D|S|P Planning & Development Viability Consultants

Nuneaton & Bedworth Borough Council

Nuneaton & Bedworth
United to Achieve

Viability Assessment:

Whole Plan and Community Infrastructure Levy Viability Study

Ref: DSP 13217

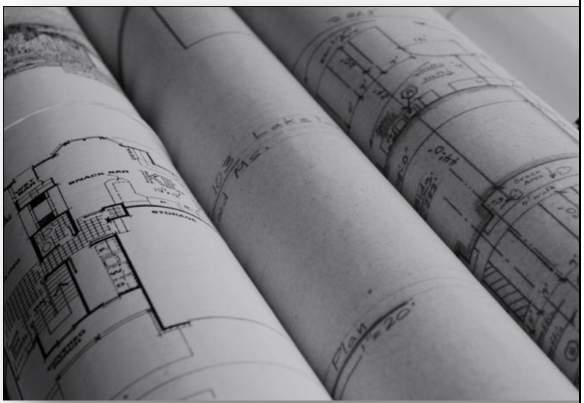
Final Report

December 2014

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

www.dixonsearle.co.uk

Contents



Figures

Appendices

Executive Summary

The following summary is set out in sections 1 to 6, over the next 9 pages (labelled iii to xi). This outlines briefly the context, work undertaken and findings following the completion of a Viability Assessment for Nuneaton & Bedworth Borough Council (N&B BC) by Dixon Searle Partnership (DSP).

The full reporting follows detailed liaison with the Council's Officers from inception through emerging and draft study findings stages. The assessment forms a key part of the Council's evidence base that, collectively, informs and supports the consideration and further development of the new Local Plan policies. Associated with the planned development of the area, in addition the assessment reviews in detail the viability scope for a potential Community Infrastructure Levy (CIL) to support the progression of the housing offer and economic development promoted by and to be supported by the Local Plan.

1. Project scope

Essentially the purpose of this assessment is to:

i. Provide viability evidence base to inform and, so far as the Council's influence extends, ensure deliverability of development identified in the new Local Plan.

ii. Provide recommendations on the appropriate level of affordable housing and CIL in the Borough, whilst maintaining viable development, considered as part of the collective (overall) costs of development.

2. National Planning and Community Infrastructure Levy (CIL) context

The Council is considering the introduction of CIL because from April 2015 it will no longer be possible to pool more than 5 payments towards a single item of infrastructure. Equally, following recent policy changes introduced through the Ministerial Statement on planning contributions on 28th November 2014, local authorities will not be able to collect tariff style planning obligations from schemes of 10 units or less.

Unlike S106, CIL is non-negotiable and therefore was introduced with the aim of creating greater certainty and transparency, allowing both local authorities and developers more predictability over infrastructure funding and costs respectively.

CIL can be used to pay for infrastructure to support new development but Charging Authorities can decide on what and that can change over time. A proportion of CIL receipts must also be given to local neighbourhoods (25% where a Neighbourhood Plan is in place; 15% where this is not the case).

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

i. Local Plans to be deliverable; and identified development should not be subject to such a scale of obligations and policy burdens that viability is threatened.

ii. Assessment of the cumulative impact of existing and proposed local and national standards; and those should not put at serious risk the implementation of the Plan.

iii. Where implemented, a CIL is expected to have a 'positive economic benefit' and an 'appropriate balance must be struck between additional investment to support development and the potential effect on the viability of development'.

iv. The CIL Regulations were amended and consolidated in February 2014, with updated measures to include:

- Limitation on the pooling of s. 106 obligations delayed until April 2015.

- A *requirement* on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a CIL charging authority had to respond to the need to 'aim to strike an appropriate balance'.

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

- A change to allow charging authorities to set differential rates by the scale of development (e.g. in response to varying viability driven by the amount of floorspace or number of units).

- An authority's ability to accept payments in kind through the provision of infrastructure either on-site or off-site.

- A new 'vacancy test', as part of determining when existing floorspace reduces the CIL payment.

3. Viability assessment – principles

i. It is accepted that not all development may be viable either before or after the impact of planning policies and / or CIL – what counts is that delivery of the Local Plan, as a whole, will not be put at undue risk through the influence of requirements that place too high a level of collective costs on developments (through the policies and, where applicable, CIL levels acting in combination).

ii. On the CIL, Charging Authorities need to show how their rates and proposals contribute positively to plan delivery; and how they will operate alongside s.106 (so as to ensure no "double-dipping" in terms of overlaps between costs and obligations used to support particular infrastructure provision).

iii. The assessment provides appropriate, proportionate evidence. As required and consistent with DSP's extensive work on strategic level viability, the assessment provides a high-level overview based on a combination of scenarios and site-specific research used to inform a large number of suitably representative development appraisals.

iv. In very basic terms, through the study the key feature that we are looking at is the strength of relationship between development values and costs locally.

4. Study methodology – principles and brief outline

i. The viability of a scheme is based on '*the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site* *value for the landowner and a market risk adjusted return to the developer in delivering that project' (RICS Guidance – 'Financial viability in Planning' - August 2012).*

