency (VOA);
- Property search, sale/market reporting and other web resources;
- Development marketing web-sites;
- Any available information from stakeholder consultations

2.6.2 A framework needs to be established for gathering and reviewing property values data. An extensive residential market review has been carried out in order to consider and appropriately reflect, at a level suitable for strategic assessment, the variation in residential property values seen across the district to enable consideration of potential variations to CIL rates geographically.

2.6.3 The data was collected by both ward and settlement areas and analysed using both sold and asking prices for new-build and re-sale property. It must be acknowledged that the scope of the data varies through time and by location. In some instances, data samples are small (e.g. relating to a particular period or geography) and this is not unusual. Consistent with the above principles and the need to review it is important that the available data is reviewed collectively in setting the values assumptions.

2.6.4 As above, this data collection phase was based on both ward and settlement areas within the borough and having regard to the settlement hierarchy set out in Policy DS2 in the borough plan. Specific values research was also carried out relating to the strategic sites modelled in this assessment. We considered this to provide the most appropriate and reflective framework for this extensive data collection exercise, and the subsequent analysis to inform assumptions. This review method enabled us to view how the value patterns and levels observed overlay with the areas in which the most significant new housing provision is expected to come forward over the plan period. The data collection and research analysis is described fully as part of Appendix III to this report.

2.6.5 In addition to our own research we have also considered information provided to DSP as part of our stakeholder consultation exercise. When viewing overall sales values patterns across the borough the following provides a summary of how values vary:

Figure 8: Resale Values Analysis by Settlement – Dec 2019 – June 2020

SETTLEMENT	Average Price Updated by HPI	Average Updated £/M²	Sample Size
ASH GREEN	£208,028	£2,130	9
BEDWORTH	£178,700	£2,107	99
BULKINGTON	£221,960	£2,479	14
KERESLEY	£173,993	£1,925	8
NUNEATON	£184,044	£2,161	293

2.6.6 The above data has also been considered by Ward as follows:

Figure 9: Resale Values Analysis by Ward – Dec 2019 – June 2020

WARD	Average Price Updated by HPI	Average Updated £/M²	Sample Size
ABBEY	£139,292	£1,742	41
ARBURY	£177,408	£2,142	22
ATTLEBOROUGH	£152,931	£1,988	25
BAR POOL	£155,999	£2,046	36
BEDE	£160,328	£1,913	15
BULKINGTON	£221,960	£2,516	15
CAMP HILL	£146,445	£1,878	26
EXHALL	£181,621	£2,022	28
GALLEY COMMON	£178,800	£2,333	28
HARTSHILL	£85,406	£1,675	1
HEATH	£192,573	£2,064	25
KINGSWOOD	£171,198	£1,994	19
POPLAR	£177,432	£2,186	30
SLOUGH	£184,885	£2,283	18
ST. NICOLAS	£259,151	£2,534	28
WEDDINGTON	£238,953	£2,526	34
WEM BROOK	£161,221	£1,732	13
WHITESTONE	£262,148	£2,574	20

2.6.7 Although the general sales values picture provides a good overview for how the second-hand market operates across the borough in terms of differential sales values, it is new build development that drives the values needed to support a CIL and any variation by location. As has been noted through previous assessments and again seen through our current research and consultation, new build values across the borough do not vary hugely by location.

2.6.8 Figure 10 below shows the average new build values by settlement (where available) and Figure 11 shows the data by Ward (also where available):

Figure 10: New Build Values Analysis by Settlement

Settlement	Average Sale Price Updated by HPI	Updated £/M²	Sample Size
Ash Green	£195,976	£2,285	13
Bedworth	£196,919	£2,727	15
Nuneaton	£283,819	£2,705	772

Figure 11: New Build Values Analysis by Ward

Ward	Average Sale Price Updated by HPI	Updated £/M²	Sample Size
Camp Hill	£176,227	£2,375	110
Exhall	£195,976	£2,285	13
Galley Common	£238,135	£2,654	69
Heath	£292,264	£2,647	7
Poplar	£113,492	£2,929	8
St. Nicolas	£313,927	£2,770	277
Weddington	£304,856	£2,733	316

2.6.9 It is clear that there is very little variation of new build values with values typically within the £2,700 to £2,900/m² range. Two Wards shown in Figure 11 above are based on singe sites within those and could be considered outliers.

2.6.10 Information provided by the stakeholder consultation responses also reflects our own research. The following table was provided by one respondent and shows a range of new build values between £2,378/m² and £2,885/m², with the stakeholder commentary noting that the examples below are considered to: *"give a robust understanding into sales values throughout Nuneaton and Bedworth"* and noting that: *"There appears to be no direct correlation between geographical location and values, with across the district values above £250psf are being achieved…'.* The commentary went on to note what were considered outliers or anomalies in the data, at sales values below £250psf, owing to particular site and scheme characteristics rather than being more generally reflective of the local market housebuilders' typical approaches and outcomes.

Figure 12: Site Specific New Build Values – January 2019 – January 2020

Developer	Scheme	Avg Price	Avg Size (sq ft)	Avg £psf
Barratt Homes	Saxon Meadows	£189,254	856	£221
Cartwright Homes	The ZU	£221,125	944	£234
Owl Homes	Windmill Heights	£275,333	1127	£244
Bellway Homes	Royal Park	£351,789	1409	£250
Davidsons	Churchfields	£307.558	1199	£257
Taylor Wimpey	The Farm	£296,835	1152	£258
Taylor Wimpey	Ribbonfields	£235,048	910	£258
Davidsons	Manor Fields	£308,424	1166	£264
Barratt Homes	St James's Gate	£293,996	1107	£266
Barratt Homes	The Long Shoot	£300,672	1121	£268

2.6.11 The above suggests minimum values of around £2,700/m^2 are being achieved borough-wide and that there is very little difference in new build values regardless of location.

2.6.12 In order to provide analysis of the sensitivity of viability to the assumed sales values we have carried out testing across a range of value levels (VLs) between £2,400/m^2 and £4,200/m^2. Although the main, values are between £2,700/m^2 and £2,900/m^2, we have included testing either side of this range to capture either values variation over time or specific outliers to our assumed main range. Details are provided in Appendix I.

2.6.13 It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. Again, in some cases, small numbers of properties in particular data samples (limited house price information) can produce inconsistent results. This is not specific to Nuneaton & Bedworth Borough.

2.7 Scheme Revenue (Gross Development Value (GDV)) – Affordable Housing (AH) Revenue

2.7.1 In addition to the market housing, the development appraisals also assume a requirement for affordable housing (AH). Nuneaton & Bedworth Borough Council's current approach is to seek affordable housing from sites of 11 dwellings or more. Policy H2 of the adopted Borough Plan states: '*The council will seek to negotiate 25 %*

affordable housing where residential development proposals consist of 15 dwellings or more, and for two units where residential development proposals consist of between 11 to 14 dwellings, irrespective of any demolitions'.

2.7.2 For the make-up of the affordable housing, we have assumed that approximately 76% is affordable rented tenure and 24% is 'intermediate' in the form of shared ownership whilst maintaining a minimum of 10% affordable home ownership within the overall affordable housing requirement as required by Paragraph 64 of the NPPF. The current tenure mix is based on advice provided in the Council's Affordable Housing SPD.

2.7.3 In reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) ensuring that properties meet local needs at the time of the application. In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) affordable housing element in that the setting of the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations.

2.7.4 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.

2.7.5 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like).

2.7.6 The transfer values for the AR AH units assumed for the study are shown in Appendix I. We have also introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) acts as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the LHA rate.

2.7.7 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including an RP's own development strategies, and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.8 Gross Development Value – Commercial / Non-residential

2.8.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically, these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered using the following methods:-

- For the main commercial scheme typologies under review, consistent with those reviewed in most of our strategic level viability assessments, residual valuation methodology - as per the principles applied to the residential typologies, or;

- A simpler method adopting a value vs cost comparison for other commercial typologies clearly indicating a poor relationship between the two - resulting in full appraisals being unnecessary e.g. for surgeries, community centres, and a range of other development uses either typically provided by public agencies or generally non-commercially viable uses as stand-alone scenarios.

2.8.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was collated from a range of sources including (also see Appendix III for more detail):

- CoStar property intelligence database;
- Valuation Office Agency (VOA);
- Range of property and development industry publications, features and websites.

2.8.3 Figure 13 below shows the range of annual rental values assumed for each scheme typology. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

Figure 13: Assumed rental value – key commercial typologies

Development Use / Class Type	Example Scheme Type	Value Range tested - Annual Rents £ per sq. m		
		Low (L)	Mid (H)	High (H)
Large Retail	Food store - Large supermarket - out of town	£200	£225	£250
Large Retail	Retail warehouse	£100	£130	£160
Small Retail	Convenience/local store - various locations	£75	£100	£125
Small / town centre retail	Comparison shops (general / non-shopping centre)	£100	£150	£200
Business - Offices - Town Centre	Office building	£125	£150	£175
Business - Offices - Out of town centre / Business Park	Office building	£140	£160	£180
Business - Industrial / Warehousing	Smaller / move-on type industrial unit including offices - industrial estate	£60	£80	£100
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£55	£65	£75
Industrial / Warehousing	Storage & Distribution	£80	£90	£100
Warehousing / distribution	Distribution unit	£50	£90	£100
Hotel (budget)***	Hotel - edge of town centre / edge of town	£4,000	£5,000	£6,000
		Annual Room Rents		
Residential Institution	Care/Nursing Home	£160	£180	£200

2.8.4 As above, the rental values were tested at three levels representative of low, medium/mid and high test values considered relevant to each commercial scheme type across the study area. This enables us to assess the sensitivity of the viability findings to varying value levels, much like the residential appraisals. These are necessarily estimates and based on an assumption of new build development.

2.8.5 The quality and quantum of available information in this regard varies considerably by development type. Again, we do not consider this to be a specific NBBC factor and it does not detract from the viability overview process that is appropriate for this type of study.

2.8.6 These varying rental levels were capitalised by applying yields of between 5% and 7% (varying dependent on scheme type). As with the level of rental value, varying the yields enabled the exploration of the sensitivity of results given that in practice a wide variety of rentals values and yields could be seen. This approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could potentially deteriorate whilst still supporting the collective costs, including CIL.

2.8.7 It is worth noting here that small variations in assumptions can have a significant impact on the GDV available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between the desirability of infrastructure funding needs and the potential effect on viability. Through our research into commercial values we consistently found lower rents representative of older stock and as such have taken a more positive view of commercial values to test the scope for CIL on various forms of non-residential development. This is particularly the case with industrial / employment sites in the borough. Retail values tend to be more robust. While it is relevant to assume new development and appropriate lease covenants etc. rather than older stock, using overly positive assumptions in the local context could act against finding that balance.

