

**For: Nuneaton & Bedworth  
Borough Council**

**Local Plan Viability Assessment -  
Update**

**Final Report**

December 2016  
DSP16398

V4

# Final Report

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## Notes and Limitations

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1. This has been a desk-top exercise based on information provided by Nuneaton & Bedworth Borough Council (N&B BC) supplemented with information gathered by and assumptions made by DSP appropriate to the current stage of review and to inform the Council's on-going work with regard to updating viability work previously carried out to inform the policies of the emerging Local Plan.
2. 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 as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment a large number of assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.
3. 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. This is also true in respect of the long timescales in Local Plan development and implementation over which the economy and development climate (national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions used within this study reflect the policy requirements and strategy direction 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.
4. It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's policy development.

5. This report sets out and updates parameters and options set out for the Council in previous reporting<sup>1</sup> to inform policy development from a viability perspective whilst taking into account any changes to national and local policies that may impact on development viability.
6. It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point and so not just referring to the Council's progression of proposals here, we have to place an emphasis on the need for a practical approach to be taken by Council, having due regard to development viability where justified. By this we mean that where justified, the Council needing to be adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions, and being responsive to varying scheme types and circumstances. The various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering, as an example, local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding and numbers rounding in formulating the detail taken from the targets basis. The Council may need to consider the interrelation of those effects and how those impact on and benefit schemes as part of the collective development requirements. The Council may, where justified and appropriate, need to consider how to optimise provision in the given circumstances.
7. In carrying out this assessment from the necessary strategic viewpoint, it is assumed that there will be a variety of market conditions during the life of the Local Plan, including periods in which we will see more and less stable and confident economic and property market conditions.
8. The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. The National Planning Policy Framework (NPPF) states that *'To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable'*. It is not

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<sup>1</sup>DSP - Nuneaton & Bedworth BC: Viability Assessment: Whole Plan and Community Infrastructure Levy Viability Study (December 2014)

appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment / use of the land, and a potential premium relative to existing use value or perhaps to an alternative use that the site may be put to. In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing; with planning policies being reflected amongst these factors. It is clear from Guidance<sup>2</sup> that estimated land or site value should reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy. The planning requirements will be necessarily reflected in the land values that are ultimately supportable.

9. 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; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
10. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.
11. 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 continue to be applied practically from case to case.

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<sup>2</sup> DCLG: Planning Practice Guidance - Viability and Plan Making Paragraph 014 Reference ID 10-014-20140306

## Executive Summary

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- (i) Nuneaton & Bedworth Borough Council (N&B BC) has appointed the Dixon Searle Partnership (DSP) to review and provide an update following DSP's previous viability assessment work completed in December 2014 based on and informing the Emerging Preferred Options Local Plan version at that stage.
- (ii) This update report considers changes to key assumptions and inputs used in the previous assessments<sup>3</sup> – necessary due to changes in development costs, revenue assumptions and also owing to national policy changes that warrant revisiting the previous assessment and findings. This update also considers further the general viability of new strategic site allocations including both those reviewed in earlier work and additional sites allocated to accommodate redistribution of Coventry City Council's housing requirement (additional 4,000 dwellings).
- (iii) This viability update has been produced in the context of and with regard to the National Planning Policy Framework (NPPF), CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance ('PPG') as updated to June 2016.
- (iv) The NPPF (para 173-174) provides specific guidance helping to ensure the viability and deliverability of Local Plans. This update assesses the (financial) capacity of development schemes in Borough to deliver proposed local and national policies. The NPPF states that the *'cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'*. This update also includes consideration of the impact of changes in local and national policy, market conditions and development costs - based on the latest available information and evidence at this point.
- (v) This viability update applies the same principles, methodology and many of the same assumptions as used for the Council's earlier viability work. It uses the residual land valuation principles. In basic terms this means subtracting the costs of achieving a development from the revenue generated by the completed scheme with the resultant land value compared to a benchmark on the basis that all other assumptions (including developer's profit) are fixed for the purposes of this exercise.

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<sup>3</sup>DSP - Nuneaton & Bedworth BC: Viability Assessment: Whole Plan and Community Infrastructure Levy Viability Study (December 2014)

Sensitivity testing is then carried out on key assumptions as part of this process to give a suite of results from which the aims of the study are addressed.

- (vi) The assessment results enable the consideration of the likely viability impacts from a policy requirement of 25% affordable housing on sites of 11 units or more across the Borough. Sensitivity testing is also carried out reviewing the impact of a lower affordable housing target and potentially lower affordable housing thresholds. Additionally the results sets provide current stage indications on the comparative impact of a “top-slice” of 20% Starter Homes from the overall dwelling mix, before and in addition to the other traditional forms of affordable housing (affordable rent and shared ownership) being factored-in. The Housing and Planning Act 2016 introduces a requirement for Local Planning Authorities in England to promote the supply of Starter Homes although it should be noted that at this stage the detail is yet to be provided through Regulation and / or associated Guidance.
- (vii) Through this viability assessment update, completed approximately 2 years on from the previous base study, we have found that both residential sales values and build costs have increased by similar proportions.
- (viii) A relatively flat (consistent) values picture is still seen across the Borough – as is considered relevant to most new-builds, viewed now and of the type that will support the majority of the planning housing growth.
- (ix) Overall, this leaves viability in respect of residential development generally in a similar to potentially improved position in comparison with that found in 2014. Where we have noted improvements these are in the main likely to be modest rather than greatly significant; insufficiently regular to support alternative key findings and policy support recommendations.
- (x) So these findings are supportive of a continued affordable housing policy headline target of 25% (based on a mix of affordable rent and intermediate tenure); 20% in respect of sites of 11 to 14 new dwellings follow the reintroduction of the effective national minimum threshold and with justification for an alternative approach to “capture” affordable housing / contributions from smaller developments unlikely to be warranted in Nuneaton & Bedworth’s case.

- (xi) With this and not any higher AH policy aspirations in mind, we have continued to find that the Council should be progressing towards identifying a range of potentially viable developments types to support the new Local Plan (proposed revised Submission Version) level of and strategy for housing growth (site types and distribution).
- (xii) In balance with and informing this, it has also been necessary for DSP to again acknowledge the various viability sensitivities and in general the relatively finely balanced viability picture that will quite often be seen in the Borough by the time the 25% affordable housing or a level close to that is factored in, perhaps especially alongside any particular sites issues (abnormal costs) which are likely to mean that outcomes move around, given the many variables. The impact of the affordable housing could be seen to ease, and potentially significantly, with a formal introduction of starter homes next year; dependent on how that develops, and its detail. Only time will tell, but in the meantime this appears an inappropriate point to consider reducing affordable housing context aspirations in any event.
- (xiii) Once again, a key point will be for the Council to continue to develop a potentially adaptable approach to the delivery details for development proposals.
- (xiv) Linked to this, it is again not possible to unreservedly support the viability of all proposals on the basis of including all policy requirements to the full each time; some flexibility and potential trade-offs / priorities will need to be considered in the development management stages. There is nothing unusual in this and in our experience this is typical even in significantly higher value localities.
- (xv) Looking this time at potential / emerging new policy areas, we have found that any policy to continue the previously proposed approach to meet 35% of households' needs for additional accessibility or adaptability measures should be workable in viability terms (related to Building regulations enhanced standard Part M4 (2)). However, policies seeking greatly in excess of this, or for example more than a very small proportion of M4 (3) compliant (wheelchair accessible or similar) homes additionally, should be considered with caution in regard to collective development costs and the still fairly finely balanced viability picture that has had to be acknowledged based on assumptions suitable for Local Plan / CIL viability review purposes.



- (xvi) All the same principles and potential findings in these respects have again been found in relation to the proposed strategic sites.
- (xvii) Also consistent with the previous findings, in respect of commercial / employment development creating development again a range of challenges must be acknowledged. We are finding this to be the case in most local authority areas and certainly not just in Nuneaton & Bedworth. We will therefore not reiterate the practical points included within our concluding report sections on these important aspects previously. This does not mean that such developments will not come forward and be completed, as the involved parties have the scope to use financial assumptions and drivers that are more positive for viability outcomes – potentially optimistic in comparison with those applicable to this type of strategic viability assessment.
- (xviii) These findings are similar to those for the residential side in that we consider the Council will need to take care not to intervene with any potentially onerous policy requirements that go beyond the national base requirements in terms of additional costs likely to increase inherent viability pressures. An approach to give encouragement to and incentivising building to the highest achievable standards instead is likely to be needed, and more effective, in our view.
- (xix) As in the case of residential development and following further market information review, therefore, we consider that the December 2014 Whole Plan and CIL Viability Study findings and recommendations remain relevant at this point in respect of non-residential and commercial developments; as they do for residential (hence the reuse of a CIL charging rate assumption within the residential scenarios updated testing that follows the previous assessment findings – at £50/sq. m). In the case of commercial/non-residential development uses, as the report detail notes this meant we considered it not necessary to re-appraise those scenarios at this stage.
- (xx) As with all previous assessment work undertaken through close working with N&B BC over a considerable time period, DSP will be happy to assist further if required.

**Executive Summary Ends**  
**Full Report (Final v4) follows.**  
**December 2016**

# 1. Introduction

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## 1.1 Background to the Viability Update

- 1.1.1 Nuneaton & Bedworth Borough Council (N&BBC) is currently preparing a Revised Submission version Local Plan. The Nuneaton and Bedworth Borough Plan will play a key role in shaping the future of the Borough up to 2031. It will influence what development will take place, how much and where within the Borough it will be located. Adopting a spatial approach, the Plan will consider a wide range of economic, social and environmental matters that together will enable the achievement of cohesive and sustainable communities. The Plan will outline a spatial vision and strategic objectives for the area along with a strategy and policies to enable its delivery.
- 1.1.2 The Local Plan must be prepared in accordance with the requirements set out in National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG). Viability testing is an important part of the plan-making process. The NPPF introduced a clear requirement to assess viability of the delivery of Local Plans, and the impact on development of the policies contained within them. In addition, further guidance on this requirement is covered by the national Planning Practice Guidance and other publications. In order to meet the requirements of the NPPF, Dixon Searle Partnership (DSP) has been carrying out viability assessment work for the Borough Council, undertaken to inform and support the development of the Local Plan across the Borough. Previous work undertaken by DSP includes a Whole Plan and Community Infrastructure Levy Viability Study published in December 2014 in relation to the Local Plan Preferred Options Draft at that time.
- 1.1.3 This study alongside previous work undertaken by DSP on behalf of the Council (and work undertaken by others where applicable) form a suite of documents providing the viability evidence to support the emerging Development Plan of the Council.
- 1.1.4 The Council is conscious that, since the publication of the studies, there have been considerable changes to key inputs. These include market conditions and national policy changes alongside changes to the capacity of previously identified site allocations as well allocation of additional sites (required to accommodate the redistribution of some of Coventry City Council's housing numbers). Collectively, this

warrants revisiting the previous findings to ensure that the Council's evidence base is as up to date and topical as is practically possible.

- 1.1.5 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure that the proposed policies, sites and the scale of development identified in the plan are viable - to ensure a sound Plan through the Examination process. In light of the above, the Council has therefore commissioned this viability assessment update which will assess policies in the Local Plan that have cost implications; provide an overall viability assessment of the site allocations included in the Revised Submission Local Plan and provide a report detailing the outcome of the appraisal modelling to ensure that the proposed sites and the scale of development identified in the plan would not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.
- 1.1.6 We understand that this update assessment will form part of the background papers to be made available with the Revised Submission Local Plan for public consultation.