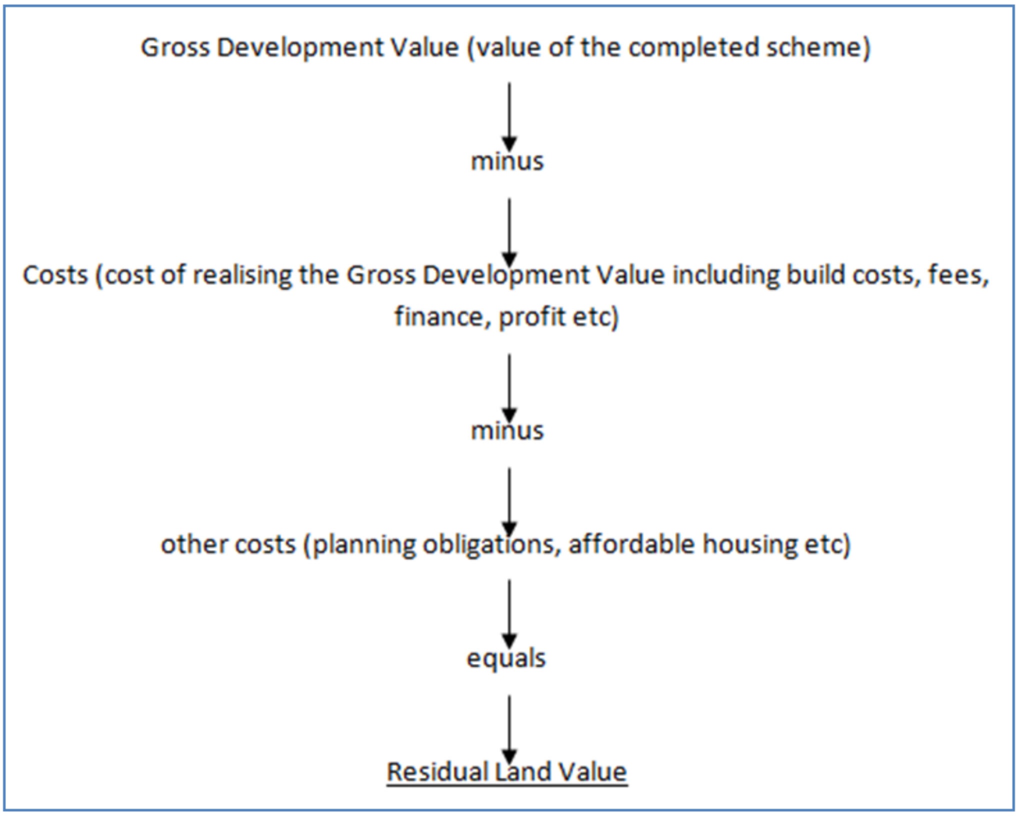
ii. This means that there needs to be sufficient land value and profit once all the costs of development have been met. The assumptions take into account planning obligations, CIL and affordable housing but also any policy requirements that may have a cost impact on development – e.g. sustainability, density, unit mix, affordable housing type / tenure, etc. The same principles apply equally for the commercial / non-residential assessment elements, for which the comprehensive review for CIL scope exploration purposes provides information on the viability of a range of relevant development types.

iii. The methodology basis is the same for all parts of the study – it uses residual land valuation techniques.

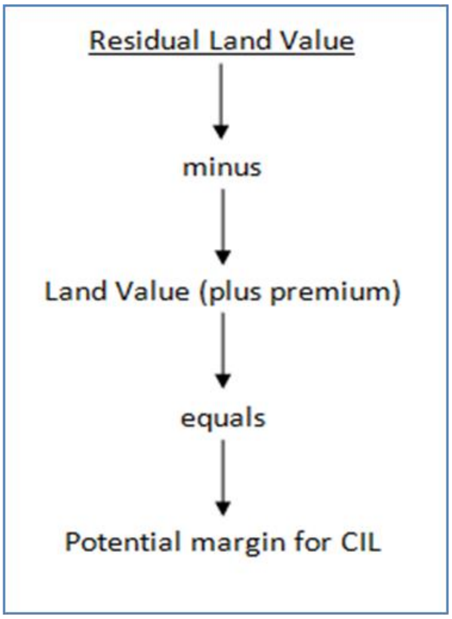
iv. The assessment process involves calculating the residual land value (RLV) produced by a range of scheme types and sizes (including non-residential) and comparing the results to benchmark or threshold land values. For CIL this includes trialling a range of potential CIL charging rates – an iterative approach following the initial assessment of the viability of key policies. This allows a review of the general viability picture and, from there, any in-principle surplus available for the various development forms and locations to support CIL funding.

v. The process may be visualised as follows (see the following diagrams – steps 1 and 2):

Step 1: Appraisal produces a 'residual land value RLV' for review:



Step 2: Considering the RLV outcome from the appraisal (Step 1 above) and whether it is sufficient to provide a surplus for potential CIL funding:



5. Findings and Recommendations for Nuneaton & Bedworth Borough

i. As seen through all viability assessment and scheme delivery scenarios, and not just in this Borough, the local values (property prices) available to support development (i.e. support the development costs including planning policy obligations and /or any CIL) are a key driver of development viability. They are the main influence in the all-important strength of relationship between values and costs, since the development costs are usually less variable from one local authority area to another.

ii. In high level terms appropriate to the assessment and Nuneaton & Bedworth whole plan delivery picture, as well as to any CIL implemented here, new-build housing values are considered to be relatively consistent across the Borough. There will always be some degree of market sales values variation, seen at a local and even site-specific level. For reasons set out in this report (Chapter 3), even though there may be a degree of differentiation across the Borough (especially east/west), the proposed development strategy suggests that in those areas where theoretically a marginally higher charge could be levied, the volume of new development coming forward in those parts of the Borough would be minimal (in terms of producing CIL receipts). In our opinion this would not warrant separate geographical charging zone or zones and the associated difficulties a separate charging zone (or zones) can pose in terms of delineation of zones in built up areas / different zones on opposing sides of a road etc. Looking at overall Plan relevance relating to housing delivery, in this Borough, location alone does not drive varying viability to the point that local area Plan policy or CIL differentiation is considered necessary. The exception to this is where strategic sites come forward with significant on-site infrastructure provision (on-site s106 requirements) – in such cases, those sites are recommended to have a £0 CIL rate unless, as is currently the case, the strategic site locations continue to come forward on a piecemeal basis, without providing or contributing towards any strategic infrastructure.