2.8.8 This approach enabled us to consider the sensitivity of results to changes in the capital value (GDV) of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates for the study area, including any differential rates that could or should be considered by NBBC moving ahead. As with other elements of the study, the adopted assumptions will not necessarily match scheme specifics and therefore we need to keep in mind whether and how frequently local scenarios are likely to indicate viable results (including as values vary). See further detail at Section 3.

2.9 Development Costs – General

2.9.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, these cost assumptions have to be fixed by typology to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. Although the full set of cost assumptions adopted within the appraisals are set out in detail in Appendix I to this report, a summary of the key points is also set out below.

2.9.2 Each cost assumption is informed by data and supporting evidence from such sources as follows in accordance with relevant sections of the PPG:

- Royal Institution of Chartered Surveyors (RICS) Building Cost Information Service (BCIS);
- Locally available information as far as available following the stakeholder consultation process;
- Other desktop-based research;
- Professional experience.

2.9.3 For site typology testing, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Where known, those have been applied to the strategic site allocations tests. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting policy and CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.10 Development Costs – Build Costs

2.10.1 The base build cost level shown below is taken from the BCIS; an approach endorsed by the PPG guidance on Viability and considered to be 'appropriate data'[14] and rebased using a locally appropriate location factor. Costs assumed for each development type (e.g. houses, flats, mixed as well as non-residential etc.) are provided in Appendix I.

Figure 14: Base Build Cost Data (BCIS Median)

Development Type		Base BCIS Build Cost (£/m2)
Residential	Build Costs 'One-off' housing detached (3 units or less) - generally (£/sq. m)	£1,962
	Build Costs Mixed Developments - generally (£/sq. m)[1]	£1,133
	Build Costs Estate Housing - generally (£/sq. m)[1]	£1,120
	Build Costs Flats - generally (£/sq. m)[1]	£1,275
	Build Costs (Supported Housing - Generally) (£/sq. m)	£1,612
Large Retail	Foodstore - Large supermarket - out of town	£1,316
Large Retail	Retail warehouse	£748
Small Retail	Convenience/local store - various locations	£1,004
Small / town centre retail	Comparison shops (general / non-shopping centre)	£1,004
Business - Offices - Town Centre	Office building	£1,740
Business - Offices - Out of town centre / Business Park	Office building	£1,603
Business - Industrial / Warehousing	Smaller / move-on type industrial unit including offices - industrial estate	£1,070
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£731
Industrial / Warehousing	Storage & Distribution	£731
Warehousing / distribution	Distribution unit	£731
Hotel (budget)	Hotel - edge of town centre / edge of town	£1,871
Residential Institution	Care / Nursing Home	£1,603

*The above costs exclude external works and contingencies (these are added to the above base build costs).

2.10.2 BCIS build costs do not include external works/site costs, contingencies or professional fees (all added separately). An allowance for plot and site works has been allowed for on a variable basis depending on scheme type (typically between 5% and 20% of base

[14] https://www.gov.uk/guidance/viability (Paragraph 012 Reference ID: 10-012-20180724 Revision date: 24 07 2018

build cost; 50% on town centre retail tests to reflect higher anticipated costs). These are based on a range of information sources and cost models and generally not pitched at minimum levels so as to ensure sufficient allowance for the potentially variable nature of these works. Specifically, site works and infrastructure costs of £300,000/ha have been assumed for the range of site typologies tested with more specific, higher allowances assumed for large scale greenfield development including for some of the specific strategic site allocations tested. These are based on a mixture of consultation feedback and experience as well as by reference to guidance in documents such as the Harman report[15].

2.10.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always been a range of data and opinions on and methods of describing, build costs. In our view, we have made reasonable assumptions in accordance with relevant guidance which lie within the range of figures we generally see for typical new build schemes (rather than high specification/complex schemes that may require particular construction techniques or materials). As with many aspects of viability assessment, there is no single appropriate figure in reality, so judgements on these assumptions (as with others) are necessary. It is important to note that as with any appraisal input, in practice this will be highly site specific.

2.10.4 In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.10.5 An allowance of 5% of build cost has also been added in all cases (residential and commercial typologies) to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates) and 10% to cover professional and related fees. These are relatively standard allowances in our experience, although we do see some assumptions at lower levels.

2.10.6 It is important to note that the interaction of costs and values levels will need to be considered again at future reviews of CIL (or the Local Plan) as base build cost levels

[15] Local Housing Delivery Group: Viability Testing Local Plans – Advice for planning practitioners (June 2012)

typically vary over time. Appendix III includes some information on build cost trends, as viewed currently; particularly referring to the current coronavirus pandemic and the potential impacts of that on the development industry.

2.10.7 At this stage we also cannot be sure how the UK's decision to leave the European Union will play out in either the short or longer term on the economy, and potentially affecting development viability. The influences on the property market from the perspective of sales values and rates of sales seem likely to be at least as great as those on construction works and build costs. Equally, the current coronavirus crisis may have short term impacts on development activity, markets and overall viability. Savills[16] anticipate a 7.5% fall in house prices in the short term over the remainder of 2020, but transactions returning to normal by 3rd quarter 2021 and values increasing by 2% in 2021 followed by forecasts of 10%, 7% and 6.3% in 2022, 2023 and 2024 respectively leading to an 18.3% increase in values over 5 years in the West Midlands. Savills also note that land values appear to be holding up, however there are concerns that housebuilders will hold back on construction if they are concerned about the ability to sell properties in this period of uncertainty. Housebuilding sites have reopened, and initial indications are that the fall in delivery may be less drastic than previously feared. Anecdotal evidence from our local authority clients indicates that there has been a small drop in planning applications being submitted but applications continue to come in at a similar rate to normal.

2.11 Development Costs – Fees, Finance & Profit (Residential)

2.11.1 The following costs have been assumed for the purposes of this study alongside those discussed above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows - <u>for the purposes of this assessment only</u> (Note: Appendix I also provides a summary):

[16] 'Spotlight: Revisions to our mainstream residential market forecasts' – Savills, July 2020

Figure 15: Residential Development Costs – Fees, Finance & Profit

Residential Development Costs - Fees, Finance & Profit	Cost Allowance
Professional & Other Fees	10% of build cost
Site Acquisition Fees	1.5% Agent's fees
	0.75% Legal Fees
	Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT)
Finance	6.5% p.a. interest rate (assumes scheme is debt funded and includes all ancillary fees)
Marketing Costs	3% of GDV sales agent & marketing fees
	£750/unit legal fees
Developer Profit	Open Market Housing – based on range described in PPG of 15% - 20% of GDV (17.5% assumed within testing)
	Affordable Housing - 6% GDV (affordable housing revenue)

Figure 16: Commercial Development Costs – Fees, Finance & Profit

Commercial Development Costs - Fees, Finance & Profit	Cost Allowance
Sustainability Allowance	5% of build cost
Professional & Other Fees	10% of build cost
Yields	Variable applicability, sensitivity tested across range at 5% to 8%.
Site Acquisition Fees	1.5% Agent's fees
	0.75% Legal Fees
	Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT)
Finance	6.5% (including over lead-in and letting/sales period) Arrangement/other fees at 2% of cost
Marketing / Other Costs *(Cost allowances - scheme circumstances will vary)*	1% Advertising / Other costs (% of annual income) 10% letting / management / other fees (% of assumed annual rental income) 5.75% purchasers' costs - where applicable
Developer Profit	15% of GDV

2.12 Build Period

2.12.1 The build period assumed for each development scenario has been based on BCIS data utilising the Construction Duration calculator by entering the scheme typology details modelled in this study. This has then been sense checked against our professional experience and informed by site-specific examples where available. The build periods provided in Appendix I exclude lead-in times which have been assumed at 6 months and extended sales periods which have also been allowed for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied – see Appendix I for detail.

2.12.2 The specific strategic site allocations testing has bespoke assumptions applied in connection with timings/phasing based on information provided by the Council and DSP experience, which will be discussed further below.

2.13 Key Policy Areas for Testing – Summary

2.13.1 A number of the Council's policies both in the Borough Plan and SPD as well as national policies and infrastructure costs have an impact on development viability, both directly and indirectly. The direct impacts are those policies which ultimately result in a specific fixed cost assumption within the appraisal modelling e.g. AH policy.

- Policy H2 – affordable housing: requirement for 2 affordable units on sites of 11-14 dwellings and 25% affordable housing on sites of 15 units or more. Tenure mix as set out in the latest SHMA or SPD. Full account has been taken of the affordable housing requirements in running this assessment as described earlier in this report.

- Policy NE2 – open space requirements: our appraisal modelling has assumed OS to be funded via CIL and wider s106 obligations. Alongside this, we have also included a general land area adjustment of 15% for site typology testing, accounting for an element of additional physical space requirements as part of the development site. Strategic site allocations assume all land (gross) is purchased at benchmark land value to include open space.

- Policy NE3 & BE3

- Sustainable design & construction – we have assumed an overall allowance of 2% which we consider covers the requirements of Policy BE3 and also consider covers the requirement for biodiversity off-setting as described in Policy NE3.

- Enhanced accessibility 'Access to and use of Buildings' - 35% of units to be built to M4(2) 'Accessible and adaptable dwellings' - *Cost of achieving this requirement (extra-over cost) assumed on a per unit basis at £1,646 (Flats) and £2,447 (Houses) based on the EC Harris DCLG Housing Standards Review Cost Impact.*

2.14 Planning Obligations

2.14.1 It was considered that a great majority of existing planning obligation requirements are likely to be taken up within the CIL proposals if adopted, but nevertheless sites are still required to contribute to site-specific mitigation measures (for example open space / highways / transport and similar requirements). The appraisals therefore include an additional notional sum of £1,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements.

2.14.2 For the strategic site allocations, the s106 requirements are based on likely contributions identified in the Infrastructure Delivery Schedule (February 2019) from known infrastructure costs. For this study, the figures provided within the DAC Planning report [17] have been utilised. A table of assumed costs per unit are shown below. Note that not all the sites are included within this assessment as a number of allocations and sites within the allocations already have either been granted planning consent, are under construction or have completed.

[17] DAC Planning: NBBC CIL Draft Charging Schedule Preliminary Report (March 2020)

Figure 17: Average Cost per Unit – s106 Contributions Strategic Site Allocations

Site allocation	Total likely S106 contributions	No. dwellings	Cost per dwelling
HSG 1	£23,461,892	4419	£5,309
HSG 2	£6,579,625	1525	£4,315
HSG 3	£2,945,813	575	£5,123
HSG 4	£7,238,210	689	£10,505
HSG 5	£2,620,876	398	£6,585
HSG 6	£1,676,111	220	£7,619
HSG 7	£2,857,768	196	£14,580
HSG 8	£3,916,788	495	£7,913
HSG 9	£2,694,876	621	£4,340
HSG 10	£3,165,080	360	£8,792
HSG 11	£1,133,556	200	£5,668
HSG 12	£324,869	380	£855
EMP 2	£694,319	73	£9,511
Total	**£59,309,785**	**10151**	**£5,843**

2.14.3 Should any updated information on the above (Fig. 17) become available during the course of this assessment work, then it would be possible to revisit the tested sites to refresh the relevant inputs and to pick up on the associated findings.