## **1.2 Nuneaton & Bedworth Borough Council Profile**

- 1.2.1 Nuneaton and Bedworth Borough is one of five Boroughs within Warwickshire. It is the smallest in area, but has the second largest population of 125, 400, resulting in a high population density of 1,587 per sq. km (compared with the average for Warwickshire at 275 persons per sq. km). Largely urban in nature the Borough has three main settlements; Nuneaton, Bedworth and Bulkington which are separated by areas of countryside that are designated Green Belt.
- 1.2.2 Located in the centre of the country, the Borough benefits from good communication links by rail and road to surrounding areas. Despite this the Borough struggles to attract inward investment because of its image as an old mining/industrial area. With a background in coal mining, other extractive industries and heavy engineering the Borough still has a high proportion of employees working in manufacturing compared to the UK average. This along with other economic, social and environmental factors mean that Nuneaton and Bedworth lags behind the rest of Warwickshire in key indicators that make for a high quality of life. This has resulted in a significant gap separating Nuneaton and Bedworth from the rest of the County

- 1.2.3 The Borough is divided into 17 wards which are grouped together into 7 localities. The following highlights some of the key characteristics of the localities.

Abbey & Wem Brook

- 1.2.4 The locality of Abbey and Wem Brook is made up of the Wards Abbey, Wem Brook and part of Attleborough. Covering an area of 2 sq. miles it has a population of 16,228.
- 1.2.5 The majority of the locality is very urban in nature with only the very southern part falling within the Green Belt. The locality contains Nuneaton town centre, the main retail and commercial centre of the Borough.
- 1.2.6 Abbey and Wem Brook is the most deprived locality in Warwickshire, with parts of it falling within the top 10% most deprived in England. Average household income is the lowest in the Borough and a high proportion of people are on benefits. GCSE attainment is low and 41% of the working age population have no qualifications at all.

Arbury and Stockingford

- 1.2.7 Arbury and Stockingford cover the wards of Kingswood, Bar Pool and Arbury. The locality covers an area of 6 sq. miles and has a population of 20,125.
- 1.2.8 Two thirds of the locality is covered by Arbury Estate Park and woodland. The remaining northern part of the locality is made up of two large residential areas; Stockingford and Bar Pool.
- 1.2.9 The age profile of the locality is the second youngest in the Borough and as such has the second highest population of working age. Most are employed in skilled trades. The number of people in managerial/ professional occupations is the lowest in Warwickshire. A high proportion claim job seekers allowance or other benefits. Reflecting this 11 of the 14 Super Output Areas (SOAs) in the locality fall within the 30% most deprived in the Country.

Bedworth North and West

- 1.2.10 Covering an area of 5 sq. miles and with a population of 18,527, Bedworth North is made up of the wards of Slough, Heath and the western part of Exhall. Located in the South West corner of the Borough the locality is divided by the M6 motorway. To the north of the motorway are the residential areas of Collycroft, Mount Pleasant,

Goodyears End and Bedworth Heath. To the south are Keresley Newlands, Ash Green and Exhall Grange. Also to the south is Prologis Park, a regenerated employment site which straddles the Borough boundary with Coventry.

- 1.2.11 Household incomes in the area are low with a high proportion of the workforce in unskilled or manual employment. Education attainment is also poor. The area also has pockets of poor health. 9 of the locality's 12 SOAs fall within the top 30% most deprived nationally.

*Bede and Poplar*

- 1.2.12 Bedworth South includes the wards of Bede, Poplar and the eastern part of Exhall. Covering 2 sq. miles and with a population of 17,289, it is a compact urban area.
- 1.2.13 The locality contains Bedworth town centre and as such includes a range of services and facilities.
- 1.2.14 Most of those living in the locality are employed in unskilled or manual jobs and as a result income is the third lowest in Warwickshire. Education attainment is poor with 2 Super Output Areas (SOAs) in the locality being within the top 10% worst areas in England in terms of education, skills and training.

*Camp Hill and Galley Common*

- 1.2.15 Encompassing the wards of Camp Hill and Galley Common this locality covers 3 sq. miles and has a population of 15,208. The western part of the area is countryside with the remainder being the residential areas of Whittleford, Chapel End, Galley Common and Camp Hill.
- 1.2.16 Deprivation in the area is concentrated in parts of Camp Hill where for instance levels of deprivation for education, skills and training fall within the top 0.5% in England. A high proportion of people claim benefits in the locality including lone parent credits. The proportion of young people in the locality is the highest in the Borough with 23.3% of the population under the age of 15.

*Weddington and St Nicolas*

- 1.2.17 This locality comprises the wards of Weddington, St Nicolas and part of Whitestone. Covering 5 sq. miles and having a population of 16,446 it stretches from the edge of

Nuneaton town centre to the Borough boundary with Hinckley and Bosworth on the A5.

1.2.18 Weddington and St Nicolas is the most affluent locality in the Borough. Here, 45% of residents from the locality work in managerial/ professional occupations and skills levels are high. Two in three students gain 5+ grade A\*- C in their GCSEs.

#### Whitestone and Bulkington

1.2.19 This locality is made up of the wards Whitestone and Bulkington. Covering 8 sq. miles and with a population of 16,874 the area is made up of Bulkington village and Whitestone.

1.2.20 At 25%, the locality has the oldest proportion of people of retirement age in Warwickshire. The proportion of those of working age is the fourth lowest in the county. Of the working age population few are employed in unskilled occupations.

1.2.21 The Revised Submission Borough Plan sets out strategic targets for the development of housing, employment and retail. Targets for the amount of new development in the Borough include:

- 113 hectares of employment land;
- 14,060 new homes of which about 9,600 are to be located on strategic sites with the remainder provided through non-strategic allocations;
- 15,000m<sup>2</sup> office space;
- 13,470m<sup>2</sup> – 16,460m<sup>2</sup> comparison retail floorspace;
- 1,750m<sup>2</sup> - 3,580m<sup>2</sup> of convenience floorspace;
- 2,666m<sup>2</sup> – 2,672m<sup>2</sup> of café, restaurant and bar floorspace

### **1.3 Policy & Guidance (including changes to policy)**

1.3.1 This viability update has been produced in the context of and with regard to the NPPF and other key sources as applicable – including the CIL Regulations, CIL Guidance and

other Guidance applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance.

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

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

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

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

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

Specific changes to the NPPF are currently under consultation. This report cannot pre-judge the outcome of the consultation and any changes that may be made to the NPPF.

- 1.3.5 Further guidance is set out in the Planning Practice Guidance (PPG) which re-iterates these messages where it says *‘Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development’*.
- 1.3.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.
- 1.3.7 This update assessment focusses on the Local Plan development aspects covered within the previous assessment and does not revisit the CIL findings from that at this stage. However, the previous assessment findings on CIL are carried forward into this update as part of the assumptions building and also the rationale for considering again the strategic housing sites viability, as will be seen through this report. The below reiterates the wider CIL context briefly, therefore.
- 1.3.8 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area.
- 1.3.9 CIL takes the form of a charge that may be payable on ‘development which creates net additional floor space’<sup>4</sup>. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-

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<sup>4</sup> DCLG – <http://planningguidance.communities.gov.uk/blog/guidance/community-infrastructure-levy/cil-introduction/> (June 2014)



residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there is a mandatory exemption for self-build residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.<sup>5</sup>

- 1.3.10 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area.
- 1.3.11 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able to receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods<sup>6</sup>.
- 1.3.12 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area.
- 1.3.13 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.
- 1.3.14 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). 'Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that

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<sup>5</sup> Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

<sup>6</sup>[http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/spending-the-levy/#paragraph\\_072](http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/spending-the-levy/#paragraph_072)

evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.<sup>7</sup>

- 1.3.15 The Council is working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the level of growth to be accommodated across the Council area as a whole. This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It would need to set out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.
- 1.3.16 Infrastructure is taken to mean any service or facility that supports the 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. Within this update, an allowance has been made for the cost to developers of providing affordable housing whilst maintaining the levels of CIL previously recommended. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others.
- 1.3.17 In most non-strategic sites, CIL will replace s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived “double dipping” – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the local planning authority intends to fund through the Levy). This is a significant consideration, for example, in respect of large scale strategic development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower

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<sup>7</sup> <http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/rates/> [Para 008]

value areas. These aspects were considered previously and the assumption continued here is that the infrastructure required to support and mitigate for genuine strategic scale development undertaken in future would most likely be provided through s.106 in the main, rather than CIL.

1.3.18 An authority wishing to implement the CIL locally must produce a charging schedule setting out the levy's rates in its area. The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

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

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

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

*As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.'*<sup>8</sup>

1.3.20 Further amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014) came into force on 24th February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions

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<sup>8</sup> <http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/rates/> [Para 009]

- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units)
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development
- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months)
- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously the authority only had to 'aim to strike the appropriate balance'
- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.3.21 The CIL (Amendment) Regulations 2015 were introduced following response 'to comments made during the 2013 consultation suggesting that housing relief should be extended to include charitable bodies providing affordable housing that are not local housing authorities or registered providers. These Regulations extend mandatory social housing relief to persons who are not local housing authorities, private registered providers of social housing in England or registered social landlords in Wales, that let dwellings at no more than 80% of market rent to households whose needs are not adequately met by the commercial housing market'<sup>9</sup>.

1.3.22 Also important to acknowledge, however, is that at the point of this viability update study, although the DCLG CIL Review Panel has reached its conclusions following the Government's consultation (ended January 2016) on potential further changes to the CIL regime, no position has yet been set out by Government (although this is expected in a Housing White Paper in January 2017). Unavoidably, it appears that the Council may need to consider the relevance of any changes that emerge and may be relevant to its local circumstances in the course of deciding on whether to bring forward a CIL or not.

#### Technical Housing Standards & Other Policies / Guidance

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<sup>9</sup> [http://www.pas.gov.uk/3-community-infrastructure-levy-cil/-/journal\\_content/56/332612/15149/ARTICLE](http://www.pas.gov.uk/3-community-infrastructure-levy-cil/-/journal_content/56/332612/15149/ARTICLE)

- 1.3.23 Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards. The DCLG statement said: *'From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code... For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'*.
- 1.3.24 The new approach introduces optional Building Regulations requirements for access (volumes 1 and 2) and water efficiency which provide a higher standard than the minimum national building regulations. A nationally described space standard has also been introduced which can be implemented through the planning system.
- 1.3.25 In addition, a new security standard has now been included in the Building Regulations (Part Q).
- 1.3.26 The review also clarified statutory Building Regulations guidance on waste storage - to ensure that it is properly considered in new housing development.
- 1.3.27 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application.

1.3.28 At the point of carrying out the earlier viability assessment for the Council, the technical housing standards had not been introduced. As such those were not tested as part of that suite of documents and are now required to be tested as part of this viability update where being considered for potential introduction locally. This update therefore partially tests proposed submission policies whilst providing information in relation to the viability of potentially introducing optional technical standards.

#### Affordable Housing

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

- *'contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000 sq. m (gross internal area).*
- *In designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*
- *Affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*
- *Additionally, local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure plots, from developments of Starter Homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure'.*

- 1.3.30 The national policy changes also included a ‘vacant building credit’. This intended to incentivise the use of brownfield (previously developed) land, by reducing the affordable housing through a credit based on the floor area of any existing vacant buildings.
- 1.3.31 The introduction of these policies via the Written Ministerial Statement and subsequent changes to the PPG were subject to a legal challenge by West Berkshire Council and Reading Borough Council. The legal challenge was successful; and those policies quashed as of August 2015. This led to the re-introduction of lower affordable housing thresholds (where viable to do so) or allowed Councils to continue to adopt lower thresholds through the Local Plan process.
- 1.3.32 In May 2016, however, the Court of Appeal overturned that decision so that the s106 and affordable housing threshold based on a national minimum development size were re-introduced. In carrying out this viability update we have therefore assumed that, in accordance with this, affordable housing will not be sought from schemes of 10 or fewer dwellings (subject also to maximum gross floor space requirements – at 1,000 sq. m new development).
- 1.3.33 It is important to note that although the decision is a major material consideration in determining applications, the decision does leave some remaining ambiguity. Several local authorities with existing development plans continue to successfully request financial contributions or affordable housing from sites of less than 11 units. This is typically on the grounds of a significant and proven requirement to meet their statutorily defined duty to meet affordable housing need, and that a large proportion of the overall supply comes from those smaller sites. Viability has also played a key role in Appeals dismissed through that route.
- 1.3.34 The WMS does include provision so that ‘Local planning authorities may choose to apply a lower threshold of 5-units or less to development in designated rural areas being areas as described under section 157 of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty’<sup>10</sup>. In the case of Nuneaton & Bedworth Borough Council we understand that no such areas are applicable.