iii. Along with the noted consistency of values most relevant to the overall plan picture, of key relevance in the Borough is the level of these typical values, which are relatively modest in terms of the level to which they underpin viability scope for planning obligations. Overall, the most relevant part of the values range produces viability outcomes that are typically quite finely balanced in producing sufficient levels of viability to support significant CIL scope in conjunction with affordable housing (AH). In general therefore, as a further key finding it is also the case that around the "cusp" of viability, the key area of results, the outcomes are considered to be highly sensitive to any added cost / sales value reduction or a combination of the two.

iv. Nevertheless, with appropriate expectations on collective planning obligations (more on this below) and subject consideration of the detail at the appropriate delivery stages, the results show the potential for the housing development to continue to be viable and come forward in the Borough on the basis of the 'DEV' Preferred Option Plan policies.

v. The overview does however point to the need in our view for prudent consideration and setting of suitable charging rates in the case of pursuing a CIL applicable to residential development. In particular this cannot be separated from the appropriate positioning of an AH target proportion (%) for carrying into the further progression of the Local Plan.

vi. We consider the realistic parameters for affordable housing (e.g. under Preferred Option policy 'HOU1') to be 20 to 25%. Therefore a continuation of the existing 25% target represents the limit from our findings and, on balance, is probably the optimum position. This represents a suitably challenging policy basis given the level of need that also acts as an opposing tension to development viability. Our recommendation is not to pursue a target of more than 25% AH. Whilst a lower target of say 20% would aid viability where other extensive planning obligations come into play and particularly on some PDL sites, this may be considered to weigh the balance towards viability and away from housing need.

vii. The current AH threshold of 15 dwellings could be maintained. Alternatively, since this is essentially at an arbitrary level, we consider that providing the % target does not exceed the recommended 25% maximum, the threshold could be reduced to 10 dwellings. Such an approach would appear to coincide with the Government's potential direction in proposing a national minimum threshold of 10 dwellings, on which it consulted earlier this year (outcome as yet unknown). Looking beneath 10 dwellings, we do not consider there to be meaningful viability headroom to bring-in affordable housing requirements at this stage, especially as development at this scale will be PDL based. Following an approach to further reduce the AH policy threshold could in our view prove too restrictive and involve considerable additional resourcing given the likely limited delivery scope from such sites in the overall Plan context. However, this could be reviewed in future, dependent on any alteration to the national context along with an updated review of viability – e.g. for future CIL review.

viii. This theme of prudent policy placing extends to potential further consideration of other Local Plan policy areas, such as on housing standards / sustainability and on centralised energy networks. The assessment also picks up on the Government's current Housing Standards review. Given the likely further standardisation of requirements and the continuing development of the building regulations, 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 encourages - rather than requires - the inclusion of measures going beyond the developing national policy backdrop.

ix. We think this merits consideration in respect of (but is not limited to) policies such as those proposed under HOU2, CLIM1 and CLIM2 (for example covering Building for Life, Lifetime Homes, Code for Sustainable Homes, Passive Solar Design, and the Renewable and Low Carbon Energy Policy proposal), which appear in some cases either to go beyond or potentially duplicate the national standards and building regulations led direction.

x. If a residential CIL is to be considered, alongside not more than a 25% AH as a recommendation, we find the charging rates scope to be summarised as follows:

- Residential development – Generally - Borough-wide rate (including for application to any further non-strategic type delivery within the strategic housing growth sites / areas) - £40-50/sq. m.;

- Residential development – due to viability issues and flexibility of s106, strategic sites are recommended to have a £0 CIL rate unless they come forward on a piecemeal basis (in which case the prevailing Borough-wide rate should apply (£40-£50/m^2));

- No differentiation necessary by area (location), except where the extent any relevant strategic sites, as per the previous bullet point, will needed to be mapped.

xi. In terms of the Local Plan considerations for non-residential ('non-domestic') property development aligned to the key Economy ('ECON') polices, in common with other background evidence gathered by the Council, our assessment indicates the current and probable short-term challenge around delivery of significant new development to support these objectives. This is primarily as a result of the still settling wider economic backdrop and commercial property market conditions that are still having local level impacts in many areas.

xii. Looking at commercial development, the Council's thrust of promoting and encouraging development, with a focus also on Nuneaton and Bedworth town centres, is appropriate and essentially needed so as to incentivise and encourage working with the primary determinant of the market; to secure and maximise growth opportunities as those are identified – both by developers and others, and by the Council. The generally poor viability results, especially for the B (business/employment) use class types, are not unusual in DSP's wide experience of undertaking viability assessment and review work. They do not necessarily mean that development will not be delivered, and indeed there are further signs of interest in particular sectors locally - such as warehousing/distribution. Rather, the outcomes are based on the assumptions and approach necessary for considering CIL funding scope. Bearing in mind the CIL regulations, we consider that assumptions need to be made too optimistic to reliably evidence any CIL charging scope.

xiii. So, in testing other forms of commercial / non-residential development, it was found in the main that any level of CIL charging could generally either exacerbate the viability issues associated with marginal schemes or unviable schemes by placing undue added risk to other forms of new development coming forward.

xiv. In some cases this added risk also needs to be balanced against the likely frequency of such schemes, their role in the development plan delivery overall and perhaps also the level of CIL "yield" (total monies collected) that they might provide. We are seeing some authorities looking to charge or charging CIL on development uses such as hotels and care homes where those are shown clearly to be viable and of planned local relevance, but experience of such areas is highly variable and in Nuneaton & Bedworth's case we consider that the viability evidence does not support that at the current time.

xv. The local CIL charging scope on commercial / non-residential development use types is considered to be limited to any larger format retail development – supermarkets, superstores and retail warehousing. This would be at rate not exceeding £100/sq. m. Differentiation by type of retail, if implementing a CIL, should be linked to development use rather than simply based on size (which in our view should be considered a secondary, clarifying factor).

xvi. In respect of all other commercial / non-residential uses, including any development of smaller shops, the current stage recommendation is for a nil £0/sq. m CIL charging rate. This extends to the wide range of other uses as noted within the assessment – including community uses, care provision, health, agriculture, leisure and so forth.