2.14.4 For the strategic site allocations, appraisals were run based on scenario testing with a fixed land value input to allow a surplus to be generated after all other development costs had been accounted for. That sum could then be expressed as a potential maximum sum available for CIL.

2.15 Indicative land value comparisons and related discussion

2.15.1 In order to consider the likely viability of any development scheme, the results of the appraisal modelling (the residual land value results when viewed in £/ha terms) need to be measured against an appropriate level of benchmark land value. This enables the review of the strength of the results as those change across the range of Value Levels, trial CIL rates.

2.15.2 The process of comparison with land values is, as with much of strategic level viability assessment, not an exact science. It involves judgements and well-established acknowledgements that, as with other appraisal aspects, the values associated with the land will, in practice, vary from scheme to scheme.

2.15.3 Land value in any given situation should reflect the specifics of existing use, planning status (including any necessary works, costs and obligations), site conditions and constraints. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value. Where an implementable planning consent forms a suitable basis for an alternative use value (AUV) based approach, that could be in place of the primary approach to considering site value (benchmark land value – BLV), which is now always "EUV plus" (existing use value plus) consistent with the updated PPG on Viability.

2.15.4 The levels of land value selected in this context are known as 'benchmark land values' (BLVs). They are not fixed in terms of creating definite cut-offs or steps in viability but, in our experience, they serve well by adding a filter to the results as part of the review. BLVs help to highlight the changing strength of relationship between the values (scheme revenue (GDV)) and development costs as the appraisal inputs (assumptions) change.

2.15.5 As noted above, the recently updated PPG on viability is now very clear that BLVs should be based on the principle of existing use value plus a premium to incentivise the release of the site for development.

2.15.6 As part of our results analysis, we have compared the wide scope of appraisal RLVs with a range of potential BLVs used as 'Viability Tests', based on the principles of 'existing use value plus' (EUV+). The coloured shading within the results tables (Appendix II) provides a graded effect intended only to show the general change in results from most positive (boldest green coloured) to likely non-viability scenarios (least positive), where the RLVs show no surplus or a deficit against the BLVs.

2.15.7 The land value comparison levels (BLVs) are not fixed and are not substitutes for use on scheme specifics where in time more detailed knowledge of the sites, constraints and characteristics may be known – no study of this nature can consider individual sites in that level of detail; they are purely for this assessment purpose. Schemes will obviously come forward based on very site specific circumstances, including in some cases on sites with appropriately judged land values beneath those assumed for this purpose.

2.15.8 As part of the process of developing appropriately robust BLVs, we have reviewed the available evidence, including previous viability studies (as well as those conducted for neighbouring/nearby Authorities) both at a strategic level as well as site-specific viability assessments. In addition, we have also had regard to the published Government sources on land values for policy appraisal[18] providing industrial, office, residential and agricultural land value estimates for locations across the country - including Nuneaton & Bedworth Borough.

2.15.9 It should be noted that the MHCLG residential land value estimates require adjustment for the purposes of strategic viability testing due to the fact that a different assumptions basis is used in our study compared to the truncated valuation model used by the MHCLG. This study assumes all development costs are accounted for as inputs to the RLV appraisal, rather than those being reflected within a much higher "serviced" i.e. "ready to develop" level of land value.

2.15.10 The MHCLG model provides a much higher level of land value for 'residential land' as it assumes the following:-

- All land and planning related costs are discharged;
- Nil affordable housing requirement – whereas in practice the requirement for AH can impact land value by around 50% on a 0.5ha site with 35% AH.
- Nil CIL;
- No allowance for other planning obligations;
- Full planning consent is in place – the risk associated with obtaining consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point;
- Lower quartile build costs;
- 17% developer's profit.

2.15.11 The above are additional assumptions that lead to a view of land value well above that used for comparison (benchmarking purposes) in viability assessments. Overall the approach taken in this assessment (as relates to all land values) assumes all deductions from the GDV are covered by the development costs applied within the appraisals. In our view this would lead to a significantly reduced residential land value benchmark when taking into account all of the above factors.

[18] MHCLG: Land value estimates for policy appraisal 2017 (May 2018 report issue)

2.15.12 The indicative comparisons of our residual land value results to the range of benchmark land values are set out in Appendices IIa and IIb (residential and commercial results overview tables). These range between £250,000/ha and £1,250,000/ha plus, enabling us to view where the RLVs fall in relation to those levels and to the overall range between them. Typically, we would expect to apply an EUV+ based land value benchmark at approximately £250,000/ha for greenfield land for based on a circa 10 - 12 times uplift factor (the "plus" element) from the EUV for agricultural land. The BLVs range above that, from £500,000/ha to £1,250,000/ha, is representative of previously developed land (PDL) i.e. 'brownfield' land. Although some sites in most areas could be in existing residential use, underpinning relatively high BLVs, the mid to upper end of that range is most likely to be relevant in some of the main settlement areas with higher existing use values.

2.15.13 At this point, it is also important to consider the wider context of the types of sites that are planned to come forward over the plan period, as above. Taking into account the overall picture of delivery in terms of site type and planned locations, we consider the key BLVs for reviewing the results range from Viability Tests 2 to 3 at £500,000/ha to £1,000,000/ha (for PDL scenarios) and around £250,000/ha (greenfield land).

2.15.14 Overall, we consider the BLV range noted above is appropriate and corresponds with the future planned site supply context as part of the Borough Plan. Figure 18 below shows, with some explanatory notes, the range of selected BLVs which have been used as 'viability tests' (filters).

Figure 18: Range of BLVs ('Viability Tests')

EUV+ £/ha	Notes
£250,000	Greenfield Enhancement
£500,000	Greenfield Enhancement (Upper)
£750,000	Low-grade industrial/commercial OOT land values.
£1,000,000	Industrial Upper / Commercial CBD (includes a 20% uplift).
£1,250,000	Upper PDL / Residential land values

2.15.15 It is important to note that all RLV results indicate the potential receipt level available to a landowner after allowing, within the appraisal modelling, for all development costs (as discussed earlier). This is to ensure no potential overlapping/double-counting of development costs that might flow from assuming land values at levels associated with serviced/ready for development land, with planning permission etc. The RLVs and the indicative comparison levels (BLVs) represent a "raw material" view of land value, with all development costs falling to the prospective developer (usually the site purchaser).

2.15.16 Matters such as realistic site selection for the particular proposals, allied to realistic landowner's expectations on site value will continue to be vitally important. Site value needs to be proportionate to the realistic development scope and site constraints, ensuring that the available headroom for supporting necessary planning obligations (securing AH and other provision) is not overly squeezed beneath the levels that should be achieved.

2.15.17 The PPG[19] states the following:-

'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)…

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different

[19] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment Paragraph: 014 Reference ID: 10-014-20190509 Revision date: 09 05 2019

assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'

3 Findings Review

3.1 General context for results review

3.1.1 The following report sections consider the 3 groups of appraisal results carried out across this new CIL viability assessment (2020):

1. Residential scheme typologies – Tests up to 100 dwellings.
   (Results set out at Appendix IIa)

2. Strategic allocation sites.
   (Results tabled at Appendix IIb)

3. Typology based tests of commercial/non-residential developments.
   (Results included at Appendix IIc)

3.1.2 The results presented each have an appraisal behind them, based on the approach and assumptions set out above and in Appendix I.

3.1.3 As with this further assessment process as a whole, as well as looking afresh at CIL viability, the review revisits and builds on the previous suite of viability work by DSP (Assessment 2014, Update 2016 and further information in support of the Local Plan Examination 2019 - appropriate available evidence, supported through the development processes of the adopted recently Local Plan (LP) – June 2019).

3.1.4 The iterative approach of testing the influence of trial CIL charging rates (at £20/sq. m steps from £0/sq. m (nil-CIL) to £200/sq. m) covers the range within which the previous assessment work as well as our experience of CIL viability shows suitable CIL charges for Nuneaton & Bedworth Borough would fall.

3.1.5 This also provides scope for reviewing the outcomes based on any appropriate interpolation between the applied trial CIL rate steps, or as may be relevant between the tested VLs, should such a further fine-grained review or the consideration of alternatives become relevant. However, we note that in looking to get to that level of apparent accuracy, the appropriate strategic overview nature of a CIL and the setting of the levy rate or rates in the context of the LP as a whole also needs to be kept in mind. Although charged at an individual development level, CIL is a borough-wide response and support mechanism to the LP delivery. This means that even with a differential or highly differential approach to the charging schedule that ultimately goes forward, it is very unlikely that all variables encountered in practice would be reflected. The setting of suitable CIL charging rates always involves weighing up the range of information, the making of judgments and ultimately an overview. This is all consistent with the CIL guidance (within the PPG, as noted earlier).

3.1.6 Reflecting the nature of a CIL, the guidance notes that there is some room for pragmatism and furthermore that the selected approach does not need to exactly mirror the viability guidance – the prospective charging authority will need to be able to show how its evidence has informed the selected approach.

3.1.7 On pursuing a CIL, NBBC, as the prospective charging authority in this case, will need to show how an appropriate balance has been struck - between the desirability of funding infrastructure (to support the Local Plan growth) and the potential effects on the viability of the sites that are relevant to that.

3.1.8 Following the LP adoption, this is all consistent with the Council's brief to now look again and closely review the scope for developments in the borough to support CIL, from the full range of circumstances.

3.1.9 This has involved both a new review and consideration of the previous findings on the scope to support CIL. The Council wishes to consider, appropriately, whether its 2015 Preliminary Draft Charging Schedule (PDCS) approach now needs revisiting, informed by this further viability assessment; or whether this very latest work shows that those previous or similar CIL charging proposals remain relevant based on the latest available information and assumptions.

3.1.10 The October 2015 CIL PDCS, informed by DSP's base assessment findings (as were carried through to the 2016 update) proposed the following (see Figure 19 below):

Figure 19 – CIL PDCS charging rates proposals (Source NBBC 2015):

Use	Charge £ per sqm
Residential *(including strategic sites where the development of less than 298 dwellings is proposed)*	£50
Strategic sites allocated in the Borough Plan *(except where planning approval is sought for the development of less than 298 dwellings)*	£0
Retail and warehouse development proposals over $400m^2$	£100
All other uses (including retail and warehouse development proposals under $400m^2$)	£0

3.1.11 First on review of our new results, we consider residential development. In common with other similar projects, this is the main assessment focus here, owing to the importance of new housing delivery to the borough and its new LP; and also because this is the area in LP and indeed national policy has by far the most influence on development viability (most significantly in relation to affordable housing). The same cannot be said of a Council's scope and level of influence over the viability of commercial/non-residential development; that is much more limited.