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<sup>10</sup> Planning Practice Guidance Paragraph: 017 Reference ID: 23b-017-20160519 Revision Date 19/05/2016

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

*'where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.'*

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

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

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

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

**Intermediate housing** *is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing*



*definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.*

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

1.3.37 The evolving area of housing mix is wide-ranging. Previously and through the introduction of the Housing and Planning Act 2016 (which became law in May 2016), Government announcements have indicated that the last paragraph above may be changed in the near future so that low cost market homes may be treated as affordable homes for the purposes of planning. Indeed, Section 159 of the new Housing and Planning Act 2016 states:

*‘(1) Regulations made by the Secretary of State may impose restrictions or conditions on the enforceability of planning obligations entered into with regard to the provision of—*

- 1. (a) affordable housing, or*
- 2. (b) prescribed descriptions of affordable housing.*

*(2) Regulations under this section—*

- 3. (a) may make consequential, supplementary, incidental, transitional or saving provision;*
- 4. (b) may impose different restrictions or conditions (or none) depending on the size, scale or nature of the site or the proposed development to which any planning obligations would relate.*

*(3) This section does not apply in relation to a planning obligation if—*

*(a) planning permission for the development was granted wholly or partly on the basis of a policy for the provision of housing on rural exception sites, or*

*(b) the obligation relates to development in a National Park or in an area designated under section 82 of the Countryside and Rights of Way Act 2000 as an area of outstanding natural beauty.*

*(4) In this section “affordable housing” means new dwellings in England that—*

*(a) are to be made available for people whose needs are not adequately served by the commercial housing market, or*

*(b) are starter homes within the meaning of Chapter 1 of Part 1 of the Housing and Planning Act 2016 (see section 2 of that Act)<sup>11</sup>.*

1.3.38 As further detail develops, through regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered. The Starter Homes initiative (for example) together with specialist housing (e.g. for the elderly and regarding accessibility) and custom-build will be other aspects of overall housing provision to consider as proposals develop.

1.3.39 In addition to the above, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will now have to cut social housing rents by 1 per cent each year for four years from April 2016; a reversal of the rental formula which previously allowed RPs to raise rents in line with the consumer prices index (CPI) plus 1 per cent. As part of this viability update, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer). However we have not, at this stage, taken into account any changes to the definition of affordable housing, other than the introduction of Starter Homes (by way of initial indicative sensitivity testing) given that there is still no detail or Regulation on which to base any viability modelling at this stage.

## **1.4 Aims & Outputs**

1.4.1 DSP has been commissioned to provide further robust, fully evidenced viability overview information that will provide an independent viability assessment to support the Nuneaton & Bedworth Borough Revised Submission Council Local Plan. It will help to ensure that the Plan's vision and policies are realistic and provide high level assurance that the plan is viable – i.e. deliverable in development viability terms, when viewed overall.

1.4.2 In addition to the viability update on the policies contained within the Revised Submission Local Plan, there are a number of strategic scale sites identified in the Plan that will be brought forward partly or wholly within the lifetime of the new plan.

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<sup>11</sup> Housing & Planning Act 2016

It has been requested by the Council that high level viability testing (as appropriate at this stage of the process) be carried out aligned to these locations and scales of development in order to provide the Council with information on the potential deliverability of development at those sites (in a viability sense) and the potential level of affordable housing and other s106 that could be secured in each location. The potential locations and scales of development (scenarios) to be tested are set out in Appendix I and described in more detail within this report.

- 1.4.3 This update assesses the (financial) capacity of residential development schemes in the Borough to deliver proposed local and national policies without viability being unduly affected. This further review uses the same principles as set out in the previous viability work for the Council and as such this report does not repeat the detail set out in that report. This report should therefore be read in the context of the previous Viability Assessment referenced.
- 1.4.4 It is important that the Council's policies do not deter development through unduly reducing the supply of land brought forward for residential development more widely. Any policy must balance delivery of affordable housing, planning obligations and other planning policies with maintaining sufficient incentive (reasonable land value levels) for landowners to release land – allowing developers to promote and bring forward schemes. These are key drivers behind the Council's viability study work.
- 1.4.5 This viability update reviews the relative impact of changes in local and national policy, market conditions and development costs between the date of the original study and today. This is carried out by running a series of development appraisals on a variety of development scenarios or site typologies that reflect the nature of development coming forward across Borough. These scenarios reflect those tested within the earlier viability report for the Council based on site typologies taken from the Council's Strategic Housing Land Availability Assessment (SHLAA), with added sensitivity testing where necessary and a review of strategic site allocations. This enables us to test the impact of changes in policy whilst also looking in more detail at the specific strategic scale sites.
- 1.4.6 This further work uses the same methodology and development assumptions as used for the previous viability work except where updated (more detail is provided in Chapter 2 below and at Appendix I).

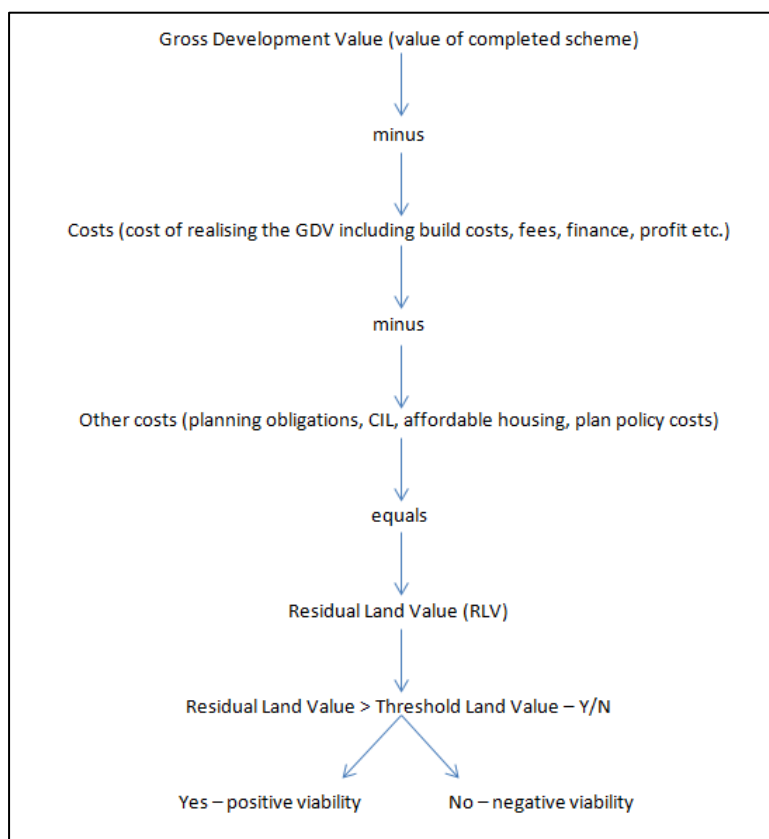
## 2 Methodology

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### 2.1 Approach

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

Figure 1: Residual Land Value



2.1.4 A viable development can be defined as *'the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project'*<sup>12</sup>. Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing or alternative use value (sometimes with an element of uplift required to incentivise the sale of the land) then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed.

2.1.5 In some instances it is necessary to fix the estimated land value (benchmark land value) as an input to the process in order to review the residual profit produced by a scheme. A further alternative is to fix both the estimated land value (cost) and developer's profit in order to review what potential surplus exists to support planning obligations. All approaches are equally valid and it is the latter approach that is used in this study to test the potential scope for planning obligations from strategic scale sites. Further detail is provided later in this report.

<sup>12</sup> Financial Viability in planning – RICS Guidance note (August 2012)

- 2.1.6 Under the residual land value approach, having determined the residual results for each development scheme typology and each sensitivity testing layer through running a range of these appraisal calculations, we then need to compare those results with a range of land value levels that could relate to potential existing / alternative site uses. This comparison can vary significantly. The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter, particularly in relation to brownfield / previously developed land (PDL). It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. For the purposes of this report we have taken a very high level view on the potential threshold land values (land value comparison levels) based on the original viability assessment and updated where necessary.
- 2.1.7 The basis for this viability review is to test the impact of any changes to market conditions, development costs and policy (local and national) cost impacts.
- 2.1.8 The ability of a scheme to produce a residual land value in excess of some form of comparative land value (existing use value potentially plus a premium or alternative use value, to incentivise release of land for development depending on the circumstances) is a key factor in determining development viability. If insufficient value is created by a development proposal then land will not come forward for development, ultimately putting at risk the Council's housing targets (for both open market and affordable) if this becomes too regular an occurrence. The general site appraisals (non-site allocation appraisals) are formulated such that the results can be compared against benchmark land values (BLV). Where the result of an appraisal reaches a higher value than the BLV then we have a positive viability scenario. If all planning obligations and policy costs are already included within the appraisal then the surplus acts as an additional buffer. Where we are carrying out sensitivity testing on policy costs or CIL testing, the surplus indicates the maximum amount potentially available to meet those requirements.
- 2.1.9 The following sections briefly set out the key Local Plan policies that are considered to be impacted by changes at a national level. This will help the Council consider the policies, informed by awareness of likely viability impacts. This is then followed by our approach to sensitivity testing using as a basis a selection of appraisals from the previous studies by reviewing changes in the property market, development costs

and the removal or introduction of costs in respect of local and national policies. A separate section on strategic sites viability is also provided. Appendix I summarises the assumptions used in the previous studies and identifies the key changes made at this point.

2.1.10 The above outlines how the residual valuation principles have been used in looking at the viability of smaller site scenarios again. Later on we outline how these principles have been applied in a different way in the high-level review of the strategic scale scenarios.

## **2.2 Nuneaton & Bedworth Borough Council – Impact of Changes to National Policy**

### Energy & Water

2.2.1 The PPG states *‘The Government has created a new approach for the setting of technical standards for new housing. This rationalises the many differing existing standards into a simpler, streamlined system which will reduce burdens and help bring forward much needed new homes. The Government set out its policy on the application of these standards in decision taking and plan making in a Written Ministerial Statement, which also withdraws the Code for Sustainable Homes aside from legacy cases’*. It goes on to state that *‘Local planning authorities have the option to set additional technical requirements exceeding the minimum standards required by Building Regulations in respect of access and water, and an optional nationally described space standard. Local planning authorities will need to gather evidence to determine whether there is a need for additional standards in their area, and justify setting appropriate policies in their Local Plans’*.

2.2.2 As a result of the Housing Standards Review, Local Planning Authorities will need to alter policy (where applicable) to remove any reference to achievement of the Code for Sustainable Homes, and ensure that any specific policy in regard of water consumption is set at no more than 110 litres/person/day (lpppd).

2.2.3 The previous assessment included an allowance for attainment of Code for Sustainable Homes (CfSH) Level 4 based on the cost data within the DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013). All appraisals assumed a cost uplift of £1,932/unit to achieve former CfSH L4 equivalence in the respects that remain relevant. For development sensitivity analysis using the same

Updated Cost Review document, an allowance was applied to meet increased levels of compliance over time.

- 2.2.4 This study assumes that the Sustainable Design / Construction Standards costs have reduced from those assumed for the existing evidence base due to the Government's withdrawal of the Code for Sustainable Homes (as discussed above) and zero carbon homes policy. Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment<sup>13</sup> (average £ per unit E/O cost) for meeting the energy requirements for Code for Sustainable Homes Level 4 has been used as a proxy for building regulations compliance.
- 2.2.5 Within the original assessment an allowance was made to cover policies contained within the Draft Preferred Options Local Plan on renewable energy and rainwater harvesting. In this update we have assumed that any policies in relation to any local policy on water consumption could only align with Building Regulations compliance. For this review we have assumed that the Council would introduce the minimum level of compliance (i.e. 110 litres per person per day (lpppd)) and for that no additional cost allowance is required in our opinion<sup>14</sup>. No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.