6. Potential CIL and the Council's approach – Delivery considerations

i. The Council will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). Where implemented, CIL is fixed but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.

ii. This again is not just a local Nuneaton & Bedworth factor, but is a widely applicable principle.

iii. Under the latest CIL guidance, prospective charging authorities will need to make clear how CIL and s.106 will operate together in their area, including setting-out what each will be used for so as to ensure no 'double-dipping' (as it has been referred to) for funds towards meeting the infrastructure costs or for the provision of works in-lieu of financial contributions (known as 'works in kind').

1 Introduction

1.1. Introduction to the Study

1.1.1 It should be noted that at the point of writing this report there was no national minimum threshold for affordable housing or tariff style financial contributions. However this study has been carried out in the expectation that changes to national policy were likely to be made following the "Planning Performance and Planning Contributions Consultation" (March – May 2014). The Government set out its response to the consultation in November 2014[1] and introduced changes to policy via a Ministerial Statement on 28th November 2014 and associated changes to the Planning Practice Guidance (PPG). Therefore where our report refers to potential changes in policy on affordable housing thresholds (assumed at 10 dwellings) this would now read 10 dwellings or less.

1.1.2 The purpose of this report is to provide viability advice associated with the Nuneaton & Bedworth Borough Plan and potential introduction of a Community Infrastructure Levy (CIL) for the Borough.

1.1.3 The study feeds into the development of the Borough Plan in terms of testing its viability and identifying a viable level of affordable housing and other draft Plan policy requirements, as well as assisting with the development of a CIL.

1.2. Background – Borough Plan

1.2.1. Nuneaton & Bedworth Borough Council (NBBC) are currently in the process of introducing a new Borough Plan which will set out the strategic policies to guide development within the Borough until 2028. The Plan will outline a spatial vision and strategic objectives for the area, along with a strategy and policies to enable its delivery. The Plan has reached Preferred Options stage and builds on the Issues and Options consultation held in 2009.

1.2.2. The vision and objectives will be achieved through the delivery of 23 policies which seek to address a range of social, economic and environmental issues and through

[1] Planning Contributions (Section 106 Planning Obligations) – Government Response to Consultation

the development of 7,900 dwellings and approximately 75 hectares of employment land. Evidence has been used in order to identify the development sites which meet the needs of the strategic growth proposal in the Borough.

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

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

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

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'[2].

[2] Communities & Local Government – National Planning Policy Framework (March 2012)

1.2.5. The Local Housing Delivery Group report entitled Viability Testing Local Plans (known as the "Harman Report") provides advice to practitioners and was developed to cover the core principles of Local Plan viability testing and guidance on how sound assumptions can be made. The key principles include:

- Consideration of the cumulative impact of the plan policies.

- Ensuring a balance is struck between the policy requirements necessary to provide for sustainable development and the realities of economic viability. Making an informed and explicit choice about the risks to delivery is a key outcome of the assessment of Local Plan viability – supported by a collaborative approach. The best plans are also regularly reviewed to test the policies adopted to ensure the plan remains viable and deliverable.

- Viability assessments of Local Plans should therefore be seen as part of the wider collaborative approach to planning and a tool that can assist with the development of plan policies, rather than a separate exercise.

- The approach to assessing plan viability should recognise that it can only provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability. It cannot guarantee that every development in the plan period will be viable, only that the plan policies will be viable for the sufficient number of sites upon which the plan relies in order to fulfil its objectively assessed needs.

- The assessment process should be iterative.

1.2.6. The Guidance suggests: "*Viability testing of Local Plans does not require a detailed viability appraisal of every site anticipated to come forward over the plan period. Because of the potentially widely different economic profiles of sites within a local area, this advice suggests a more proportionate and practical approach in which local authorities create and test a range of appropriate site typologies reflecting the mix of sites upon which the plan relies".* Planning Practice Guidance (PPG)[3] reiterates and

[3] DCLG – Planning Practice Guidance (http://planningguidance.planningportal.gov.uk/blog/guidance/viability-guidance/viability-and-plan-making/

consolidates much of that contained within the Harman Report and the NPPF and has also been taken into account in providing this additional viability assessment.

1.2.7. 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.

1.3. Background – Community Infrastructure Levy

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

1.3.2 The Council is considering the introduction of CIL because from April 2015 it will no longer be possible to pool more than 5 payments towards a single item of infrastructure. Equally, following recent policy changes introduced through the Ministerial Statement on planning contributions on 28th November 2014, local authorities will not be able to collect tariff style planning obligations from schemes of 10 units or less.

1.3.3 Unlike S106, CIL is non-negotiable and therefore was introduced with the aim of creating greater certainty and transparency, allowing both local authorities and developers more predictability over infrastructure funding and costs respectively.

1.3.4 CIL can be used to pay for infrastructure to support new development but Charging Authorities can decide on what and that can change over time. A proportion of CIL receipts must also be given to local neighbourhoods (25% where a Neighbourhood Plan is in place; 15% where this is not the case).

1.3.5 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[4]. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014,

[4] DCLG – Community Infrastructure Levy Guidance (February 2014)

there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 m^2[5]

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

1.3.7 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 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. The Government has said that it will issue further guidance on exactly what the money can be spent on.

1.3.8 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area. This announcement was first formalised through the Community Infrastructure Levy 2013 (Amendment) Regulations on 25th April 2013. The Guidance was also updated at that stage to reflect these changes[6]. As will be noted below, further review and consolidation of the regulations and guidance has been put in place subsequently (see 1.4.13 below).

1.3.9 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.

1.3.10 The levy rate(s) will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the

---

[5] 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.