3.1.12 Secondly, invariably the scale of residential development (quantum of new accommodation to come forward) is such that the source of CIL income is going to be largely weighted towards residential. This will be the case in this borough.

3.1.13 Although with the new LP in place the policies are set, as per the earlier assessment work it is worth reiterating that the setting of the affordable housing (AH) policy at an appropriate 25% here still draws significantly on the available development driven funds. AH has by far the largest single policy cost impact – far greater than that from other policies, because the affordable homes cost approximately the same to build as the market sale ones but support a much lower level of revenue. CIL costs have a much lower impact on viability but nevertheless now need to be considered as an addition to the cumulative effect of the development and policy costs.

3.1.14 A CIL takes a fixed, non-negotiable sum from the development revenue, and is a first call on that – needs to be viewed as a top-slice. Therefore, added to the development and policy costs, care must be taken not to set the rates at levels that would mean adding too much pressure and a reliance on the margins of viability. Similarly, charging rates that are set too high could in some circumstances have a negative impact on the ability of schemes to support the policies on AH and other planning objectives.

3.1.15 Consistent with supporting the growth associated with the up to date Local Plan, and not related to any other existing deficits in infrastructure provision, if implemented CIL will be a high-level borough-wide response and contributor. It is not possible for CIL to reflect and respond to all levels of local variation in values in other matters. How it overlays with the planned site supply is most important, even if that means some level of misfit in areas not supplying a significant level of development in the overall planned terms. The CIL principles are such that the charging schedule should ideally be as simple as possible, accepting that usually values and other characteristics do not actually respect any particular boundaries, in more than the sense of general location. All sites are different - varying characteristics and values will be seen between sites in practice, and often even within them in some cases.

3.1.16 Also included below is a grid (see Figure 20) showing the range of trial residential CIL charging rate tests when expressed as a percentages of sales values i.e. trial CIL rate as a proportion of GDV. DSP has used this sort of guide as background information for clients it advises on CIL viability.

3.1.17 This additional information does not represent additional viability testing, but in our view may be useful in purely a general health-check type way as a further aid to help make sure that CIL charging rates are not set too high. DSP's view over 10 years now of CIL viability assessment and rates setting experience has been that, as a guide, realistic CIL charging rates should not exceed a range approximately 3% GDV to 5% GDV (maximum). In our experience CIL rates equivalent to closer to 2-3% GDV have generally proved workable. The earlier PDCS residential rate of £50/sq. m can be seen to at the lower end this secondary guide range. On the other hand, this also indicates that subject to the viability testing, we would probably not expect to see a residential CIL charging rate or rates in the Nuneaton & Bedworth context at more than around £100/sq. m. (i.e. going into the yellow to orange shaded areas of the grid below (to illustrate this guide). This may be useful as a further broad measure in considering the current viability findings, as discussed and then summarised below.

Figure 20 – Rates setting context - Trial residential CIL charging rates as %GDV

DSP 2020	GDV i.e. Sales value assumption – NBBC Value Levels (VLs) range - £/sq. m										
	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11
Trial CIL Rate £/sq. m ↓	£2,400	£2,500	£2,600	£2,700	£2,800	£2,900	£3,000	£3,200	£3,400	£3,800	£4,200
0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
20	0.83%	0.80%	0.77%	0.74%	0.71%	0.69%	0.67%	0.63%	0.59%	0.53%	0.48%
40	1.67%	1.60%	1.54%	1.48%	1.43%	1.38%	1.33%	1.25%	1.18%	1.05%	0.95%
60	2.50%	2.40%	2.31%	2.22%	2.14%	2.17%	2.00%	1.88%	1.76%	1.58%	1.43%
80	3.33%	3.20%	3.08%	2.96%	2.86%	2.76%	2.67%	2.50%	2.35%	2.11%	1.90%
100	4.17%	4.00%	3.85%	3.70%	3.57%	3.45%	3.33%	3.13%	2.94%	2.63%	2.38%
120	5.00%	4.80%	4.62%	4.44%	4.29%	4.14%	4.00%	3.75%	3.53%	3.16%	2.86%
140	5.83%	5.60%	5.38%	5.19%	5.00%	4.83%	4.67%	4.38%	4.12%	3.68%	3.33%
160	6.67%	6.40%	6.15%	5.93%	5.71%	5.52%	5.33%	5.00%	4.71%	4.21%	3.81%
180	7.50%	7.20%	6.92%	6.67%	6.43%	6.21%	6.00%	5.63%	5.29%	4.74%	4.29%
200	8.33%	8.00%	7.69%	7.41%	7.14%	6.90%	6.67%	6.25%	5.88%	5.26%	4.76%

3.1.18 Sample appraisal summaries are included as a second part to Appendices IIa to IIc. The appraisals are typically too numerous to include all summaries. The aim of including these is to further illustrate the structure of the residual calculations, and a summary of their content. The summaries follow a mainly standard format, as generated by the appraisal software.

3.1.19 The findings considered here relate to the information provided in each of the results appendices, with the results grouped according to the distinct sets of appraisal types completed as per 3.1.1 above:

1. **Residential scheme typologies – Tests up to 100 dwellings. Results set out at Appendix IIa**. This wide testing range applied across the range of tested value levels (VLs), all undertaken to include the adopted 25% AH (at 11+ dwellings) and reflecting all other Local Plan policies as discussed above, reviews the effect on the residual value outcomes of adding-in the cost of CIL to the cumulative effect of the development and policy costs that are in place.

   Appendix IIa (Tables 1a to 1h) - appraisal RLV results from the general residential test typologies (as per Figure 3 above). For each typology the upper (non-shaded) table section shows the RLVs (£s) and in the lower section the

RLVs (£/Ha) overlaid with colour shading linked to the BLVs (as 'viability tests' that are met by each RLV £/ha result).

The boldness of the green colouring highlights the trends within the results and shows increasing confidence in these as viability is maintained while a wider range of BLVs are met. The RLVs and therefore the strength of the viability outcomes is seen to increase and meet higher BLVs with increasing value level (VL) assumed, and to reduce gradually with each increase in the trial CIL rate applied.

2. **Strategic allocation sites. Results tabled at Appendix IIb.** Ranging between 196 and 1,640 dwellings, the 6 no. LP strategic site allocations have been tested to including NBBC's latest available estimates of the site-specific s.106 costs, with a starting review position of nil (£0/sq. m) CIL as an input. The latter follows on from our previous indications on the likely CIL scope for such sites. This is also consistent with most experience of CIL as applies to genuinely strategic sites but adopted here as an test initial position. According to latest information 5 of these sites have not been progressed through planning (HSG2, HSG4, HSG5, HSG7, HSG8) and HSG10 (Attleborough Fields) now has planning approval.

   This then allows us to consider more closely whether in fact the latest appraisals point to any positive charging scope on such sites being a possibility or clearly evidenced – by reviewing any potentially available surpluses after making all other appropriate development and policy cost allowances. This is consistent with the study aims and Council's need to strike an appropriate balance in the local circumstances – as above.

   The 2015 PDCS proposed to charge £50/sq. m CIL on strategic sites where less than 298 dwellings were proposed, as per the prevailing residential CIL charging rate that was then being considered. A nil rate (£0/sq. m) would have been applied to residential development at a larger scale.

   Appendix IIb (Tables 2a – 2f) – after displaying key assumptions on the scenario tested, including the assumed infrastructure costs included, this shows for each site with a base nil CIL (£0/sq. m) assumption the estimated potential deficit/surplus outcome. As above, these appraisals include a fixed land cost input at a rate £250,000/ha applied across the gross (whole) site area in each case, and thus also account for the finance costs etc. associated with that.

Development profit is allowed for at 17.5% on the GDV (i.e. mid-range figure with reference to the PPG on 'Viability') for the private sale homes; and 6% GDV of the affordable homes, which appropriately reflects the expected delivery mode and therefore a constructor's type profit approach rather than a market delivery level of risk.

The total indicative surplus/deficit sums are shown in the upper section of each table, with the equivalent in £/dwelling surplus/deficit from each scenario test shown in the lower table section for each of the sites tested.

These are after allowing for the following NBBC supplied March 2020 estimates of the likely dwelling numbers and s.106 cost totals:

HSG2 Arbury -	1,640 dwellings	s.106 @ £6,579,625
HSG4 Woodlands -	689 dwellings	s.106 @ £7,238,210
HSG5 Hospital Lane -	398 dwellings	s.106 @ £2,620.876
HSG7 Land E of Bulkington -	196 dwellings	s.106 @ £2,857,768
HSG8 Land W of Bulkington -	495 dwellings	s.106 @ £3,916,788
HSG10 Attleborough Fields -	360 dwellings	s.106 @ £3,165,080

Overall, this means s.106 estimate allowances made across a wide range c. £4,012/dwelling (at HSG2) to £10,505/dwelling (HSG4) and the highest current allowance equivalent to £14,580/dwelling (at HSG7).

After making these s.106 allowances and taking account of the other stated assumptions, the green shaded results (areas of each table) are indicating surplus outcomes

On this basis, the pink/red shaded areas of these results are showing scenarios /sensitivity tests where deficits (financial shortfalls) are reported.

The Argus Developer appraisal software has been used to run the range of sensitivity tests shown in Tables 2a – 2f. In each case, the result we regard as the base outcome is that shown in bold at the centre of each grid - at VL4 (assumed market sales at £2,700/sq. m and reflecting the review of values as above and see Appendices I and III) with an zero (no) adjustment to the construction cost rate assumed. The sensitivities indicate how the surplus of deficit outcome alters as the construction cost rate moved in 2.5% increments, up or down – at each value level (VL). The reported surplus indications are seen to increase as the VL increases and/or construction cost reduces (more green shaded results) and likewise the indicative deficits grow larger (suggesting increasing viability gaps) with reducing VL and/or increasing construction cost.

3. **Typology based tests of commercial/non-residential developments. Results included at Appendix IIc.** Undertaken across a range of rental value and investment yield assumptions, tested across the same wide range of trial CIL charging rates – £0 – 200/sq. m at £20/sq. m increments again.

   Appendix IIc (Tables 3a to 3e) - commercial development tests results, equivalent to Appendix IIa in general format.

   The range of scenario tests are shown top to bottom - by development use type.

   The £RLV results are seen on the left side of each table, with the part green shaded sections to the right being those same results expressed in RLV £/Ha and filtered against the range of BLVs.

   Each one of those has been tested at 3 trial value i.e. rent levels (L- lower, M-mid/medium and H - higher) simply to explore the sensitivity of the RLV outcomes to that assumption varying in combination with a yield % test ranging from most positive (at 5% - Table 3a) to least positive for the study purposes (at 7% - Table 3e RLV indications).