#### Affordable Housing

- 2.2.6 The Government's November 2014 introduced national affordable housing threshold was quashed by the High Court after a legal challenge by Reading and West Berkshire Councils in July 2015. The previous Viability Assessment tested affordable housing on sites of 1 or more dwellings and the Submission version of the Local Plan included affordable housing policies (Policy NB9) that required 20% affordable housing from sites of 11-14 dwellings and 25% affordable housing on sites of 15 or more dwellings.
- 2.2.7 Affordable housing has been included in this viability update based on previously recommended levels but with a threshold set at 11 dwellings. More detail is provided below and at Appendix I.

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<sup>13</sup> DCLG Housing Standards Review Cost Impacts (September 2014)

<sup>14</sup> N.b. extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). This would have such a marginal impact on scheme viability that it has not been included in this update.



### Nationally Described Space Standards

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

### Access to and use of Buildings

- 2.2.10 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.
- 2.2.11 Again, as with residential space standards, there needs to be evidence for both need and viability. Within the Council's Preferred Options Local Plan, 35% of new dwellings were expected to meet Lifetime Homes standards. This was carried through to the Submission version Local Plan. Consequently, the existing evidence base, made an allowance within the viability appraisals to account for the requirement to meet Lifetime Homes standards. Lifetime Homes is now replaced by the optional technical standards set out through Building Regulations. At this stage we have carried out sensitivity testing to look at the likely viability impact of including policies on the access to and use of buildings. We set out below the likely additional costs for including policies that meet the optional Category 2 and 3 requirements of Part M of the Building Regulations and those have been used in our sensitivity testing.
- 2.2.12 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access cost per dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per

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

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

2.2.14 Within this viability update, sensitivity tests have been carried out on the assumption that 10% - 100% of new dwellings meet Part M4(2) standards and 5% - 20% meet Part M4(3) standards (although this is assumed to be relevant to larger sites only). This has been carried on a scheme of 30 units and noting that Part M4(2) and Part M4(3) would not be required on the same individual unit.

#### Starter Homes & Custom Build

2.2.15 Although the detail is yet to be provided through Regulation and / or Guidance, the Housing and Planning Act 2016 introduces a requirement for Local Planning Authorities in England to promote the supply of Starter Homes. The exact proportion is not set out in the Act but previous consultation suggests that it will be in the region of 20% of new homes on all new developments (with certain exceptions). Starter homes exception sites are also still referred to within the PPG as a form of Starter Homes supply but it is not clear what relationship this has with the requirement for all sites to provide a proportion of Starter Homes. Related to the type of PDL sites on which the Starter Homes initiative is envisaged to be focused, DSP's view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure and in our view based on 80% market sale values is, at the very least, likely to be no less viable on such a site than a combination of full market and regular affordable housing in the sense that has been required to date.

2.2.16 Looking at Starter Homes as set out loosely in the Act (i.e. not exception site Starter Homes but Starter Homes as a proportion of normal residential development) further information is needed from the Government before the full impact on viability can be fully tested. For this viability update sensitivity testing has been carried out assuming that the first 20% of affordable new dwellings are to be Starter Homes, with the remainder as traditional affordable housing.

2.2.17 Within the Council's Revised Submission Local Plan, no specific policy exists in relation to self / custom build housing other than through supporting text to Policy NB8 where it is stated that *"In line with the Self-Build and Custom Housebuilding Act 2015, the Council will maintain a register of sites suitable for self and custom built housing which will be published on the Council's website. This will include the details of small sites ideal for 1-4 plots, however the suitability of these sites for development will not have been assessed"*. Although not specifically tested here, from DSP's experience of considering custom/self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process.

### **2.3 Other Updated Assumptions**

2.3.1 In addition to the above, DSP have also considered changes to property values, build costs, any other development costs and affordable housing revenue. Appendix III provides the detail of the property market reporting for the Nuneaton & Bedworth and will not be repeated here. In all cases we have assumed a fixed level of CIL that is likely to be viable broadly across the Borough based on previous evidence should the Council pursue that route. For strategic level sites we have run the viability process as described above with the overall surplus available for planning obligations as the output of the exercise.

2.3.2 In carrying out this update we have taken a selection of scheme types from the existing studies. These are shown in Appendix I and reflect the types of sites that could come forward for residential development across the Borough. For each site a notional but representative mix of residential dwellings was used. All of the assumptions used in formulating the notional schemes on each of the site types are as per the Council's previous study. Appendix I should be referred to for the detail of each scheme type including scheme size, unit mix, density, affordable housing proportion, tenure, values assumptions, affordable housing transfer value assumptions etc. More detailed explanations are provided here where it was felt necessary to expand on the details provided in Appendix I.

### Affordable Housing

- 2.3.3 In each case affordable housing has been assumed at a level in full compliance with the Council's emerging policy positions (with a tenure mix updated in line with the Council's updated housing market assessment<sup>15</sup>). The value of the affordable rented and shared ownership element of each scheme has again been based on the same principles and calculations as in the previous assessment but for this update we have deducted 10% from the calculated figures to take account of changes to the rent structure from 2016 – 2020 as referred to above. This is based on work undertaken by DSP into the potential impact of rent reductions on affordable rented transfer values (reflecting payments for the affordable homes to a developer from a Registered Provider).
- 2.3.4 Effectively the value of the affordable housing is based on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of low cost/affordable home ownership – i.e. typically shared ownership). Up to 80% of market rent has been assumed, using the Local Housing Allowance (LHA) from the Coventry Broad Rental Market Area (BRMA) that covers a majority of the local authority area as a proxy. It was (and has been again) assumed that the intermediate tenure would be in the form of shared ownership based on a conservative assumption of 60% of market value. This is as per the existing evidence base.

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

- 2.3.5 Comprehensive property data reporting and analysis are contained within Appendix III to this document and so will not be repeated in detail here. In running this viability update study we have reviewed a number of sources of information that in summary indicate (as a conservative estimate) that property prices have increased by approximately 20% across Nuneaton & Bedworth over the period between the research for the 2014 viability study (conducted primarily late 2013: November – January 2013-2014) and the latest research for this viability update (September 2016). For the purposes of this review we have applied this uplift to each value level (VL) associated with the previous viability assessment work – VLs 1 to 6. Appendix I shows the values assumed both for the previous study and this update.

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<sup>15</sup> GL Hearn: Updated Assessment of Housing Need: Coventry-Warwickshire HMA (September 2015)

2.3.6 Land value benchmarks have been used that are consistent with the previous assessment work basis. These are assumptions which are in practice one element of a set of figures that will inevitably vary through different circumstances.

2.3.7 Over the same period, build costs have also increased across the area. Again Appendices I and III provide the detail but in summary the RICS Building Cost Information Service data (BCIS) indicates that build costs have increased by approximately 23% on average. We have used the latest BCIS figures available at the point of carrying out this viability update.

#### CIL

2.3.8 Within the updates smaller sites scenarios tests, given the current stage assessment purpose, CIL has been included at £50/m<sup>2</sup> across all appraisals – based on the assumed total market sale new-build floor area (excluding the affordable housing). This is consistent with the 2014 assessment findings, although we suggest subject to further review / updating should a CIL be progressed to support the now further worked-up new Local Plan basis. As will be seen in the following sections, the approach to an assumed CIL currently includes a £0/m<sup>2</sup> charging rate to all strategic sites – HSG 1 to 11, as below.

## **2.4 Strategic Sites**

2.4.1 As part of this viability update, DSP were asked to also consider the viability, at a high level, of strategic sites coming forward to support the required level of housing and employment growth through the Revised Submission Local Plan.

2.4.2 To test the potential viability of sites of a strategic scale and characteristics, appraisals were carried out on development scenarios ranging in size from between an indicative 100 and 3,300 dwellings; representative of potential development of sites across the Borough including<sup>16</sup>:

- North of Nuneaton (3331 dwellings) (HSG 1)
- Arbury (1000 dwellings) (HSG 2)
- Gipsy Lane (575 dwellings) (HSG 3)
- Woodlands (1223 dwellings) (HSG 4)
- Hospital Lane (676 dwellings) (HSG 5)

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<sup>16</sup> Sites taken from emerging draft Revised Submission Local Plan document.

- School Lane (298 dwellings) (HSG 6)
- East of Bulkington (323 dwellings) (HSG7)
- West of Bulkington (652 dwellings) (HSG8)
- Golf Drive (680 dwellings) (HSG9)
- Attleborough Fields (360 dwellings) (HSG10)
- Tuttle Hill (366 dwellings) (HSG11)
- Wilsons Lane (129 dwellings) (EMP2)

2.4.3 At this stage, the specific inputs for each scenario appraisal are based primarily on high-level assumptions reflecting published information and our experience of viability work on similar sites in a range of other locations – both for strategic level assessment and site-specific viability review / s.106 negotiation purposes.

2.4.4 A strategic policies development framework document has been provided that sets out a broad framework for the requirements associated with each of the above sites; set out in terms of either on-site or off-site improvements / provision or a financial contribution to particular requirement. The information is again high level without cost or phasing information and differs significantly in overall housing numbers to that shown.

2.4.5 Given that final housing numbers cannot be known until application stage, we have tested each of the sites based on rounding the numbers in order to make calculation of dwelling mixes easier for this review process based on the totals provided above. Appendix I indicates the unit number, mixes and tenure tested.

2.4.6 Essentially any residual appraisal requires certain elements of the inputs (assumptions) to be fixed so that the result (residual) becomes the output, and changes to that can be reviewed as adjustments to a key variable are made. In this case we have run the strategic site appraisals on basis of fixing the land value (at £250,000 per gross hectare assuming a significant uplift from existing agricultural value in most cases) and site enabling costs / infrastructure at £17,000 per unit. The latter is based on the range £17,000 and £23,000 indicated as typical per plot strategic infrastructure costs within the Harman Report<sup>17</sup> which states “*Cost indices rarely provide data on the costs associated with providing serviced housing parcels, i.e. strategic infrastructure costs which are typically in the order of £17,000 - £23,000 per plot for larger scale schemes*”. For the purposes of this study we have assumed

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<sup>17</sup> Local Housing Delivery Group – “Viability Testing Local Plans” (June 2012)

site infrastructure to include site costs necessary to provide '*serviced plots for building construction from unoccupied, secured, and uncontaminated site*'<sup>18</sup>. Effectively the costs are related to all other physical works that are needed to ready a site for development so that in combination with the assumptions on BCIS based housebuilding costs (i.e. covering works within the serviced parcels) sufficient overall cost has been allowed to build the housing development. The s.106 (indicative scope for which we are viewing through the potential surplus) then covers the site-specific mitigation in terms of impact on community infrastructure "caused by" the development (the usual tests apply). With the enabling cost and s.106 viewed together, all site-specific ingredients should be achieved so far as viability permits – to support its physical development and directly related infrastructure needs.

2.4.7 Following the above, the result of the appraisal is then in real terms a planning obligations residual with a fixed level of land and profit – i.e. the land is a fixed cost within the appraisal and profit is calculated as a fixed percentage of the gross development value of the scheme (17.5% on market housing and Starter Homes (where applicable) / 6% on affordable housing). The residual value above the fixed land cost is then the amount available for s106 site mitigation / planning obligations. As a further step, we then needed to run the appraisal with the 'surplus' included so that finance is taken into account. This is a manual and iterative process with result as close to the target land value levels as possible, the results of which are shown in the attached tables. Within the detail of the appraisals, it should be noted that the profit is only shown at a single level. This is the blended profit (i.e. based on a blend of 17.5% on market housing / 6% on affordable applied as appropriate dependent on the particular appraisal unit mix). So this varies depending on the quantum of affordable housing and the values assumed.