[6] DCLG – Community Infrastructure Levy Guidance (April 2013)

anticipated funding gap that exists; and secondly by evidence of development viability.

1.3.11 Nuneaton & Bedworth Borough Council has been working with infrastructure providers and agencies through its Infrastructure Planning and Delivery Group (IPDG) in considering and estimating the costs of the local requirements associated with supporting the emerging Borough Plan. This will ensure that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It will set out key infrastructure and facility requirements for new development in an Infrastructure Plan, taking account of existing provision and cumulative impact.

1.3.12 Infrastructure is taken to mean any service or facility that supports NBBC's area and its population and includes (but is not limited to) facilities for transport, affordable housing, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates, bearing in mind that CIL is non-negotiable.

1.3.13 In most cases CIL will replace s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, latest Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived "double dipping" – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the LPA intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale strategic development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.

1.3.14 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.

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

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

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

As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened" [7].

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

- Limitation on pooling of s.106 obligations delayed until April 2015;
- new mandatory exemptions for self-build housing, and for residential annexes and extensions;

[7] DCLG – Community Infrastructure Levy – Guidance (February 2014)

- 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 a charging authority had to 'aim to strike the appropriate balance';

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.3.17 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance (see 1.5 below).

1.4 Nuneaton & Bedworth Borough Council Profile

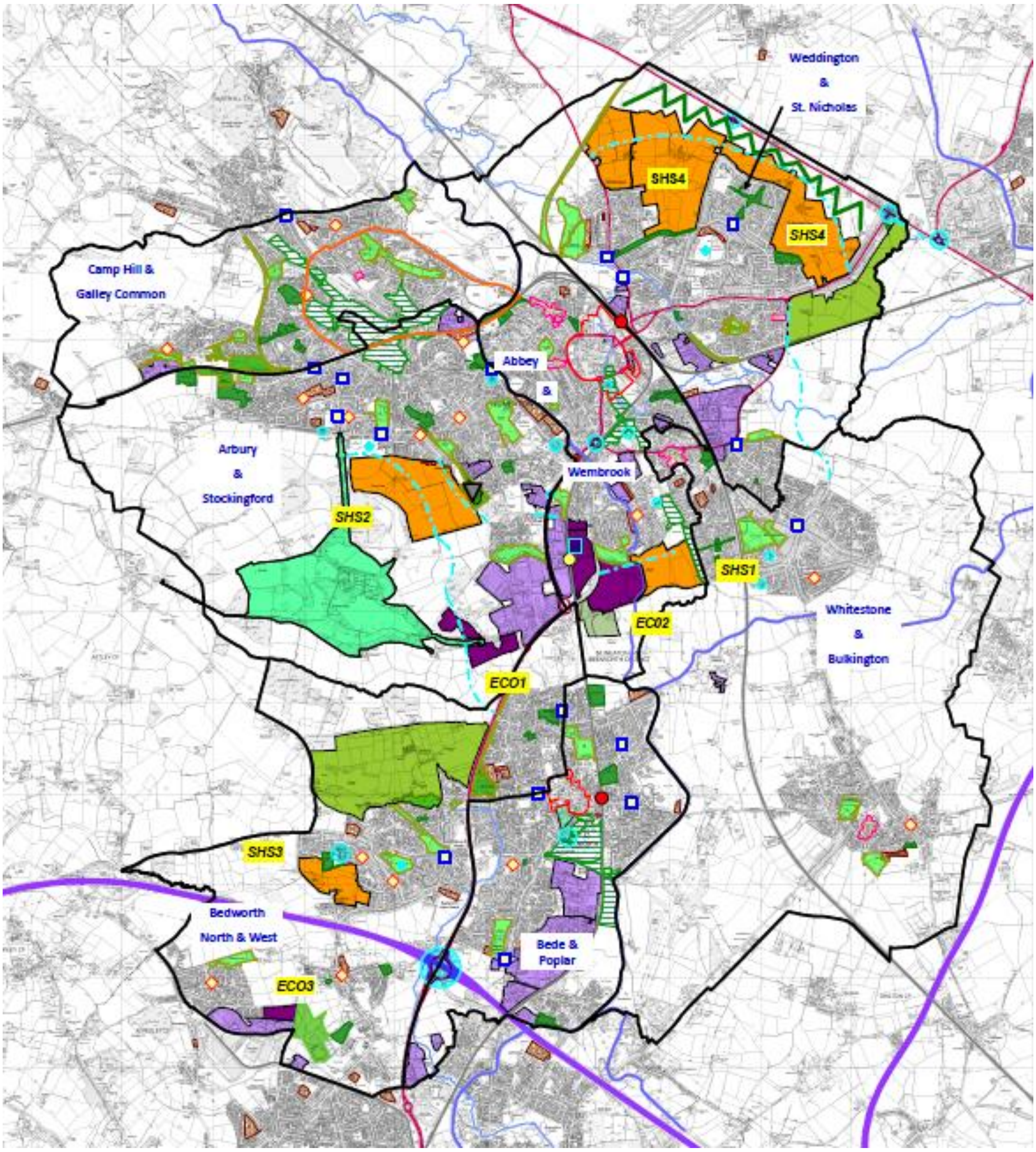
1.4.1 Nuneaton and Bedworth Borough is one of five Boroughs within Warwickshire. It is the smallest in area, but has the second largest population of 125, 400, resulting in a high population density of 1587 per sq.km (the average for Warwickshire is 275 persons per sq.km). Largely urban in nature the Borough has three main settlements; Nuneaton, Bedworth and Bulkington which are separated by areas of countryside that are designated Green Belt.

1.4.2 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

1.4.3 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. Figure 1 below shows the localities in the context of the Preferred Options Proposals Map:

Figure 1: Locality Areas and Preferred Options Proposals Map Extract



Abbey & Wem Brook

1.4.4 The locality of Abbey and Wem Brook is made up of the Wards Abbey, Wem Brook and part of Attleborough. Covering an area of 2sq miles it houses a population of 16, 228.