   The table formatting again uses the varying boldness of green shading to illustrate the changing strength of results according to the assumptions combination used, when compared the BLVs (as 'viability tests' again) – principles and approach as per the residential sets at Appendix IIa.
   The results deteriorate from the most positive set overall, Table 3a, which shows the 5% yield tests through to those in Table 3e based on a 7% yield, and

therefore a range of capitalisation rates (adjusted annual rent x20 at 5% yield, compared with x14.3 at a 7% yield).

As expected, they are also seen to reduce gradually with increasing trial CIL rate increment (moving left to right). However, the results are seen to step up as increasing annual rental assumptions are used, and particularly in the case of the more positive, lower yield % tests.

It can be seen that the viable scenarios range reduces very significantly by the time we use a 7% test yield to inform the capitalisation of the assumed rental values – across L, M and H levels as above.

This deterioration in results with increasing yield % reflects a progressively less positive view in relation to the capitalisation rate applied to the rental assumptions, indicating a less secure, higher risk income stream assumed for the commercial property investor as the yield % increases.

Further results review context – commercial/non-residential development and CIL

3.1.20 After considering the residential findings and potential implications/recommendations (including for the strategic sites), we will go on to round up our review of the likely variable viability of commercial development across the study area.

3.1.21 The approach to this aspect is consistent with the typical scope required in our experience, and with assumptions informed by our research and experience, so as to be representative of local circumstances – again, based on a high-level overview approach rather than site-specific level detail.

3.1.22 As will be seen, using assumptions appropriate for the assessment purpose and ensuring no reliance on pushing to the margins of viability in order to support CIL charging, this proportional approach requires only a much smaller number of appraisals for the commercial typologies testing. These were developed as sets to the point where viability in each case falls away to a 'negative RLV' –as shown in the Appendix IIc tables - i.e. indicated non-viability positions based on the assumptions used for the study purpose. Once a very low, nil or negative outcome is reached it is not necessary to explore further to develop the understanding of where the clear scope for positive CIL charging lies.

3.1.23 Unlike in the case of residential development (and in particular the role in setting policy as affects affordable housing impacts), there is little scope for a Council (whether NB BC or any another authority) to influence the viability of commercial and non-residential development provided its approach does not add, through unnecessary policy, to the development costs usually associated with such development. The latter is not considered to be the case with the Local Plan now firm, having been adopted last year shortly after the examination ended.

3.1.24 DSP also has considerable wider experience of commercial and non-residential development viability in the context of considering CIL setting.

3.1.25 As with residential, the strength of the market and therefore of the strength of relationship between development values and costs is key; the most significant factor. However, there are considered to be no significant instances of NBBC local policy influence that will have a direct development cost and therefore a clear negative viability impact compared with a typical approach that we see.

3.1.26 Using the range of test assumptions, for those potential development uses that currently appear unable to support any clear or significant level of CIL charging, it is possible to consider the extent to which more positive assumptions are required (and to which those may or may not be realistic in the short term - next few years, as are likely to be applicable to a first CIL charging schedule).

3.1.27 Consideration of this type of thinking extends to a wide range of potential development uses, within an "all other development uses" type approach as was effectively proposed in the 2015 PDCS and is a common element of most charging schedules.

3.1.28 As part of considering the overall balance (between the desirability of funding infrastructure and the ability of developments to continue to come forward viably), it is possible that a low (essentially nominal rate) could be considered across a range of development types in approach similar to that of the London Mayoral CIL. There is some other experience of this type of strategy aimed at securing a modest additional level of infrastructure funding, including at charging authorities advised by DSP on viability, albeit in a higher value area. However, this relies on the need for infrastructure, the principles of spreading the burden at a low-level and the balance to be struck. Considering such an approach contrary to the main viability evidence means that rather than relying on this, it is likely to involve the principle of accepting a small negative influence on viability but at a level unlikely to halt a scheme progressing (minimal cost and effect of a low CIL charge). As is the case in considering the implantation of CIL generally, the administrative costs and other aspects would need to be considered too.

3.1.29 We have taken the view that overall the same range of comparison/benchmark land values (as used for the other study elements) are applicable. In most cases, broadly it is considered that meeting or exceeding the £750,000 – £1.25m/Ha BLV tests should prove sufficient. In the case of larger format retail and town centre development it is anticipated that higher land values potentially exceeding the higher commercial land BLV at £1.25m/Ha equivalent could sometimes be justified and need to be met.

3.1.30 On the other hand, commercial/non-residential proposals could also come forward on land in lower value or relatively low value existing uses – e.g. lower value redundant commercial sites and on greenfield where part of larger scale/strategic development.

3.1.31 As with all results (appraisal RLV indications) and the reporting around them, many of the results for the relevant more valuable development types do indicate that higher land values could be or could need to be supported.

3.1.32 Our round-up of findings for the commercial/non-residential scenarios is included in later sections below, following the further residential findings commentary that we set out next.

3.2 FINDINGS REVIEW – Residential scenarios (General sites – typologies review – results at Appendix IIa)

3.2.1 We will not repeat the research or findings on property sales values or land values here, as have been commented on above – see the earlier report sections 2.6 and 2.15, respectively. Appendices I and III provide more detail too.

3.2.2 Consistent with our previous work in the borough, based on the currently available information overall we have found that the values likely to be supported by typical new build housing as relevant to the LP overall are very similar across the borough. While this also a general observation across our wide range of studies, in N&B's case we consider that the specific values achieved site-by-site will if anything be much more localised or based on scheme type and specification, transport and commuting times/connections, specific local amenities and schools etc. than affected by general location.

3.2.3 We consider that a reasonable approach to take for the review of the Appendix IIa smaller sites typologies (tests at up to 100 dwellings) on sales values is to consider the range VL4 (@ £2,700/sq. m i.e. c. £250/sq. ft.) to VL6 (@ £2,900/sq. m i.e. c. £269/sq. ft.). Therefore these results will be discussed below based on values within the mid-range of this key area, at VL5 i.e. £2,800/sq. m (c. £260/sq. ft.); also bearing in mind the sensitivity of the RLV outcomes to potential movement around this area of the values picture. As acknowledged above, values falling outside this range are seen, and could be seen moving ahead. The potential relevance of this should also be kept in mind, however at this stage significantly lower values for new builds are considered to be outliers – not typical. The nature of CIL setting is such that judgments need to be made on such assumptions and variables; likewise on potential land values, as below.

3.2.4 Generally, values up to or at the lower part of this range have been assumed at this stage in assessing the strategic sites viability for the study purpose (VL4 @ £2,700/sq. m as base – see section 3.3 below.

3.2.5 On land values, with a key PDL range at £750,000/ha+ but a potentially relevant range to £1,250,000/ha, we consider it appropriate to use the £1,000,000/ha (£1m/ha) PDL benchmark for the following typologies results review context.

3.2.6 Although understood not set to contribute significantly to the overall LP supply, and smaller greenfield (GF) site scope – non-strategic sites – to support CIL could be considered on the basis of land value up to the £500,000/ha 'upper greenfield enhancement' BLV ('viability test').

3.2.7 In any event the viability tests used should not be regarded as specific figures or cut-offs; they are guides enabling the strength of the results to be considered and trends to be seen more clearly. Where a BLV is not reached, and especially marginally, this does not necessarily mean that a development would not happen. Equally, the results also show RLVs at levels exceeding the viability tests (BLVs) and particularly as the assumed values reach or exceed the test levels that are considered suitable as base assumptions.

3.2.8 The results will be reviewed by first considering the potential maximum (or sometimes known as 'theoretical maximum') scope for CIL charging. This view is based on the premise that once the above assumptions are accommodated (development and policy costs, land value and profit at the stated levels), all of the available headroom for CIL or other currently unknown costs or viability impacts could in theory be available for CIL.

3.2.9 However, a reality check or layer of caution/pulling-back then needs to be applied too - before suitable, carefully judged parameters for actual, implementable CIL charging rates are arrived at.

3.2.10 Respecting the CIL Guidance principle of ensuring that the rates do not rely on the margins of viability, it is not appropriate to allocate all of this potential maximum/theoretical headroom to CIL, which then becomes the fixed-cost top-slice from the development proceeds as noted above. This element of prudent allowance for potential movement in other assumptions (both values and costs) against viability, means that it is necessary to have a significant level of cushioning, known as "buffering", in setting the selected charging rates well beneath these potential maximum levels. This helps allow for potential downward movement in values or any upward movement in costs compared with the CIL rates setting stage assumptions baseline. These movements could affect the positive side of the cashflow – i.e. revenue (principally market sales values risk, but also affected by time to sell and sales costs, affordable housing revenue etc.) or the costs side – e.g. build costs varying, national policy unknowns, site abnormals, land value of profits variance, etc.

3.2.11 The potential maximum available or selected rate after buffering viewed from the results will vary by typology. This is a typical finding, seen here and more widely. They are also affected by dwelling mix assumptions, and the notional allocation of dwellings to affordable housing (AH) and varying AH tenure – i.e. assumptions made on a best-fit basis reflecting the policies as applied to the typology details. This reflects the reality that all sites and schemes are different – in practice, the actual amount of CIL that a development could bear would vary from one to the next. This brings us back to the nature of the CIL, so that even if a differential or complex approach is sought an overview always needs to be made.

3.2.12 The level of 'buffer' factor essentially arbitrary. It is intended only as a guide aimed at keeping well within the margins of viability – at a specific level it need not be adhered to rigidly as it is still quite hypothetical and the viability work does not have to be followed precisely in any event. How its actual effect relates to viability will again be scheme-specific, so the aim is to consider a level of buffering that will deal adequately with keeping away from the margins of viability and help cater for movements in the values and costs. As per the CIL principles and other evidence informing the balance to be struck, the Council should be able to show how the selected charging approach has been informed.

3.2.13 The following sections will therefore provide NBBC with an indication of the potential maximum CIL scope under various circumstances as informed by the residential typologies review, and what a buffered view could produce as parameters for suggested workable CIL charging rates. The level of buffering ultimately adopted, although having a variable effect per scheme as above, will be informed by judgments around the level of potential unknowns and uncertainty at the time of progressing a Draft CIL Charging Schedule. In making judgments, the ultimately selected charging rates might represent a range of buffering, which we suggest should be considered at a minimum deduction of around 30% from the potential maximum levels of scope noted.

3.2.14 We will run through the typologies in ascending size, but rather than needing to discuss each provide here an overview based on schemes which are or are not expected to provide affordable housing. Higher cost levels are often seen in smaller schemes, and this can be an effect that reduces the viability gain from a nil AH position. Nevertheless, the AH policy threshold may be a relevant factor in considering the CIL rates setting, hence this is amongst the aspects to consider.