2.4.8 For each development scenario we have looked at base value levels of £2,400/m<sup>2</sup> based on a combination of our own research and updating the values used in the previous viability assessment (see Appendix III for detail). As discussed in our previous reporting, overall there was little differentiation across the Borough. Values patterns are often indistinct and especially at a very local level. At the current time it is our opinion that sales values would achieve values for new build strategic development across the Borough in the region of £2,300 - £2,600/m<sup>2</sup>; £2,520 reflects a 20% increase from previously tested levels in line with the UK House Price Index uplift in sold prices between the dates of the original viability assessment and current

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<sup>18</sup> Homes & Communities Agency – Development Appraisal Tool (v4)

assessment. That level of value is represented by a 5% increase, on a sensitivity basis, from the £2,400/m<sup>2</sup> base. Should CIL be implemented by N&B BC, based on the previous CIL viability work undertaken for the Council and experience elsewhere, all strategic sites are assumed to include CIL at £0/m<sup>2</sup> owing to the likely scale of scheme specific s.106 development mitigation costs in combination with the site enabling/infrastructure costs. This an approach carried over from the earlier work and in DSP's wider experience is both necessary and suitable from viability and flexibility points of view, with s.106 likely to also provide the most direct and controllable route for ensuring timely delivery of the site-specific infrastructure needed to get the development underway and progressing smoothly.

- 2.4.9 We have assumed delivery rates based on our experience of dealing with large scale strategic developments on a site specific basis across the country. In very general terms a faster rate of delivery is likely to have a positive impact on viability as the overall finance costs should reduce with reduced development period. However, with a delivery rate that is too high there is a risk that the delivery starts to impact on sales values as units flood the market.
- 2.4.10 Some of the policies of the Council are not yet fixed (e.g. Building Regulations Part M4 (2) and (3), sustainability, costs etc.) and as such we have not included additional costs in the viability testing for the strategic sites on this basis. We are of the opinion however that the scale of development is such that additional build costs used could potentially absorb those additional costs given the scale of development and likely economies of scale presented by strategic scale development. There is probably sufficient allowance to cover additional costs of complying with those policies if required as long as they are not set beyond the scope set out in our sensitivity testing.
- 2.4.11 For both the enabling infrastructure and the s106 costs we have assumed for the purposes of this study that those will be required with 50% of the cost at the beginning of development; 50% spread across the first half of the development period. Details of when costs occur and payments are required can only really be known once a scheme is developed in detail so this reflects a logical approach in our opinion. The land payments are assumed to be made at the beginning of each phase in the development appraisals. Again in reality, payment profiles will vary and be subject to individual delivery details – phasing and negotiation between interested parties.



## 3 Findings

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### 3.1 Introduction, values patterns and relationship with the development strategy associated with the Revised Submission version Local Plan.

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

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

- Appendix IIa - Smaller site typologies residential scenarios - Tables 1a to 1l and example appraisal summaries that follow those tables;
- Appendix IIb Strategic site residential scenarios – Tables of summary results representing proposed site allocations HSG 1 to HSG 11 associated with the proposed Revised Submission; again with relevant appraisal summaries (Argus Developer Summary Reports);

3.1.2 In each case these reflect the updated results generated from latest stage viability review appraisals – as per the scenarios and assumptions set out in Chapter 2 and summarised at Appendix I. Appendix IIa shows the RLV results from those appraisal sets, whilst IIb shows the indicative total (scheme-wide) and £ per dwelling (average) surpluses potentially available to support s.106 (or other equivalent works / costs) on the basis of currently used assumptions (including a fixed land cost in those cases) – all as noted in Chapter 2 above.

3.1.3 These scenarios reflect the expected relevance of the local housing supply coming principally from a range of larger development areas using greenfield land (accommodating developments referred to as ‘strategic’ and ranging from around 300 to 3,300 dwellings) together with a mix of smaller PDL opportunities situated mainly within the main urban areas of the Borough. DSP has relied on emerging information supplied by the Council as it works up the Revised Submission version Local Plan.

3.1.4 For this update assessment, having considered the viability of commercial / non-residential development at an appropriate borough-wide level in our 2014 study (to

inform the likely scope to charge CIL) we have reviewed market conditions and determined that a new set of appraisals was not warranted. In our experience, we would not have been able to provide any meaningful new information through doing so. We will come back to this later in this section, particularly as compared with residential proposals (where for example matters such as affordable housing are central to overall viability), from a local policy point of view a planning authority has a much-reduced sphere of influence over policies that produce direct development viability impacts.

- 3.1.5 To recap, we are not revisiting the 2014 assessment detail and outcome indications on CIL at this stage, so the results have all been generated using a £50/sq. m CIL assumption on the non-strategic scenario re-tests and £0/m<sup>2</sup> in respect of the strategic sites – as per 2.3.8 and 2.4.8 above respectively (proposed strategic sites as listed at 2.4.2 above).
- 3.1.6 As before (consistent with the 2014 assessment results presentation) each table within Appendix IIa shows the resulting RLVs (£) and RLVs/ha (£/ha) from each appraisal and at each value level (VL) and affordable housing (AH) combination. The AH proportion (%) relevant to each set of tests for VLs 1 to 6 is shown in the grey column at the left hand side of each table.
- 3.1.7 We reiterate that the way the numbers of units are calculated (and rounded) has a significant effect on the detail of this. The deterioration of results with the requirement for affordable housing (at 20 or 25%) compared with the 0% tests can be seen clearly. With the previous assessment work in place and the results indications from the updated appraisals, DSP considered that alternative AH % tests would not be required; the purpose at this stage being to re-test on the basis of the collective costs associated with the proposed revised Submission.
- 3.1.8 Following the main results tables within Appendix IIa, appraisal summaries (smaller sites) and Argus Developer software summary reports (strategic sites) are included for sample scenarios. As previously, the current stage larger / strategic site results and the findings from those are discussed below separately, given the different nature of considerations involved with them.

### 3.1.9 Appendix IIa results tables – Summary of table content and local values context for the results review:

- i. Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1l. For each results set the assumed AH% is stated, where applicable along with the nature of the additional sensitivity explored – e.g. in respect of Starter Homes trial inclusion at Table 1l.
- ii. Across the top grey row: other Table content headings, self-explanatory in accordance with the report text and consistent with the previous approach. The range of value levels (VLs) assumed for the market sale housing is the updated range as discussed above, applied based on our review of the market information updating as included within Appendix III. The principles involved in the selection and use of the VLs are as previous.
- iii. VL1 represents the lowest market values sensitivity test, through a scale including the highest market values sensitivity test at VL6 (VL 10 lower and VL10 upper end test for sheltered / retirement scenario tests). VLs 1 and 2, however, are largely to be regarded as lower-end sensitivity tests for new-build housing from what we can see from latest available pointers on values, those being in the main beneath the range of typical values considered relevant to delivery moving forward, and therefore represents the effect of a falling market from the current lower-end for the new-builds that are critical to the strength of viability as considered here.
- iv. We consider that the range of values currently most relevant to the emerging plan, is again represented by VLs 3 to 4.
- v. As the research shows, in practice values are variable from scheme to scheme. However, the indications are at this stage that there is little difference between the values relevant to the emerging Borough Plan whole delivery picture; i.e. in our view there is a relatively consistent values picture seen across the Borough relative to the for the locations and scheme types that will support the great majority of the overall housing growth. For this update work we will not revisit the basis for this, having considered the values trends seen and further sense-

checked where that leaves us compared with the previously adopted scale of VLs.

- vi. The main areas of results in tables 1a to 1l show in the upper white (non-shaded) table sections the RLV appraisal results for each set expressed in £s. Beneath those in the coloured table sections are those same RLV outcomes expressed in £/ha terms. A consistent approach is used throughout those tables.
- vii. The coloured table sections act as a guide to the trends seen across the range of results as represent the scenarios relevant considering on this occasion the interaction of the affordable housing policy assumption and the VL applied for each test. As above, there are no trial CIL charging rates levels shown for this update; as above all tests with results at Appendix IIa assumed a £50/m<sup>2</sup> CIL.
- viii. The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as the affordable housing is allowed for assuming proposed policy levels (moving from top to bottom within each Appendix IIa table set) but, in contrast, the very positive effect on viability that comes from increasing VL (i.e. sales value level – assumed GDV). Therefore the interaction (collective effect) of these two key influences on viability is seen.
- ix. It is important to note that the colour-coding shown on the Appendix IIa tables provides only a rough guide as previous – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs combinations proving to be workable and therefore achieving the most appropriate points for policy guiding on affordable housing, having also previously explored the potential optimal balance between CIL rates and the high level of the local infrastructure needs (necessarily subject to further checking / review in due course, we suggest). This is all in the context of the emerging Plan development strategy so far as it has been possible to make financial assumptions at this proposed Revised Submission review stage. It is necessarily, but appropriately, still an assumptions driven review process.

- x. The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from white (representing poor outcomes – including negative RLVs where stated – i.e. clear non-viability) to the boldest green-coloured results (indicating the greatest level of confidence in viability across a wider range of land value comparisons representing different host site types). Again, there are no precise cut-offs or steps in terms of the results interpretation. In practice, looking within the lower incidence of white / unshaded results in those sections table sections from our assumptions and findings those are the results that that are unlikely to indicate positive viability in anything but irregular circumstances; those are not assumptions combinations and results that should be relied on to underpin workable scenarios in usual viability terms. On the other hand, within the green shaded results sections there (RLV £/Ha), we see a range of outcomes that could prove viable depending on particular scheme and site circumstances. The footnotes to the Appendix IIa tables describe these as a series of ‘viability tests’, referring to the various land value comparison levels considered – principles as previous.
- xi. The land value comparisons (guides / benchmarks) used to view the strength of the results are as flows:
- Greenfield, amenity and lower value PDL (e.g. lower value industrial commercial land values range) - typically £250,000/ha to £750,000/ha – viability test 1. Here the £250,000/ha (or approximately £100,000 acre) is regarded as a minimum land value for a greenfield enhancement scenario. At around £370,000/ha plus (approximately £150,000/acre) – to £500,000/ha in our experience results can be viewed with significantly greater confidence for greenfield land;
  - Commercial to established residential land value range - £750,000 to £1,250,000/ha – viability test 2. Comparisons within this range are likely to be most important;
  - In excess of higher value PDL (e.g. established residential use) for the Borough - £1.25m/ha plus – viability test 3.

- xii. Overall, this represents a continuum of potential land values that might be relevant in particular circumstances. The comparisons made with various points within the range allow us to consider the strength of the value to cost relationship that is key to the viability assessment as it may play out on different developments and host site types. This is a method for reviewing results and trends that has been used by DSP and supported through examination in numerous previous viability assessments, effectively based on a filtering of results.
  - xiii. Likewise, the land value comparison levels ('viability tests') do not set a limit. It can be seen that some development scenarios will produce RLVs that readily exceed even the higher viability tests. However these appear to be still restricted to the highest value residential scenarios and in some of these case site values will be higher than the usual range relevant for developments in the Borough; and in respect of commercial / non-residential still restricted to larger format retail scenarios in terms of likely clear CIL charging scope when further development work on that is picked-up. The same dynamics apply in the latter case on land value - for example we might expect a supermarket development use to need to pay a premium level of land value in relative terms locally, and this is all part of the increased viability scenario; more valuable developments usually drive and justify higher land prices in the market, as our results show.
- 3.1.10 Using the approach and assumptions basis as noted above at section 2.4, the Appendix IIb tables include the appraisal results generated at this stage for the Strategic sites viability overview.
- 3.1.11 The tables there also follow a consistent format, from one appraisal (site test) to the next and including sensitivities (assumptions changes from base levels) on values and build costs. See 3.5 below for a guide to the Appendix IIb tables and results overview.
- 3.1.12 To the rear of both Appendices IIa and IIb are relevant sample appraisal summaries. Bearing in mind the assessment purpose and nature, in respect of the Appendix IIa results (smaller sites) these are not the full appraisals or sets, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used.