1.4.5 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.

1.4.6 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

1.4.7 Arbury and Stockingford cover the wards of Kingswood, Bar Pool and Arbury. The locality covers an area of 6sq miles and has a population of 20,125.

1.4.8 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.

1.4.9 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

1.4.10 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.

1.4.11 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

1.4.12 Bedworth South includes the wards of Bede, Poplar and the eastern part of Exhall. Covering 2 sq. miles and with a population 17, 289 it is a compact urban area.

1.4.13 The locality contains Bedworth town centre and as such includes a range of services and facilities.

1.4.14 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 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

1.4.15 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.

1.4.16 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

1.4.17 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.

1.4.18 Weddington and St Nicolas is the most affluent locality in the Borough with 9 of the area's 13 SOAs falling within the 20% least deprived in England. 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

1.4.19 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.

1.4.20 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.

1.4.21 The emerging 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:

- 75 hectares of employment land;
- 7,900 new homes of which about 4,550 are to be located on greenfield sites;
- 43,750m² of non-food retail mostly located in Nuneaton town centre;
- 4,050m² for food retail;
- 30,000m² of office space in Nuneaton town centre

1.5 Purpose of this Report

1.5.1 This study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance[8] applicable to studies of this nature. This study has also had regard to recently introduced national Planning Practice Guidance ('PPG' – an online resource live as of 6 March 2014).

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

[8] Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning (GN 94/2012).

standards into the Building Regulations. The Government intends to consolidate the standards into Regulations during this Parliament, with draft Regulations due to be published in the Summer of 2014 with supporting approved documents coming into force towards the end of 2014. As far as we are aware, this has yet to happen at the date of writing this report. At this stage, prior to any Guidance or statutory Regulation, we have applied the Council' policies as set out in the Borough Plan Preferred Options Consultation and made recommendations on the viability of those throughout this report. It is possible that this may need to be reviewed later in the year as more detail on housing standards is known.

1.5.3 The Government has also recently finished consulting on the potential to abolish any locally set affordable housing thresholds with a national minimum threshold of 10 units being put forward. Again, for the purposes of this study, an assumption has had to be made based on current circumstances. However, we provide sensitivity testing to reflect potential changes in national policy on affordable housing thresholds, so that the Council has a complete set of information from which to draw on as it reviews and develops both the Plan policies and its approach to the CIL.

1.5.4 In order to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF, the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence base to inform the development of the Council's new draft CIL charging schedule. Alongside and integral to the development of the CIL charging schedule is the level of affordable housing that can be viably sought across the Borough as well as other planning policies, obligations and standards that have a cost impact on development viability.

1.5.5 This study investigates the potential scope for CIL charging in Nuneaton & Bedworth Borough whilst reviewing and taking into account the emerging Borough Plan policy options. It also considers the type of development likely to be relevant to the specific strategic site options. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the Borough; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy and affordable housing). The aim is to provide the Council with advice as to the likely viability of seeking developer contributions towards infrastructure provision through the CIL, an appropriate level of affordable housing and recommendations on the viability of the Borough Plan as a whole. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.

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

1.5.7 To this end, the study requires the policies and proposals in the draft Borough Plan to be brought together to consider their cumulative impact on development viability. This means taking account of the draft Borough Plan requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

1.5.8 One of the key areas will be the Council's approach to affordable housing. Saved Local Plan policy H3 indicates that 25% of new housing should be affordable. It seeks to achieve this by allowing the Council to negotiate its provision on sites of 15 dwellings or more over 0.5ha. The Preferred Options consultation document does not set a target figure as this study is intended to inform both the level of affordable housing and the threshold above which affordable housing can viably be sought.

1.5.9 This study applies sensitivity testing to policy costs including a range of affordable housing proportions and at different thresholds combined with varying CIL levels – to provide information to inform the Council's ongoing approach.

1.5.10 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

1.5.11 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV).

1.5.12 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward across the Borough.

1.5.13 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates, affordable housing percentages as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform both the policy and CIL rate setting process.

1.5.14 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £120/m² for residential and up to £200/m² for some non-residential / commercial scheme test scenarios. This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results. All policies that have a potential impact on the cost of development have also been included within the CIL viability testing.

1.5.15 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and a potentially viable level of CIL, affordable housing and other policies as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).

1.5.16 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs).

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

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

1.5.19 This report sets out our findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a new CIL via, as a first step, a Preliminary Draft Charging Schedule (PDCS). As noted, the approach taken also provides the Council with information and evidence to inform and support its ongoing work on and delivery of the Borough Plan as a whole, building on the Preferred Options consultation version and the evidence supporting that.

1.6 Notes and Limitations

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

1.6.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential (the surplus after land value comparisons).

1.6.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases.

1.6.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on its CIL Preliminary Draft Charging Schedule preparations and Borough Plan policies.