<u>Small scheme scenarios beneath the LP policy H2 AH threshold (<11 dwellings)</u> – Appendix IIa tables 1a and 1b

3 – 10 houses (Tables 1a & 1b)

3.2.15 At VL5 with land value equivalent to £1m/ha the potential maximum CIL scope is seen to be approximately £130/sq. m when looking at the 3 houses typology (Table 1a):

- A 50% buffer (halving this back) would lead to a CIL charging rate at c. £65/sq. m;
- A 30% buffer would lead to a charging rate of c. £91/sq. m.

3.2.16 For wider indications, whilst with VL6 values, i.e. higher values possibly supported by some smaller individual schemes, the maximum (pre-buffered) scope rises to c.

£180m/sq. m, it is seen to fall to c. £70-80/sq. m at VL7. This demonstrates the high sensitivity to assumed sales value; potentially significant movement either side of the overview at 3.2.14.

3.2.17 Looking at the 10 houses tests (Table 1b) shows approximately £165/sq. m potential maximum scope.

3.2.18 For the Council's information, considering the same principles would lead to:

- 50% buffer – c. £80/sq. m;
- 30% buffer – c. £112/sq. m.

3.2.19 Overviewing this suggests suitable parameters for a CIL charging rate applicable to site beneath the H2 AH policy threshold in the parameters approximately £75 to £100/sq. m, with a reasonable level of buffering allowed.

Sample scenarios triggering the LP policy H2 AH threshold (11+ dwellings) – Appendix IIa tables 1c to 1h

11 houses (Table 1c)

3.2.20 On the same basis, but with 2 no. AH dwellings assumed to be included as per policy H2, these tests indicate a potential maximum scope of around £110/sq. m, which following the above principles as a guide, viewed alone, could mean:

- Less 50% buffer – c. £55/sq. m;
- Less 30% buffer – c. £77/sq. m.

15 houses (Table 1d)

3.2.21 Influenced by the step-up to the more onerous full 25% AH H2 policy headline included, here we see potential maximum scope at a slightly lower £100/sq. m at VL5, supporting the following guides/parameters after adjustment:

- Less 50% buffer – c. £50/sq. m;
- Less 30% buffer – c. £70/sq. m.

3.2.22 11 dwellings is the first point at which the AH policy impacts, hence its use as a testing point, and this may not be a scheme size regularly seen. As noted above, assumed dwelling mix and allocation of affordable homes within that also plays into the outcomes quite significantly and can skew direct comparisons. We will go on to review whether the larger typology tests that include AH support similar maximum potential CIL headroom to that seen from the 11 and 15 dwellings typology tests as above.

30 mixed dwellings – houses and flats (Table 1f)

3.2.23 These tests show the potential maximum scope at VL5 to be c. £110/sq. m:

- Less 50% buffer – c. £55/sq. m;
- Less 30% buffer – c. £77/sq. m.

100 mixed dwellings – houses and flats (Table 1h) **houses** (Table 1d)

3.2.24 These tests indicate a potential maximum scope of just over £140/sq. m, so suggesting:

- Less 50% buffer – c. £70/sq. m;
- Less 30% buffer – c. £98/sq. m.

3.2.25 From the above, the indications are that there is some albeit relatively limited scope to consider a differential (higher) CIL charging rate for schemes that fall beneath the H2 AH policy threshold – i.e. providing fewer than 11 dwellings.

Overall – general typologies tests

3.2.26 Our view, drawing from the above and DSP's experience of CIL viability, is that a suitable CIL charging approach across Nuneaton & Bedworth Borough residential developments (non-strategic sites) is likely to be in the range approximately £50 to £80/sq. m for developments that trigger the affordable housing policy, depending on the level of buffering applied and, we suggest, with that element considered in light of current circumstances, should a CIL be pursued in the borough in the short term.

3.2.27 For developments falling beneath the scope of LP policy H2, i.e. which are not required to provide affordable housing, the viability findings suggest the suitable CIL charging rates parameters to be approximately £70 to £100/sq. m making an appropriate overview as above. This means an upward differential of approximately £20/sq. m could be applicable to such sites, again for borough-wide application.

3.2.28 Referring back to the secondary guide/sense-check information provides at Figure 20 above, these charging rate parameters would be equivalent to approximately 2% to 3.5% GDV, depending on the combination of sales value level (VL) and prospective rate viewed. This indicates that we would not expect to see supportable rates going significantly above the levels suggested here.

3.2.29 As a headline, consistent with our earlier assessment findings and with indications on values sourced during our research and stakeholder consultation exercises, we find no clear viability evidence for differential rates by reference to location or particular development type or scale as a general theme. With infrastructure needs and the desirability of funding those on the other side of the balance, we have considered for example any potential for higher rates for the main types of development and generally relevant circumstances.

3.2.30 Only with values assumed to exceed c. £3,000/sq. m (approx. £279/sq. ft.) – beyond current appropriate assumptions for a great majority of development at this stage from available information, might we expect to see the CIL scope potential exceed the above parameters notably. This again is consistent with DSP's wide-spanning experience of CIL viability.

3.2.31 There may be potential exceptions to this, however, which might be considered depending on their relevance overall to the LP housing delivery. For the Council's information these could include the following.

3.2.32 As indicated at 3.2.6, any smaller, uncomplicated greenfield developments could support more CIL than the levels indicated here. If these are potentially a regular occurrence, thinking perhaps of any urban area greenfield sites or any schemes permitted as small-scale built up area additions, this scope could be reviewed further. Trialing a CIL rate test at beyond £200/sq. m could be useful to inform this if relevant, in order to fully view the potential maximum and then adjusted parameters, as above. However, we can see that the potential maximum scope lies beyond that assuming VL4 and VL5 values, with the RLVs reaching well over the £500,000/ha BLV level that in our view may be regarded a maximum suitable land value for any such sites. This is also potential scope supported by any lower sales values instances, so that for example at VL3 with £200/sq. m fully tested, the RLV reaches almost £370,000/ha which could be regarded as a sufficient land value in such a context in our view. Applying a 50% buffer to this would suggest charging rate scope of more than £100/sq. m indicatively at this stage, including on sites providing affordable housing (and so showing notably more scope than seen for the 30 mixed dwellings base outcome – with affordable housing – as per 3.2.26 above).

3.2.33 The above considerations cater for mixed housing developments, i.e. envisaging some of those including a mix of houses and flats, as well as houses-only or predominantly houses bases schemes. Looking in the other direction on potential CIL charging scope, however, any significance to the plan overall of apartments-only developments would need to be considered in terms of potential downward CIL rate differentiation. This is evident from our typology tests of apartments only scenarios and is not an unusual finding. Apartments only developments typically require relatively high values to support the high development costs, and the results show – the viability picks up to workable looking levels once higher values than our base assumptions are used. The indications from our work here are that such a positive relationship between values and costs is not likely to be in place regularly in the borough, based as necessary on currently available information.

3.2.34 Following on from this general indication, although not thought to be of key relevance in the Nuneaton & Bedworth context, this theme may need to be considered for any bespoke sheltered/retirement housing scenarios that come forward. With an increased proportion of communal non-saleable floor area (usually up to about 25%) needing to be constructed and other bespoke assumptions applied, even at the highest VL12 tested (sales assumed @ £4,400/sq. m i.e. approx. £409/sq. ft.) the outcomes indicate £1m/ha land value equivalent reached with potential maximum CIL scope at around £70/sq. m (so c. £35/sq. m after a 50% buffer deduction; c. £49 after 30% deduction. However, this is a tested level of sales value rather than an evidenced level. Furthermore, we can see that at the V11 test, any level of CIL is supportable only in a greenfield development context and then probably only based on £20 – 40/sq. m maximum CIL potential. Any extra care developments would typically involve higher development costs (principally associated with further enlarged communal areas, at around 30% of the overall floor area). Whilst higher still values may be achieved, subject to any available local evidence, we draw from this that at this stage the most suitable response in viability terms is likely to be a nil-rate (£0/sq. m) for such developments – retirement/sheltered and extra-care housing (usually apartments or equivalent) – or at most a nominal only type rate (although not viability evidence-led, but based rather on considering the balance as per the above noted CIL principles).

3.2.35 Site-specifics will, unavoidably, be variable and no particular level of CIL, including a highly varied or nil-rated approach can guarantee scheme delivery. The key consideration is selecting a level of levels for the charging that will be likely to prove workable generally across the development planned to occur locally.

3.3 FINDINGS REVIEW - Larger / Strategic scale development

– **Strategic site allocations** (Appendix IIb)

3.3.1 At this stage, the assumed approach to sales values has been chosen to reflect higher volume, less individual development scenarios. While we consider it likely that in at least some of those cases there will be a positive "place-making" effect on likely values in these instances, and this could vary, at this stage we have assumed a slightly lower level of value (at £2,700/sq. m i.e. approx. £250/sq. ft.) across these sites. This is considered appropriate based on experience and the available information at this time i.e. that the values achieved on larger, less individual schemes may not reach quite the levels considered most relevant to the typologies overview as set out in this section (base assumption £2,800/sq. m as above).

3.3.2 As above, the results at Tables 2a to 2f show (in green) any available surpluses after accounting for the NBBC provided s.106 estimated per site. In respect of any surpluses potentially available to support CIL as well as the s106 costs, the "buffering" principles as discussed above should again be considered.

3.3.3 Based on the available information, this review of the following 2 sites shows positive viability (small/marginal surplus results – green table shading), supporting the collective assumptions applied but before allowing for any CIL:

- HSG2 Arbury (as per Table 2a) – surplus reported equivalent to £2,925/dwelling (all dwellings), and;

- HSG10 Attleborough Fields (as per table 2f) – surplus reported equivalent to £349/dwelling (all dwellings).

3.3.4 The same approach results in current indications that show deficits for the other 4 strategic sites with the assumptions used, including the Council's s106 estimates – HSG4 (Woodlands), HSG5 (Hospital Lane), HSG7 (Land East of Bulkington) and HSG8 (Land West of Bulkington).

3.3.5 These are relatively small looking deficits in the context of such schemes (indicating marginally negative outcomes only) except in the cases of HSG4 (Woodlands) and HSG7 (Land East of Bulkington) which indicate more significant viability gaps based on current assumptions. This is principally a reflection of the significantly greater £/dwelling s.106 estimated included for these sites, at £10,505 - £14,580/dwelling as per 3.1.19 (2) above (cost applied to all assumed dwellings) compared with estimated s.106 costs ranging from just over £4,000/dwelling on the other sites tested here.

3.3.6 Overviewing these viability outcomes points to a continuation of the use of s.106 on these sites and particularly given the evident sensitivity of these outcomes to changes in costs or other unknowns – reflecting the same principles as discussed above.