- 3.1.13 As well as values moving, costs will vary from the assumed levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher than assumed through such factors as site-specific abnormalities and / or scheme-specific design and materials, etc. It is usual not to take account of unknown abnormal costs within this assessment type. Any such costs and other specifically applicable viability influences will need to be considered in settling final planning obligations packages at the planning (development management) stage, with the benefit of more-specific information available to support the viability review process where necessary.
- 3.1.14 When viewed overall, again the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but, as before, tailored to the Nuneaton & Bedworth characteristics where more specific / local information through our officer contact, local soundings and research pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that has is relevant to informing and supporting this further development of the new Borough Plan; and in due course to informing the associated approach to any CIL proposals that are progressed by the Council subsequently. The fact that the DCLG's CIL review outcomes remain unknown heading towards the end of 2016 may well mean that in any event the Council wishes to further consider any relevant national level changes to CIL before progressing with that; simply a general point for N&B BC's consideration.
- 3.1.15 Land owners' situations and requirements will vary. Expectations will need to be realistic and take account of policy (and planning obligations / CIL requirements). As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the continued market conditions for some types of commercial property; existing and alternative use value (EUV and AUV) assessments as part of land negotiations and planning stage viability assessments will need to be realistic – perhaps especially in look at the level of any sale incentive / uplift over an EUV. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.

- 3.1.16 We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend. As previously, the use of the residential values levels (VLs) range provides indications on a sensitivity basis. So, again, to inform the viability scope indicated to the Council we are looking at the range of values that we considered could be seen, from the information currently available.
- 3.1.17 Certainly a significant factor for the residential scenarios, as is always the case, will be the Council's approach to affordable housing (AH) provision secured from market developments. It has been positive to note through discussion with N&B officers the Council has experienced an effective and near full delivery to its policy requirements in this key respect. We understand that there have been relatively few instances where viability discussions have proved necessary in order to secure the affordable housing proposals and delivery. Overall, our understanding is that the saved Local Plan 25% AH target operated at 15 or more dwellings, the essence of the approach carried forward into the current Plan review, has continued to be effective. From our involvement working on strategic level viability informed by locally available information, we consider that this reflects positively the practical view and approach that we think must be taken regularly on land values, build and other development costs (including profit attainability etc.) – all as part of continuing to supporting viable schemes that include affordable housing notwithstanding with the relatively modest sales values available across most of the areas relevant to new housing supply.
- 3.1.18 Although some of the restrictions on the use of public grant (HCA) funding for affordable were lifted following the new Chancellor's Autumn Statements updates, such funding must still be regarded as uncertain at best, and is likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. So the reported outcomes are not reliant on grant or other subsidies. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where sometimes those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormalities or other requirements).



- 3.1.19 The updated modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected Nuneaton & Bedworth area delivery.
- 3.1.20 At the time of this study, work on review and / or updating infrastructure requirements is ongoing and is likely to be further updated. This remains part of the usual evolving process. In any subsequent viability assessment work required by the Council it may be possible to use additional information to check or review the assumptions applied at this stage, particularly as it has been necessary here again to rely on generic Local Plan testing assumptions in this respect.
- 3.1.21 As previously, it is important to note that when we refer to highly variable outcomes or sensitive results, these are not factors that only affect Local Plan (and CIL) considerations in Nuneaton & Bedworth. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF, NPPG and the CIL regime – regardless of location;
- 3.1.22 In the case of both residential (as re-appraised in 2016) and commercial scenarios (as reconsidered but not reappraised in 2016), the non-viable and marginal viable indications that result from the assessment basis and assumptions do not necessarily mean that schemes will not come forward, however. There may well be some examples brought forward in practice that appear to be contrary to the findings that are based on assumptions designed not to press viability to its margins. However for a study of this nature the developer's and landowner's potential flexibility where available on financial criteria and that may be achieved through bargaining power, negotiations, value engineering and the like cannot be relied upon. High-level market norm type inputs and a buffered rather than any potentially honed-down approach to assumptions and results interpretation must be used in this context. Schemes that come forward despite the assessment indications are of course a positive for the economic growth of the area, and do not necessarily mean that policy positions or CIL charging rates could have been made more demanding. Future monitoring of delivery should inform review over time, particularly in respect of shorter term adjustments that may be made to any first CIL charging schedule; well within the Local Plan timeframe, and probably at multiple review points within that.

### **3.2 Values - patterns and levels, and the effect of those – Borough Plan, Affordable Housing Policy exploration and CIL implications**

- 3.2.1 The following sections first consider residential development based on the updated assumptions and appraisal sets. We then also look more concisely at commercial / non-residential development, which in our view has not warranted re-review equivalent to that carried out in respect of residential, as noted above. Based on the previous findings for a CIL and on the updated market overview, we would expect now to generate a very similar viability overview in respect of commercial / non-residential development viability prospects (noting again the nature of assumptions suitable for use at this level of review).
- 3.2.2 The same commentary as previous (2014) is considered applicable in all respects of the detail when looking at influences on values and the patterns seen – with variations noted over very small distances likely to be as applicable as the different levels seem to some extent between localities are areas of the Borough. Overall, however, we consider that the values available to support new-build viability will be broadly consistent across the Borough – compared with many areas that we study, we will expect to see relatively little variation.
- 3.2.3 We consider that the key part of the new-build residential values range is either side of approximately £2,400/sq. m (approx. £223/sq. ft.). This means again that in our view the key part of the values range is still represented by VLs 3 to 4 but as now adjusted (increased reflected house prices movement since the 2014 assessment) – i.e. with VL 3 now at £2,280/sq. m to VL 4 at £2,520/sq. m (approx. most relevant part of range equivalent to say £212 to £234/sq. ft. We commented previously on experiencing an improving market over the course of the earlier study period and have found this to have continued. The values change of the period since the 2014 assessment assumptions were fixed is broadly equivalent to an upward shift of 2 VLs (those were placed previously at £200/sq. m intervals, very approximately equivalent to 10% intervals – as a guide).
- 3.2.4 However, with build costs having risen at a broadly similar rate over the intervening period, although those account for only a proportion of the development value the costs accrue fees and finance additionally. Overall this has the effect of reducing the additional viability scope that might be expected from review of the values (house

prices) trends alone. The results also continue to show though how sensitive to assumptions variations they are.

- 3.2.5 All in all, therefore, our updated assessment is such that at this stage we would continue to describe viability in the borough as quite finely balanced particularly with the full affordable housing requirements taken into account. It remains the case that once a positive scenario is created through realistic assumptions it may be quite readily deteriorated through a reduction in sales values and / or any increase in affordable housing related or other costs.
- 3.2.6 We feel that the updated results may again be described as mixed when viewed overall. This strongly suggests to us that in order to create viable development locally, particularly that supports a meaningful % of AH at or close to the saved policy 25% target (as a good number of schemes have), a reasonably flexible and realistic view is being taken by developers – as above. Land values must be reflecting this picture too, since the value of land is based on its use potential and characteristics. The information that we have gathered suggests this to be the case, as development is completing and more is underway based on the typically relatively modest sales values that are available to support it.
- 3.2.7 Within this finely balanced and variable picture, we are once again seeing sufficient signs of viability to suggest that a range of viable delivery scenarios exists (i.e. a combination of workable large and smaller scale developments) to continue to support the provision of new housing and facilities as schemes move from the current Plan basis to the new in its envisaged form.
- 3.2.8 The main provisos for the Council to consider in this context are taking care not to set the overall burden of planning and infrastructure obligations (including any future CIL) at an unrealistic level; and that in any event it will always be necessary to operate planning obligations policies in a flexible way according to specific circumstances.
- 3.2.9 These are reiterated points not new ones and again are usual provisos in our experience, albeit likely to have an influence at lower levels with the relatively modest sales values noted here. Flexibility in operation does not exist with a CIL, except so far as the initial rates setting process and any differential rates allows, so

with that in place a greater emphasis still would be placed on the balance between affordable housing and other planning obligations related costs.

- 3.2.10 In general, from our latest as well as earlier research (including enquiries made of housebuilders' sales points / agents) we have observed that the new-builds appear to be creating an offer that is considered attractive, is typically selling well and does not vary greatly in terms of pricing by location across the borough as seen again recently.
- 3.2.11 We commented previously that large scale new developments in particular may create their own sense of place and value levels. However, looking at this now, as we have to, the placing of the assumption mid-way between VL3 and VL4 is considered suitable as most representative of the range within which values could fall, overall.
- 3.2.12 On re-review, we have identified no clear factors that point towards a differential or zoned approach to either affordable housing policy or (other than for particular development use types and likely nil-charge rating of strategic development) CIL. A relatively simple policy and, if applicable, CIL charging set-up is considered likely to be the most effective overall in viability terms.
- 3.2.13 As has been noted above, at present there are various national government level considerations to bear in mind in respect of how these factors might come together or need to be considered further in the near future. Of particular relevance as potential external influences outside the Council's control the forthcoming White Paper, now due early in 2017, covering various potentially relevant matters including Starter Homes; and the ongoing CIL Review.
- 3.2.14 Regardless of these potential complications, the over-riding points to flag-up for consideration by Nuneaton & Bedworth BC, related to a probable need for assessment of priorities locally are:
- Scope for a headline affordable housing target recommended at not more than 25%-on larger sites – i.e. on all sites of 15+ dwellings. This represents a continuation of current adopted policy;
  - In addition to this, and following our earlier stage findings, we reiterate that the proposed approach to continue the use of the reintroduced national

minimum default type threshold of 11 dwellings remains appropriate too. A lowered AH% target remains suitable in our view for these first-time captured scenarios. In any event 25% AH should be regarded as the absolute maximum in respect of sites of 11 to 14 dwellings here. For this updated we have tested scenarios of 11 dwellings with 20% AH, which we recommend would have a helpful effect on viability as it would limit the AH content to not more than 2 properties on these smaller schemes. At 25% there could be some doubt over the potential requirement for a 3<sup>rd</sup> AH dwelling based on numbers rounding; or a top-up financial contribution.

- Our advice is that given the strength of values available to support collective development costs here, it remains appropriate to take a practical on the workable extent of potentially ambitious / challenging policies on accessibility and sustainability i.e. that go further than current and short-term future Government (core Building Regulations based) standards.
- Following this theme, Tables 1f, 1g and 1h at Appendix II show the results from additional sensitivity testing carried out on the 30 mixed dwellings scenario to reflect potential added costs associated with adopting the optional enhanced requirements of Build Regulations Part M4(2) (at varying levels 0% to 100% dwellings), Part M4(3) (at varying levels up to 20% dwellings bearing in mind the significant costs involved) and then looking at the potential impact of M4 (2) and (3) in combination. The outcomes there may be compared with the 30 mixed dwellings base scenario test outcomes included at Table 1e.

3.2.15 As a next review stage here, we will consider the updated Appendix IIa outcomes related to the proposed 25% affordable housing headline and also to the 20% AH tests. This will be done by comparing back to the 2014 results across a range of scenarios, so that we get a relative picture between the updated (2016) results and those. We will then look at the sensitivities to other potential planning requirements (e.g. on accessibility) with the sustainable construction related costs now assumed at typical levels now assumed on a current Building Regulations led basis.

3.2.16 This gives a view of the collective impact of affordable housing together with those other expected usual development and policy costs; the latter as potentially further influenced by N&B BC in respect of new housing development.