2 Assessment Methodology

2.1 Residual valuation principles

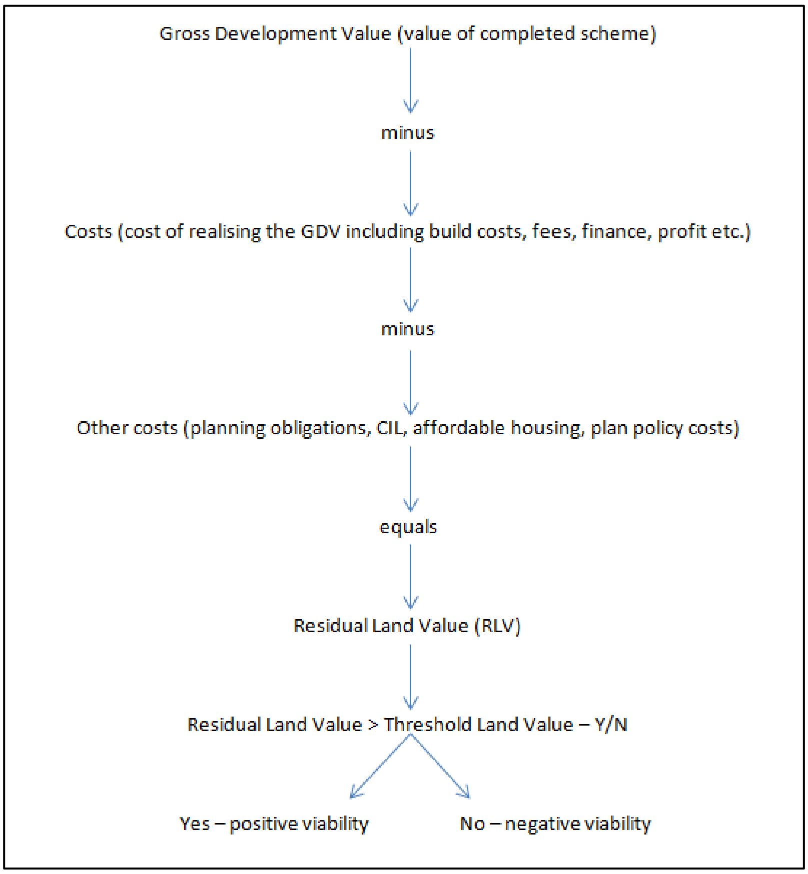
2.1.1 This study serves a dual purpose through both investigating the potential for a range of development types to contribute to infrastructure provision funding across Nuneaton & Bedworth through the collection of financial contributions charged via a Community Infrastructure Levy and the reviewing the cumulative impact of policies emerging through the Council's draft Borough Plan.

2.1.2 There will be a number of policies coming through the emerging Borough Plan that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on policies set out in the Borough Plan Preferred Options consultation, in particular including affordable housing policy. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

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

2.1.4 Residual valuation, as the term suggests, provides a "residual" value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 2) shows the basic principles behind residual valuation, in simplified form:

Figure 2: Simplified Residual Land Valuation Principles



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

2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.7 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals locally and consequently there has been very little to use in terms of comparables. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a Nuneaton & Bedworth specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions from the particular appraisal result or results set that is under review.

2.1.8 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing costs (as with varying commercial development types) and increasing trial CIL rates.

2.1.9 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 3 below):

Figure 3: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).

Residual Land Value

↓

minus

↓

Comparative Land Value (plus premium)

↓

equals

↓

Potential Margin for CIL

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

2.2 Site Development Scenarios

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

Land Review and numerous other documents that support and provide evidence for the Borough Plan. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the Borough bearing in mind the probable life of this CIL Charging Schedule. In addition the scale of development coming forward across the Borough also needed to be considered. The Preferred Options Borough Plan sets out the following:

Policy DEV3 – Urban Focus and Strategic Sites Policy – the policy will:

- Direct development to the existing urban areas of Nuneaton, Bedworth, Bulkington, Keresley and Ash Green/Neals Green. These settlements will be defined by boundaries on the Proposals Map. New development within the existing urban areas will be acceptable subject to there being a positive impact on amenity, the surrounding environment or local infrastructure.

- Make provision for a limited number of strategic employment sites and sustainable strategic housing sites at:

  a) Strategic employment sites:

  ECO1 Bermuda 1
  ECO2 Bermuda 2
  ECO3 Prologis Extension

  b) Strategic housing sites:

  SHS1 Gipsy Lane 518
  SHS2 Arbury 1000
  SHS3 Hospital Lane 676
  SHS4 North Nuneaton Up to 3000

- Outside the urban areas development is limited to agriculture, forestry, leisure and other uses that it can be demonstrated require a location outside of the urban area.

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas including sustainable design and construction standards and Lifetime Homes (see Figure 4 below, and Appendix I provides more details):

Figure 4: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
1 House	1 x 4BH
3 Houses	2 x 2BH; 1 x 3BH
5 Houses	3 x 2BH; 2 x 3BH
10 Houses	5 x 2BH; 4 x 3BH; 1 x 4BH
15 Mixed	2 x 1BF; 4 x 2BF; 5 x 2BH; 3 x 3BH; 1 x 4BH
30 Mixed	3 x 1BF; 5 x 2BF; 7 x 2BH; 12 x 3BH; 3 x 4BH
30 Flats (Sheltered)	11 x 1BF; 19 x 2BF
100 Mixed	10 x 1BF; 19 x 2BF: 20 x 2BH; 42 x 3BH; 9 x 4BH
500 Strategic Sites (SHS1)	50 x 1BF; 95 x 2BF: 100 x 2BH; 210 x 3BH; 45 x 4BH
750 Strategic Sites (SHS3)	75 x 1BF; 142 x 2BF: 150 x 2BH; 315 x 3BH; 68 x 4BH
1,000 Strategic Sites (SHS2)	100 x 1BF; 190 x 2BF: 200 x 2BH; 420 x 3BH; 90 x 4BH
3,000 Strategic Sites (SHS4)	300 x 1BF; 570 x 2BF: 600 x 2BH; 1260 x 3BH; 270 x 4BH

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

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

2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.

2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test a range of potential affordable housing policy thresholds. In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.

2.2.6 With regard to the strategic sites at this stage, it is not possible to undertake a very detailed review of the sites. A broad assessment of the viability of those sites has therefore been carried out. For strategic scale sites much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. It is likely that further detailed work will be required in order for the Council to develop a fuller understanding of the potential delivery scenarios of these sites over time, however further commentary is provided within Chapter 3, so far as possible at this stage given the results trends indicated by the largest current stage appraisals.