3.3.7 The outcomes could of course vary considerably with timing, scheme details, further national policy developments and so on. With, not unusually, a range of unknowns at this stage it is not possible to say exactly what level and detailed make up of planning requirements and obligations packages will ultimately be appropriate or supported at these locations. It is not known at this stage how (procurement route) or exactly when (timing) all the elements of community and social benefit and other planning obligations will be delivered.

3.3.8 However, with the pooling restrictions lifted, the use of s.106 again offers much greater flexibility. In our view, this route may well continue to offer the more responsive route to delivering the development mitigation and infrastructure required for these schemes and particularly as currently there appears to be no scope to clearly support a level of CIL charging alongside the estimated s.106 packages. We could reasonably expect the s.106 estimates to move further, and it can be seen that once the scheme details are known and values etc. can be specifically discussed then depending on the market there may be a possibility of supporting enhanced s.106 levels if the Council's evidence show those to be required. This work does not prescribe or limit those details; rather it suggests that at this stage the Council should consider carefully the impact of adding to potential viability pressures on sites that are key to the new Local Plan overall via fixed top-sliced cost in the form of CIL.

3.3.9 As elsewhere in this assessment report, these are points put forward at the point of undertaking this work. At this stage it is not possible to say what the implications of Brexit or, as of Spring to Summer 2020 but also with expected longer effects, the global Covid-19 pandemic will be. It appears appropriate to take a balanced rather than totally negative view in regard to the housing market and new housing demand, but as is acknowledged, this does add to the potential unknowns.

3.3.10 As is relevant in the case of all the other information and findings here, the lifespan of a first charging schedule may well be relatively short relative to that of the Local Plan or the operation of various economic and property market cycles. Irrespective of the approach taken to CIL at this stage, it will be possible and appropriate to relatively regularly revisit and adjust if/as needed the charging rates. A CIL review may now be conducted on a lighter-touch basis than was possible previously.

3.4 FINDINGS REVIEW – Commercial / non-residential scenarios (Appendix IIc)

3.4.1 Our assessment work on the review of commercial and non-residential development has focused on our typical methodology for considering CIL viability, again using an established approach to apply the same principles as used in the residential assessment aspects.

3.4.2 Typically, for non-residential development, a local authority's planning policy obligations have relatively little influence on development viability. There is usually no significant policy area that creates such an influence as is found in the case of residential (e.g. affordable housing). From a review of the local context and policies, this is also considered to be the case in Nuneaton & Bedworth.

3.4.3 As noted in DSP previous work for the Council, the findings are highly varied and both this and the patterns/relativities seen here are fairly typical in our experience. In our wide experience of CIL viability, generally poor viability or at best mixed results tend to be seen from most test scenarios other than those representing certain forms of retail development (typically larger format retail development – e.g. foodstores and retail warehousing). This has been seen in this assessment too.

3.4.4 Usually we find that this is especially the case for most of the B (business/employment) use class types. However, such outcomes do not necessarily mean that development will not be delivered through flexibility in development appraisal inputs and negotiations – factors that we cannot assume in prudently assessing viability for informing the CIL setting purposes, given the fixed top-slice nature of CIL charging.

3.4.5 Prospective occupiers may have particular drivers for pursuing developments and/or may be able to work with different costs than those that we need to assume for this assessment purpose (bearing in mind CIL principles and ensuring that CIL is not set to the margins of viability by removing assumed cost from appraisals and/or relying on potentially excessive values assumptions, for example).

3.4.6 We will set out below the findings from this fresh look at viability – as above, undertaken with the aim of a complete revisit of the CIL funding scope supportable from a range of relevant development types. However, as a high-level overview, the previously stated themes and findings remain broadly valid. Unfortunately, it continues to be necessary to restate our previous acknowledgment that, particularly when viewed in terms and using assumptions appropriate to this type of strategic level local authority viability assessment, the viability of many non-residential forms of development looks likely to remain challenging

3.4.7 In respect of these other forms of development, many of which are unlikely to be brought forward speculatively, and especially in the current/short term uncertain wider economic circumstances, it appears more to be case of working with the market, being open, incentivising and engaging with development interests as far and productively as possible. This will involve aiming to review and promote or protect/ select the most appropriately and accessible sites for relevant uses, seek necessary development that also meets other strategies and policies, and so on.

3.4.8 This does not necessarily mean that suitable schemes will not come forward; they will when their promoters deem them to be sufficiently viable.

3.4.9 With a CIL in place, this does not necessarily mean a significant added impact on viability either. The consequence is that the CIL will be chargeable at the stated rate(s) on any relevant developments that the market deems viable enough to bring forward while the schedule is in operation. If a development is considered sufficiently viable to proceed, the likelihood is that an appropriately set CIL will not unduly impact that viability. S.106 will usually be scaled-back with CIL implemented.

3.4.10 In re-considering the below, and CIL charging rate setting generally, it is worth noting that it is necessary only to clearly describe the form(s) of development that the charging levels(s) are to apply to. These, and any differentiation, need not be by reference to Planning Use Class. Reference to that may be of assistance with some descriptions though – assisting the clarity of how a charging schedule is intended to apply.

3.4.11 It is not proportionate or necessary to appraise all forms of development. So, appraisals have been carried out for larger format retail (supermarkets/larger foodstores/retail warehousing), small shops (local shops/convenience stores), offices (both in-town and out of town centre locations), industrial/warehousing (smaller and larger, including a larger distribution typology), hotels and care homes. However, for a range of other highly variable forms of development that could also come forward on an ad hoc basis (community and assembly uses, health, education, leisure, etc.) it is sufficient and proven appropriate not to go beyond considering at a high-level the likely strength of the relationship between the development value (where applicable) and costs. Typically, such wider development is not viable in a commercial sense and/or may be regarded as infrastructure anyway (e.g. health, education and other public/community services).

3.4.12 As noted, the Council (as prospective charging authority) will need to strike an appropriate balance between viability and the desirability of funding infrastructure; and does not have to precisely follow the viability evidence in doing so.

Retail development (A Use Classes)

3.4.13 **Large retail units (foodstores and retail warehousing)** remain amongst the most clearly viable forms of development "on paper" as per this exercise. Should they be pursued, these developments would not be entirely speculative and they could expect to be underpinned by rental and yield combinations towards or at the more positive end of our assumptions (lower end yield within our range tested (c. 5%); if not lower potentially). Currently we are seeing lower (more positive) yields for foodstores than for retail warehousing and indeed al other retail types. We use the Knight Frank Yield Guides (latest May 2020), other similar reference sources and Co-Star to inform our views. The latest Knight Frank Yield Guide Issue notes a 'Stable' to 'Positive' market sentiment for foodstores, while for al other listed sectors, not just retail, this is currently stated as 'Negative'.

3.4.14 However, and reflecting this, while the results appear strong, the Appendix IIc Table 3a to 3e results also show the very high level of sensitivity of those outcomes to lower values (with falling rents) and/or a less positive (increasing %) investment yield - reflecting less confidence in the security of the rental income flow.

3.4.15 Taking these factors into account, we do not consider the current CIL charging scope in Nuneaton & Bedworth for these types of retail to go beyond £100/sq. m if they come forward. The results tables show that the investment yields could move out to 6%-6.5% and there still be an element of buffering maintained to support a charging rate of £100/sq. m.

3.4.16 Using the mid (M) rental value tests, the foodstore typology maintains a £1m/ha RLV with the yield at 6% (compared with 5% or more positive now – the Knight Frank Guide indicates 4.25-4.75%) and c. £140/sq. potential maximum CIL (Table 3c). At 5.5% the foodstore typology produces a residual of £1.5m/ha+ at the maximum tested trial CIL rate of £200/sq. m (Table 3b).

3.4.17 Although the current investment yield view associated with retail warehousing unit development is not the same, the viability of this typology is helped by relatively low build costs compared with other retail unit types. We can see at Table 3d (6.5% yield) that a £1m/ha+ RLV is supported with potential maximum CIL cost of £160/sq. m factored in.

3.4.18 Under the new Local Plan context, the extent to which new retail units (or extensions) that would be CIL chargeable are considered relevant is likely to be an important consideration. In general, it may be that any non-viability of particular schemes is not critical to the Plan overall in any event. This is an acceptable consequence of the CIL principles in general and may also apply to other forms of development (see below). There is also the key element of the balance – the Councils considering infrastructure needs as well as viability.

3.4.19 These other elements involved in considering the set-up of a CIL may well have a significant influence on the selected approach.

3.4.20 **Other retail types and smaller shops development.** The current assessment results continue to show the likely fragile or probably at best marginal viability of the development of other retail types – including smaller convenience and other local stores, comparison and individual shop units generally – e.g. within urban centre locations, parades, neighbourhood or local centres and potentially as may be envisaged as part of larger housing or employment-led developments.

3.4.21 Smaller shops development appears viable and potentially strongly so on first sight of the results, but on closer view this is only at the most positive end (i.e. with lower yield % tests). In fact, the yields seen are more likely to be around mid-range of our testing at best for the types envisaged locally, and less positive from there. The Knight Frank Yield Guide indicates around 9% for 'neighbourhood schemes'; 10% for secondary and tertiary location High Street retail (as above, both with a 'Negative' market sentiment). We can consider our results in this sort of wider context. Even with the most positive yield assumption used, at 5%, Table 3a shows that our 'M' rent level assumptions support a c. £1m/ha equivalent RLV with between £100 and £120 potential maximum CIL scope (before buffering) for the smaller town centre shops typology. Viable development also appears possible when we see at Table 3b with a 5.5% yield and 'M' rent the smaller convenience store typology producing the equivalent of c. £1m/ha RLV (with just £20-40/sq. m maximum CIL scope, before buffering). With a 6% or higher (less positive) yield assumption however, and considered most reflective, Tables 3c to then show these outcomes falling away to much lower and non or highly marginal viability, before CIL cost considered. A reliance on potentially very positive assumptions therefore appears to be needed in order to support any level of CIL charging on these wider range of retail developments in our view.

3.4.22 Overall, looking beyond any development for the larger format retail types as discussed above, we consider that it will be appropriate for NBBC to consider a nil (£0/sq. m) rate or otherwise a very low (nominal only) level of charge for other retail types.

3.4.23 In many cases (and as will be relevant also to other forms of development) new uses will be formed within existing or altered / extended premises and so CIL may have a reduced level of relevance and limited likely infrastructure funding receipts potential in any event. As part of the assumptions approach, the assessment does not allow for the netting-off of any existing floorspace as this will be such a variable and site-specific factor. In practice this means in some cases that an additional element of buffering will exist within the assumptions, as CIL may not be charged across the entire floor areas within schemes.