### **3.3 Review of results - Typical residential scenarios range considered further in respect of Local Plan policy development**

- 3.3.1 The 2014 10 houses scenario is most comparable to the 11 dwellings considered in the update (owing to the reintroduced national threshold). At previous VL4 with £50/sq. m CIL that produced an RLV of £1,253,213/Ha with 20% AH, reducing to £997,272/Ha with 30% AH.
- 3.3.2 The 2016 11 houses equivalent scenario (Table 1a) produces an RLV of £1,238,248/Ha with 20% AH; very similar to the previous outcome. So the increased values have been seen here to bear the increased costs, but not to have a more positive effect than that. The upper viability test is almost reached, still, by this outcome.
- 3.3.3 The following scenarios and comparisons are all based on VL4 outcomes with £50/sq. m CIL cost included.
- 3.3.4 The 15 units (mixed) test from 2014 produced an RLV of £1,037,793/Ha with 25% AH. In comparison, the equivalent test at Appendix IIa Table 1b now supports a stronger RLV equivalent to £1,403,067/Ha (RLV sum of £420,920 compared with the previous £345,931). Positively here, we can also see that the current VL3 scenario RLV does not fall far short of that generated by previous VL3 with 2014 costs assumptions, at £857,348/Ha (2016) compared with £884,710/Ha.
- 3.3.5 The 30 units mixed dwellings scenario with the 2014 assumptions and 25% AH produced an RLV of £1,272,459/Ha; now increased to £1,452,828/Ha; again a positive comparison. In this scenario, we also see the 2016 VL3 result exceeding that from 2014 (with an RLV equivalent to £915,786/Ha compared with the previous £884,170/Ha indication).
- 3.3.6 Although with the higher costs it appears that the relative viability of the 30 sheltered/retirement apartments test scheme may have declined, this scenario reviewed with updated values and costs is considered likely to produce viability outcomes of a similar strength to those seen supported by general market residential development. Previously at the VL7 extended values level figure applied, this scenario produced an RLV equivalent to a very positive looking £3,146,595/Ha (RLV sum of £839,092). The equivalent updated result is £1,477,836/Ha. This compares

positively, however, with the updated 30 units mixed outcome noted above, as it also does, most likely more relevantly, with the outcome indicated from the 2016 25 flats (for general occupancy) scenario – results as reported at Appendix IIa Table 1d. The updated outcomes clear the highest viability test (indicative land value comparison level) too. We included additional commentary on sheltered / retirement housing previously, and will not repeat that here. We consider that in line with typical practice, the affordable housing and other policies that will generally apply to C3 residential development will also apply to these schemes; whereas C2 developments based on the provision of care would generally not fall within such policy scope in our experience, fitting also with the different nature of viability issues as we have also found here.

- 3.3.7 As we typically find except in the case of high-value locations / units, viability can be under pressure with all-flatted schemes. We can see this here, with negative or most likely insufficient RLVs extending beyond VL1 with the flats based test scenarios. At updated VL4, however, we see RLVs clearly exceeding the £750,000/ha viability test.
- 3.3.8 Moving to the 100 mixed dwellings tests, carried out in 2014 and 2016, direct comparison is again possible. We see this scenario producing an RLV equivalent to £1,801,336/Ha (RLV sum of £3,602,672) in the updated – Appendix IIa Table 1k. This compares favourably with the equivalent £1,123,383/Ha (RLV sum £2,296,406) result from 2014.
- 3.3.9 Overall these findings again point to a viability based position of “no change” (compared with our previous assessment) overall in the findings and the meaning of those in our view – so, once again, to no more than say 25% AH being sought, in accordance with the proposed policy headline (as will related to schemes of 15 or more dwellings). We also remain of the view that owing to the potential numbers rounding effect, a 20% AH proportion is appropriate in relation to the sites providing between 11 and 14 dwellings. This reflects the above in both key respects, in the context of a wide range of smaller schemes continuing to come forward on PDL and therefore needing to be viable at a range of site value levels beyond those likely to be applicable to the smaller number of occurrences of greenfield based non-strategic developments.

### **3.4 Sensitivities – added costs – e.g. additional accessibility measures; and other related points**

3.4.1 This theme of prudent policy placing extends to the updated consideration of other Local Plan policy areas, such as on housing design / standards. These were referred to in Chapter 2 above (see 2.2.1 to 2.2.5 for example) and the assumptions used for this update are outlined at Appendix I alongside a summary of the 2014 assumptions, allowing comparison.

3.4.2 In addition to allowing in the updated tests for former Code for Sustainable Level 4 equivalent energy usage efficiency, the revised assumptions also accommodate the Nationally Described Space Standards, subject to N&B BC demonstrating the need to apply those locally.

3.4.3 However, the base assumptions include for the national base (Building regulations Part M) approach to the use of and access to buildings; not the optional enhanced standards detailed under M4(2) and (3) – as noted above.

3.4.4 In order to guide our clients on the potential impacts of also requiring some or all new dwellings to be provided to meet M4(2) and/or (3) requirements, added sensitivity testing considers a scale of potential requirements enabling the resulting RLVs to be compared with each other and with the base position – see Appendix I Tables 1f to 1h covering the following additional review in relation to the 30 units mixed housing scenario. Each of the sensitivity tables also repeat the Table 1e base results, for ease of reference:

- 1e – base;
- 1f – M4(2) tested in isolation across 10%, 20%, 50%, 70% and 100% (all) dwellings;
- 1g – M4(3) tested in isolation across 5%, 10% and 20% dwellings;
- 1h – M4(2) and (3) tested in combination – various combinations:
  - 10% M4(2); 5% M4(3);
  - 20% M4(2); 5% M4(3);
  - 50% M4(2); 5% M4(3);
  - 10% M4(2); 10% M4(3);
  - 20% M4(2); 10% M4(3);
  - 50% M4(2); 10% M4(3);



- 10% M4(2); 20% M4(3);
- 20% M4(2); 20% M4(3);
- 50% M4(2); 20% M4(3).

3.4.5 In practice it would be possible to test and consider many more iterations than the above. However, a practical route needs to be taken to controlling the number of appraisal variations and the extent of the results reporting. We can review the results loosely interpolating between points too.

3.4.6 At the point of building assumptions for and running the updated appraisals, we were aware that the Council was looking to meet a substantiated need for 35% local households to have an adaptable home in response to its information on requirements related to Lifetime Homes; as were the previously applicable standards outside the scope of the Building Regulations. Whilst we assume that this may now translate into a need for say 35% new homes being built to meet M4(2) standards, subject to viability, this has to our knowledge not been confirmed at the point of our reporting. This means there is an opportunity to inform this aspect of detail on policy finalising with the viability work, as updated – the above noted sensitivity tests.

3.4.7 From review of the Appendix IIa Table 1f M4(2) sensitivity results, we see that the above noted 35% - if assumed to M4(2) standards – appears to support a secure viability result bearing in mind that at VL4 with no additional access related requirements cost we begin with an RLV sum at £871,697 (£1,452,828/Ha equivalent). This reduces marginally to £861,138 (£1,435,230/Ha) with 20% dwellings assumed to M4(2) standards and to £845,300 (£1,408,833/Ha) with 50% dwellings assumed to M4(2). A 35% M4(2) content would provide a mid-range RLV outcome here. The RLVs are in fact maintained above the £1.25m/Ha viability test throughout the range up to a tested 100% dwellings M4(2) content. So, at present, we suggest that a 35% M4(2) requirement appears workable in viability terms, bearing in mind that whilst the deterioration of the RLV appears to occur at a steady rate with these increasing costs, it is necessary to remain aware of the collective costs burdens and, for example, a scheme's capacity to bear any negative viability influences from sales values coming under pressure, other base costs rising or abnormal site issues coming into play.

3.4.8 At VL3, the M4(2) test RLVs at all levels remain above the £750,000/Ha too.

- 3.4.9 In comparison with this, given the greatly increased costs associated with M4(3) provision (see Appendix I and Chapter 2 above) it is not surprising that the impacts from the inclusion on the test RLVs of a proportion of dwellings assumed to this standard are much more significant – see Table 1g. The M4(2)/(3) standards are “either or” and so need to be considered as applicable to independently allocated homes.
- 3.4.10 Subject again to demonstrated need, it appears that, viewed using current assumptions, not more than approximately 10% dwellings to M4(3) standards could be sought in conjunction with the potential (above noted) say 35% to M4(2) – see Table 1h, subject also to applicability as the Plan moves forward and such details are firmed-up. Certainly, the indications are that seeking or requiring M4(3) provision in respect of more than around 10% new homes could place at risk the financial scope to regularly support the previously expressed 35% adaptability / general accessibility standards (potential M4(2) provision).
- 3.4.11 Looked at alternatively, if some homes were sought to M4(3) standards, then anything more than a 20% provision looks likely to remove the scope to support any level of M4(2) provision; there is a significant trade-off in terms of the level of provision of M4(2) that would need to be foregone in order to accommodate M4(3) given the fairly finely balanced nature of viability in many scenarios in Nuneaton & Bedworth, as discussed above, and the consequent need not to place undue additional pressure on the continued delivery of much needed affordable housing. With a CIL in place and adding fixed development cost, such factors would no doubt come into further focus, so a prudent approach should be considered in respect of viability.
- 3.4.12 Overall on accessibility, our suggestion from a viability point of view at least at this stage would be to avoid being too ambitious and also to avoid requirements that are too rigid rather than encouraging provision (especially beyond the potential 35% assumed M4(2) and at any level of M4(3) provision sought alongside that).
- 3.4.13 As previously, therefore, viewed alongside the local tone of property values and our viability findings linked to those, in general our recommendation is for the Council to develop policy detail that at least in some respects seeks - rather than requires - the

inclusion of measures going significantly beyond the national requirements base levels.

#### Water usage efficiency

3.4.14 At a direct cost of less than £10/dwelling, the meeting of the minimum applicable standard of 110 lpppd is assumed within the overall costs allowances made; no additional appraisal cost was added or detectable viability impact found, so that it has been assumed N&B BC will operate this minimum level of compliance.

#### A potentially different view of intermediate affordable housing tenure – Starter Homes

3.4.15 As has been noted, in 2017 we could have further clarity from the government on the nature of and role for Starter Homes within the same sort of market-led developments that we are considering here.

3.4.16 There are many uncertainties around the detail of this. Developers' and others' reactions and proposals in response will no doubt vary, as is currently discussed around the industry at present. However, there is an emerging view held by a range of commentators that whilst the affordability of such homes will be considerably reduced compared with say affordable rent, their viability will be significantly better on a like-for-like basis. We would expect this to be the case, underpinned by the capped sale prices up to a maximum of 80% market sale value, although there may be issues to explore and some balancing factors around the competing offer within sites, valuations and mortgages, appropriate developer's profit positions risk-reward compared with the positive cash-flow and low risk side of affordable housing delivery, etc.

3.4.17 The results from the Table 1l additional sensitivity scenarios – looking at 20% starter homes topped-up by 5% conventional affordable housing show an improvement to the RLVs of approximately 12 to 24% dependent on value level; with the largest proportional improvements to the results seen from the lower to mid-value tests.

3.4.18 The further may be compared with the base 100 units mixed housing scheme outcomes shown at Table 1k. Provisionally, the results show either reduced impact

from the affordable housing overall, if the total proportion (%) of it is maintained; or indicate a likelihood of being able to increase the overall proportion of affordable / non-market sale housing that is achievable.

- 3.4.19 In any event, this is an indicator that suggests at the current time it could be more appropriate to maintain a positive and reasonably challenging target approach to securing affordable housing, rather than reduce expectations; ready potentially to explore different mixes and proportions, and their influence on viability, as part of supporting or boosting overall AH supply.
- 3.4.20 If required, DSP expects to be able to provide further information for the Council on the potential viability of Starter Homes – review of the impact of their inclusion – once more detail is available.

### **3.5 Larger (strategic ) sites – further review**

- 3.5.1 DSP's understanding is that the strategic sites context, and overall variety of scenario sizes and types, remains similar to that considered previously. We will therefore not repeat that or the appraisal approach that has been described in Chapter 2 above (see section 2.4). However, the list of proposed locations and sites has altered since 2014 so that all 11 proposed strategic site allocations have been considered, albeit necessarily based on a mix of mainly generic assumptions when it comes to scheme make-up and costs associated with the enabling and other infrastructure – again, see 2.4 above.
- 3.5.2 As noted previously on undertaking the 2014 assessment, with all appraisals and the nature of this assessment in practice the actual outcomes will only be determined at a later stage once the delivery details are worked-up. At this level of appraisal, given the early stages information on site / infrastructure requirements in most cases, they are mainly representative of assumed development in these locations; of a relevant overall (strategic) scale as envisage through the proposed Revised Submission version emerging Local Plan. Once again, informed by the available information at the point of building appraisal assumptions, they include a broad view of general development costs that are likely to applicable.