3.4.24 Overall, we suggest that a differential approach to CIL charging will be relevant for the Council's consideration:

- Larger format retail (foodstores, retail warehousing and similar) – suggested charging rate c. £100/sq. m;
- All other retail – suggested nil charging rate (£0/sq. m) or (subject to LP policies and potential delivery impact relevance especially perhaps in current economic circumstances) at most a nominal rate; in which case not supported on viability grounds but related to the balance and on the basis that the added impact on viability should in any event be minimal at a very low rate;

Employment (B Use Class) development – offices and industrial / warehousing

3.4.25 **Office developments.** With the locally achievable rents, unless the Council were to seek to adopt a nominal rate type view across a range of development types that do not exhibit clear viability for CIL charging, the only option pointed to by the results for the office development typologies is again a nil (£0/sq. m) charging rate.

3.4.26 This is clearly seen on review of the Appendix C results, which even at the most positive end of the testing (5% yield assumption – Table 3a) indicate at best low residual values reliant on the 'H' rent level assumptions and essentially nil CIL scope.

3.4.27 There could be some low- level indication here that looking ahead office development on greenfield or other land in very low value existing use may prove viable, if demand exists. However, to reiterate, the results do not provide viability evidence of scope for CIL charging at the current time. This is considered unlikely to change significantly in the short term likely to be relevant to a first charging schedule.

3.4.28 **Industrial/warehousing/distribution developments** as reviewed through the typologies show a slightly more positive picture than that for offices, with in our view the potential to carefully consider a very low (nominal) charging rate from a marginally more positive viewpoint, depending how this sits within the overall balance and the LP delivery context. However, we need to stress that this looks quite marginal.

3.4.29 Other than for 'prime distribution/warehousing' (showing 'Stable' market sentiment), the information on yields suggests that 6% to possibly 5% could be supported by the investment prospects in some circumstances.

3.4.30 At the 'M' rent tests, a 5% yield supports residual outcomes that may meet greenfield or other low existing use land values with potential maximum CIL scope of around £80 to £100/sq. m. However, these outcomes amount to a narrow band of viability, needing the support of this currently very positive yield assumption.

3.4.31 With a 5.5% yield assumed, any limited positive viability scope is only seen using the 'H' rental value level. We would not rule out this combination, but overall these findings do not point to more than a rate of perhaps up to approx. £20/sq. m – effectively a nominal rate as a possibility that might be considered, subject to all the other factors as have been considered above. As with all aspects of considering a CIL, the Council will also need to consider the potential receipts levels ("yields") vs the administrative costs and burdens, etc.

3.4.32 Consistent with the above, the charging of a nominal CIL level would in itself not be likely to make the difference between viability and non-viability. Pressures on viability are inherent in the relationship between the much larger figures involved in considering development values and costs.

Hotels (C1) and Care Homes/similar (C2)

3.4.33 These tests, with results shown at the bottom of each of the Appendix IIc tables, show no viability at any level using assumptions which are considered appropriate for the study purpose, in the local circumstances.

3.4.34 We reiterate that, as in all cases, the above does not mean that all developments subject to CIL charging will be inherently viable; or that all development types ultimately subject to a nil CIL charge will not come forward at all. Parties pursuing any schemes that progress will have a particular rationale for doing so.

3.4.35 This means that in respect of these uses, again, unless the Council is minded to purse a nominal rate approach (potentially applied to a range of development types, with a need to consider any state aid related aspects) then as a suggested outcome consideration should be given to a nil-rate (£0/sq. m) charging approach for such uses.

3.4.36 As in the other instances noted above, these points and positions are borough-wide considerations – not intended for considering only in limited localities (zones) or in other ways that might introduce unwarranted complexity in our view.

<u>**Other development uses**</u>

3.4.37 The comments offered in these sub-sections reflect the general principles considered throughout on the varying strength of development costs: values relationships but are for consideration in a wider context; also going beyond viability.

3.4.38 As a regular component of our CIL viability assessment work, we also consider a range of other development uses – their likely viability.

3.4.39 So, in common with most of our other CIL studies, we have also carried out some initial high-level consideration of other development uses such as leisure (e.g. bowling / fitness / gym) or other D class elements such as health / clinics / nurseries etc.

3.4.40 Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost indications from BCIS (before consideration of other development costs) points to poor to (at best) marginal development viability. This is one of the key reasons why these forms of development are generally not seen stand-alone but tend to be provided as part of mixed-use schemes that are financially driven by the residential and /or retail development.

3.4.41 Much the same applies to elements such as health / clinics and other similar, more community-oriented development.

3.4.42 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.4.43 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them. Indeed, some such developments may well be considered as infrastructure themselves.

3.4.44 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of "lost opportunity" as regards significant CIL funding receipts overall, even with anything more than a nominal or nil CIL rate in place. We consider that many of these uses would frequently occupy existing / refurbished / adapted premises.

3.4.45 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from regularly supporting anything other than a nil or nominal type CIL charge.

3.4.46 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.

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

3.4.48 On this basis, Figure 21 below provides examples of this high-level review only of the general relationship between values and costs - in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support anything more than a nil or nominal CIL charge. Otherwise, the added viability burden could be likely to delay or frustrate schemes, mean other compromises or add to funding requirements. The Councils may also wish to consider the administrative aspects – CIL charging implementation. These points are not key to the viability assessment.

3.4.49 These types of value / cost relationships are not unique to Nuneaton & Bedworth Borough. Very similar information is applicable in a wide range of locations in our experience, although the Council may be able to consider the likely relevance of certain types of development uses within its area in the LP context, and therefore the potential need to ensure that any essential delivery is not unduly undermined.

Figure 21: Other development uses - Broad consideration of viability prospects (indicative value/cost relationships (DSP 2020)

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.*	Base build cost indications – BCIS**	Viability prospects and Notes
Cafés	*£80 - £300 per sq. m.*	*£800 - £3,000 per sq. m.*	*Approx. £2,000 - £3,500*	*Insufficient viability to clearly and reliably outweigh the costs*
Community Centres	*£10 - £50/ per sq. m.*	*£100 - £500 per sq. m.*	*Approx. £1,800 - £3,000*	*Clear lack of development viability*
Day Nurseries (Nursery School /Creches)	*£80 - £150 per sq. m.*	*£800 - £1,500 per sq. m.*	*Approx. £1,700 - £2,500*	*Clear lack of development viability*
Garages and Premises	*£30 - £100 per sq.*	*£300 - £1,000 per sq. m.*	*Approx. £650 - £1,200*	*Low grade industrial (B uses) - costs generally exceed values*
Halls - Community Halls	*£10 - £50 per sq. m.*	*£100 - £500 per sq. m.*	*Approx. £1,800 - £3,000*	*Clear lack of development viability – subsidy needed*

Leisure Centre - Health and Fitness (Sports Centres/ recreational centres) generally	*£60 - £130 per sq. m.*	*£600 - £1,300 per sq. m.*	*Approx. £1,200 - £2,700*	*Likely marginal development viability at best - probably need to be supported within a mixed-use scheme; or to occupy existing premises*
Leisure Centre Other - Bowling / Cinema	*No information available*		*Approx. £2,000 - £2,500*	*Likely marginal development viability at best - probably need to be supported within a mixed-use scheme; or to occupy existing premises*
Museums	*No information available*		*Approx. £1,500 - £4,000*	*Likely clear lack of development viability – subsidy needed*
Storage Depot and Premises	*£10 - £100 per sq. m.*	*£100 - £1,000 per sq. m.*	*Approx. £400 - £1,300 (mixed storage types to purpose-built warehouses)*	*Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.*
Surgeries	*No information available*		*Approx. £2,200 - £3,500 (Health Centres, clinics, group practice surgeries)*	*Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.*

Above: Figure 21 - continued (DSP 2020)

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

**Approximations excluding external works, fees, contingencies, sustainability additions etc.

(BCIS)

3.4.50 Our recommendation is for the Council to consider first a nil-rate (£0/sq. m charge), as per the viability outcomes, applicable as above to all forms of development other than those bearing the ultimately selected positive charging rates (as proposed above for residential and larger format retail developments); or, as a potential alternative, a nominal rate type approach (relying on judgments around the balance to be struck as per the CIL guidance, rather than based on viability only).

3.5 Other evidence and potential future review

3.5.1 This viability information will need to continue to be considered in conjunction with the Council's wider evidence, including the developing picture on infrastructure needs and its approach to the ongoing use of s.106 agreements.

3.5.2 As we have commented above, it is not necessary for the prospective charging authority to exactly follow their viability evidence. Rather, the council should be able to show how the information (along with other sources and drivers) has informed its overall approach. Councils are able to consider that there is some room to take a pragmatic view, as the national guidance states.

3.5.3 The processes of considering all the variables and influences, and then setting the CIL charging rates, are not an exact science by any means. Judgments need to be made.

3.5.4 These can be revisited in response to matters that change, and potentially over a fairly short period of time compared with the Local Plan timeframe. The review of CIL charging schedules is often undertaken within around 3-4 years, and this may now be seen to reduce. The local and wider circumstances that a CIL is operating in will normally be monitored to inform review.

3.5.5 The review process has recently been eased to some extent. On operating scope, the more flexible use of s.106 that is now available should also be considered as part of the wider approach to infrastructure provision. A blend of s.106 and suitably set CIL charges should be workable.

3.6 Brief summary – CIL viability scope
Suggested parameters for potential charging rates

3.6.1 Following this comprehensive viability review and based on the findings set out above, as a quick guide, these are the guide parameters for CIL charging rates that are put forward to NBBC for consideration based on the viability findings (brief summary only – the above reporting provides the details):

- Residential (borough-wide):
  - Sites with affordable housing (policy H2 triggered i.e. at 11+dwellings: Rate - £50 – 80/sq. m (see 3.2.26)
  - Sites beneath AH policy threshold (up to and including 10 dwellings):

Rate - £70 – 100/sq. m (upward differential possible @ c. +£20/sq. m) (see 3.2.27)

- Possibility of higher rate for any small-scale uncomplicated greenfield development (subject to CIL basis in terms of description/zoning or similar) – Potentially at £100+/sq. m if relevant (with AH) (see 3.2.32)
- Sheltered/retirement and extra-care - £0/sq. m (see 3.2.34)

- Commercial/non-residential (borough-wide):
  - Any development of larger retail units (foodstores, retail warehousing and similar) – Rate c. £100/sq. m (see 3.4.24 and preceding detail)
  - Any other retail (smaller shops development) – e.g. smaller convenience and comparison shops, development in centres and neighbourhoods, any new local centres – Rate £0/sq. m (see 3.4.24 and preceding detail)
  - Employment (offices, industrial and warehousing) <u>and all other development uses</u> - £0/sq. m.

3.6.2 As a potential alternative that NBBC could consider in respect of development uses that are not considered to support CIL charging scope directly through the viability evidence, the above reporting notes the possibility of considering nominal CIL rate charging (very low rate, having a minimal impact on viability) within the overall balance that will need to be struck. This could be considered further with the Council if appropriate, although at the time of writing the current economic backdrop may play into the review of any such possibilities.

3.6.3 DSP will to be happy to assist the Council further as required.

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