- 3.5.3 Once again, DSP therefore used an approach to consider the potential surplus available from the gross development value (GDV) to support infrastructure and planning obligations – after deducting development costs, profit and land values allowances at the stated assumption levels. This was again undertaken on the basis of a fully applied 25% AH policy, representing the currently applied and likely continued policy target as supported by the viability assessment (noting DSP’s wider reaffirmed findings). In our view, based on the information currently available to DSP, this continues to be the most informative approach at this stage.
- 3.5.4 The scale of estimated financial surplus arising from the various scenarios tested, based on the assumptions applied, is viewed – in indicative £m totals and £ per dwelling sums. This is calculated after allowing for fixed land costs and developer’s profit as before. The outcomes are again expressed in terms of all dwellings (i.e. including the affordable homes), not just in respect of the market dwellings as would be the case with any CIL. This means that viewed in relation to the market housing proportion (75%) of schemes only, the figures viewed in £ per dwelling terms would be significantly higher than those displayed – e.g. in the event of making a more direct comparison with any alternative approach (not a recommendation) of considering a proposed CIL “yield” from such sites.
- 3.5.5 Running through from HSG1 to HSG 11, there are 2 Tables at each page of Appendix IIb. As above, for each appraisal representing the scale and type of development currently envisaged site by site, these both show the level of potential surplus calculated to be available for assumed s.106 after allowing for other assumed development costs; all as noted at 2.4 above and within the second set of tables at Appendix I.
- 3.5.6 The upper table for each site for each site shows the indicative surplus (or in some cases deficit, as a negative number) in total (across the scheme) in £m. The lower table shows in each case the same surplus level divided into the overall dwelling number to indicate that as a £per dwelling sum; all as above.
- 3.5.7 Within each table the base results are at the centre, as driven by the base sales value assumption used (in this case at £2,400/sq. m i.e. mid-way between VLs 3 and 4, again as above) in conjunction with the base build costs at currently assumed levels.

- 3.5.8 The left-side column then shows the percentage rate at which the build cost level has been adjusted, both upwards and downwards in 5% steps – to explore sensitivity to that altering either independently or in conjunction with changing values. In the same way, the sensitivity levels representing changed values assumptions from the base £2,400/sq. m are shown across the table top / header row (again in 5% steps up and down in values and therefore covering revised VL3 at one step below base; revised VL4 at one step test above base for the strategic sites).
- 3.5.9 On this basis it can be seen that the indicative surpluses potentially available for s.106 (and / or any other applicable costs over and above the assumptions made) alongside 25% affordable housing (with the AH tenure and mix conventionally assumed at this stage) are in the range approximately £10 to 15,000/dwellings (average- overall, across all dwellings).
- 3.5.10 Consistent with the tone of findings from the smaller sites updated review, this indicates broadly similar to improved outcomes in comparison with those seen through the 2014 viability assessment work.
- 3.5.11 Again it is necessary to note that whilst, as in all such circumstances, in practice the viability outcomes could improve from the indications provided, they could also deteriorate. Recent experience of house prices growth has proved sufficient it appears to bear the significant build costs increases that have also been seen, but once again, on balance the outcomes may be more likely to deteriorate than improve significantly from the appraised positions. As noted previously, this could be through currently unidentified costs and / or values at static or reduced levels if the market slows during large site delivery.
- 3.5.12 The sensitivity testing representative of changing values and / or costs demonstrates the wider range over which these outcomes could settle in due course. With assumed modest growth in both costs and values (at say 5% p.a. each) we could, after say one year, see the indicative surplus increased by very approximately £2,000/dwelling. With say 10% values growth in combination with 5% on build costs, we could expect the surplus to significantly increase – to approximately double the base level indications. On the other hand, if values were to remain at around the assumed base levels, in combination with modestly rising costs, we could see the

current indicative surpluses removed or thereabouts. With reduced values from the base assumption (e.g. at VL3), with only a 5 to 10% increase in build costs we see the surpluses move to deficit positions (negative figures are reported in the tables); a situation that is seen to worsen with lower still or falling values.

- 3.5.13 All in all, this range of potential outcomes is considered to be representative of sites that have the potential to be viable and support significant development mitigation. However, again these indications are all consistent with the smaller sites viability indications, whereby viability continues to appear relatively finely balanced by the time affordable housing is factored in at 25% assumed in the longstanding way. A starter homes or similarly adjusted affordable housing element would most likely make a significant different to overall viability.
- 3.5.14 So whilst again it is currently difficult to fully assess the site-specific infrastructure costs associated with the Council's preferred option major sites (and in our experience there is nothing unusual in this), from these outcomes and the emerging view on site-specific requirements / costs the most likely scenario (combined with the AH at 25%) appears to be delivery flexibility achieved through continued use of s.106.
- 3.5.15 Overall however, based on current stage assumptions and review, and necessarily subject also to the Council's developing information on infrastructure needs, we consider that the strategic sites offer a realistic prospect for viable development. Having said this, we consider that the strength of the values / costs relationships appear more likely to support essential / key infrastructure items rather than fuller lists of wider community facilities or amenities. Dependent on the direction of national planning, housing and affordable housing policy development in the coming period, the Council may need to consider viability pressures and submissions in some of these situations, with a view to making adjustments to planning obligations packages (including on the affordable housing make-up of schemes) where necessary; and potentially reviewing those at future points or phases of development.

### **3.6 Revisiting available information relating to commercial / non-residential development viability**

- 3.6.1 As above, in this report we will not repeat the detail previously considered. This is because on review of the latest available local commercial property market information (using CoStar; reporting information as Appended to the report included rear of Appendix III) we did not consider there to be sufficient information on which to base more positive assumptions to those used in 2014 to arrive at the CIL findings parameters and the recommendations made then.
- 3.6.2 With build cost having risen, despite some limited signs of investment yields moving in (reducing yield percentages in some cases, indicating some level of increased confidence / anticipated greater security of income) we are of the view that significantly enhanced viability scenarios will not yet been seen across commercial / non-residential scenarios – compares with the previous findings. At this point, it follows that we would not expect any previously non-viable or insufficiently viable scenarios for CIL to have turned around and now be capable of clearly supporting CIL charging.
- 3.6.3 Therefore, the findings for such development as inform the Local Plan have not altered either. In our view there are insufficient pointers towards building and providing an alternative view. This relates to the general climate as prevailed subsequent to the 2014 assessment, but has probably been reinforced more recently - particularly with the added economic uncertainty for business resulting from the “Brexit” vote in June 2016 and the related weakening of the pound.
- 3.6.4 Referring back to the previous assessment, at this stage we are simply able to reiterate the nature of the information and commentary provided then.
- 3.6.5 So, based on what are considered to be realistic current assumptions for the Borough area we feel that it is necessary once again to acknowledge the likely ongoing viability difficulties generally associated with these forms of development. This is still not unusual by any means, but again should be subject to future review. The CIL charging rate findings and recommendations remain as previous. We have found no clear pointers towards a sufficiently positive picture to underpin charging beyond the limited scope identified from the December 2014 Whole Plan and CIL Viability Study.



In respect of commercial/non-residential development, the findings and recommendations in relation to CIL remain as per the earlier assessment (as they do for residential). This has been behind the use of a CIL charging rate of £50/sq. m as an assumption within the updated residential scenarios; and the updated finding that it has not been appropriate or necessary to update the previous appraisals and provide further viability information in respect of the commercial/non-residential scenarios.

3.6.6 As a continued and currently reinforced finding on the short term prospects for business development viability, the work to date suggests poor outcomes and an ongoing challenge in promoting development opportunities. Previously we referred to the general strategy messages (practical indications / initiatives) that we considered were relevant from these findings – see the 2014 assessment report. We consider it appropriate to reiterate the likely ongoing relevance of these.

### **3.7 Local Plan Policy Viability – Viability Update - Key Findings Summary**

3.7.1 Through this viability assessment update, completed approximately 2 years on from the previous base study, we have found that both residential sales values and build costs have increased by similar proportions.

3.7.2 A relatively flat (consistent) values picture is still seen across the Borough – as is considered relevant to most new-builds, viewed now and of the type that will support the majority of the planning housing growth.

3.7.3 Overall, this leaves viability in respect of residential development generally in a similar to potentially improved position in comparison with that found in 2014. Where we have noted improvements these are in the main likely to be modest rather than greatly significant; insufficiently regular to support alternative key findings and policy support recommendations.

3.7.4 So these findings are supportive of a continued affordable housing policy headline target of 25% (based on a mix of affordable rent and intermediate tenure); 20% in respect of sites of 11 to 14 new dwellings follow the reintroduction of the effective national minimum threshold and with justification for an alternative approach to “capture” affordable housing / contributions from smaller developments unlikely to be warranted in Nuneaton & Bedworth’s case.

- 3.7.5 With this and not any higher AH policy aspirations in mind, we have continued to find that the Council should be progressing towards identifying a range of potentially viable developments types to support the new Local Plan (proposed revised Submission Version) level of and strategy for housing growth (site types and distribution).
- 3.7.6 In balance with and informing this, it has also been necessary for DSP to again acknowledge the various viability sensitivities and in general the relatively finely balanced viability picture that will quite often be seen in the Borough by the time the 25% affordable housing or a level close to that is factored in, perhaps especially alongside any particular sites issues (abnormal costs) which are likely to mean that outcomes move around, given the many variables. The impact of the affordable housing could be seen to ease, and potentially significantly, with a formal introduction of starter homes next year; dependent on how that develops, and its detail. Only time will tell, but in the meantime this appears an inappropriate point to consider reducing affordable housing context aspirations in any event.
- 3.7.7 Once again, a key point will be for the Council to continue to develop a potentially adaptable approach to the delivery details for development proposals.
- 3.7.8 Linked to this, it is again not possible to unreservedly support the viability of all proposals on the basis of including all policy requirements to the full each time; some flexibility and potential trade-offs / priorities will need to be considered in the development management stages. There is nothing unusual in this and in our experience this is typical even in significantly higher value localities.
- 3.7.9 Looking this time at potential / emerging new policy areas, we have found that any policy to continue the previously proposed approach to meet 35% of households' needs for additional accessibility or adaptability measures should be workable in viability terms (related to Building regulations enhanced standard Part M4 (2)). However, policies seeking greatly in excess of this, or for example more than a very small proportion of M4 (3) compliant (wheelchair accessible or similar) homes additionally, should be considered with caution in regard to collective development costs and the still fairly finely balanced viability picture that has had to be

acknowledged based on assumptions suitable for Local Plan / CIL viability review purposes.

3.7.10 All the same principles and potential findings in these respects have again been found in relation to the proposed strategic sites.

3.7.11 Also consistent with the previous findings, in respect of commercial / employment development creating development again a range of challenges must be acknowledged. We are finding this to be the case in most local authority areas and certainly not just in Nuneaton & Bedworth. We will therefore not reiterate the practical points included within our concluding report sections on these important aspects previously. This does not mean that such developments will not come forward and be completed, as the involved parties have the scope to use financial assumptions and drivers that are more positive for viability outcomes – potentially optimistic in comparison with those applicable to this type of strategic viability assessment.

3.7.12 These findings are similar to those for the residential side in that we consider the Council will need to take care not to intervene with any potentially onerous policy requirements that go beyond the national base requirements in terms of additional costs likely to increase inherent viability pressures. An approach to give encouragement to and incentivising building to the highest achievable standards instead is likely to be needed, and more effective, in our view.

3.7.13 As with all previous assessment work undertaken through close working with N&B BC over a considerable time period, DSP will be happy to assist further if required.

**Main text of Viability Update Report ends – DSP Final v4.  
December 2016.**

**Appendices follow.**