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

Figure 5: Residential Unit Sizes

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

2.2.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These could also be influenced to some extent by the Governments Housing Standards Review. No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to price and assess schemes and is consistent with CIL principles. It provides a more relevant context for considering the potential viability scope and also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as a proportion of the schemes value (see Chapter 3 for more detail).

2.2.9 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

Commercial / Non-Residential Development Scenarios

2.2.10 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 6 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of different types of commercial development considered potentially relevant in the Borough and the potential scope to viably contribute towards the CIL.

2.2.11 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 6 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 6: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
Retail - larger format (A1) - convenience	Smaller supermarket - Town centre	1000	40%	0.25
Retail - larger format (A1) - comparison	Retail Warehousing	1000	40%	0.25
A1- A5 - Town centre retail - mainly comparison	Nuneaton town centre	300	30%	0.10
A1-A5 - Small Retail units generally - conv. / other	Nuneaton other, Bedworth & various / other areas	300	50%	0.06
B1(a) Offices - Town Centre	Office Building (principally Nuneaton)	500	60%	0.08
B1(a) Offices - Out of town centre	Office Building (business park type - various)	250	40%	0.06
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	500	40%	0.13
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2500	45%	0.56
B8 - warehousing / distribution	Distribution unit	10000	50%	2.00
C1 - Hotel	Hotel - budget (approx. 60 rooms) - revenue indications per room	1800	50%	0.36
C2 - Residential Institution	Nursing home / care home	3000	60%	0.50

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

2.2.12 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the Borough and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based review. We also received some additional indications through our process of seeking local soundings. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

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

2.2.14 Clearly there is potentially a very wide range of such schemes that could be developed. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the emerging development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.

2.2.15 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

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

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to the requirement for a range of potential CIL charging rates (including geographical values variations and / or with changing values as may be seen with further market variations). In the case of Nuneaton & Bedworth and given the values variations seen in different parts of the Borough through the initial research stages, the VLs covered typical residential market values over the range £1,500 to £2,500/m² (£139 to £232/ft²) at £200/m² (£18.5/ft²) intervals. These are set out within Appendix I – described as VLs 1 to 6.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £120/m² (£0 - £20/m² for non-residential). By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £120/m² / £200/m² potential charging rate level trial was not considered relevant in the Borough. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

2.3.3 We carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within the Council's previous research documents and from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by 'appropriate available' evidence and that 'a charging authority should draw on existing data wherever it is available'. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the seven localities (and their constituent Wards) provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the Borough. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.

2.3.5 Our desktop research considered the current marketing prices of properties across the Borough and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available. Together, this informed a Borough-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

2.3.6 Overall the research indicated that although values vary as expected (a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc.), overall there was little differentiation across the Borough. Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future Borough development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Nuneaton & Bedworth. Neither is the relatively small number of current new-build schemes from which to draw information. However these factors do not affect the scope to get a clear overview of how values vary across the Borough. Overall the information is deemed suitable for the consideration of both the Borough Plan and CIL.

2.3.7 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report.

2.3.8 The values that are assumed (as being available to support development) affect the consideration of viability of plan policies across the Borough and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the Borough - to inform potential options for an appropriate local approach to both Borough Plan policy and CIL charging scope.

2.3.9 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. As discussed previously, Nuneaton & Bedworth Borough Council's current approach is to seek affordable housing from sites providing 15 dwellings or more. As this study seeks to test the viability of Borough Plan policies holistically alongside the potential level of CIL that could be viable, we have tested and reviewed a range of potential affordable housing policies from 0% to 40% across all sites. For the affordable housing, we have assumed that approximately 85% is affordable rented tenure and 15% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario). The starting point for this analysis is taken from the Council's Preferred Options Policy HOU1 – Affordable Housing. Appendix I sets out the proportion, dwelling and tenure mix used in this study.

2.3.10 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that the setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

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

2.3.12 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

2.3.13 In broad terms, the transfer price assumed in this study varies between approximately 30% and 75% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Coventry Broad Rental Market Areas (BRMA) for the varying unit types was used as our cap for the affordable rental level assumptions. This covers Nuneaton & Bedworth Borough area.

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

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

2.4 Gross Development Value – Commercial / Non-residential

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of the completed scheme values that would be compared with the various development costs to be applied within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.4.3 Figure 7 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

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

2.4.5 These varying rental levels were capitalised by applying yields of between 5% and 8% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7% base yield (5 % - 6% for large retail formats and hotels) were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

2.4.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

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

Figure 7: Rental Value for Commercial Schemes

Development Type	Example Scheme Type(s) and potential occurrence	Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
Retail - larger format (A1) - convenience	Smaller supermarket - Town centre	£200	£225	£250
Retail - larger format (A1) - comparison	Retail Warehousing	£100	£130	£160
A1- A5 - Town centre retail - mainly comparison	Nuneaton town centre	£150	£225	£300
A1-A5 - Small Retail units generally - conv. / other*	Nuneaton other, Bedworth & various / other areas	£75	£100	£125
B1(a) Offices - Town Centre	Office Building (principally Nuneaton)	£125	£150	£175
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£140	£160	£180
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£60	£70	£80
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£55	£65	£75
B8 - warehousing / distribution	Distribution unit	£50	£60	£70
C1 - Hotel	Hotel - budget (approx. 60 rooms) - revenue indications per room	£4,000**	£5,000**	£6,000**
C2 - Residential Institution	Nursing home / care home	£160	£180	£200

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

**per room per annum

Economic and market conditions

2.4.8 We are making this viability assessment following what appears to be the end of a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we appear to have come through a period of relatively weak and uncertain economic conditions with the economy and property market in particular beginning to show signs of continued recovery. At the point of closing-off the study, it appears that the British economy is showing signs of significant recovery and growth with house price growth rising at a rapid pace, boosted by the Government's Funding for Lending scheme and some forecasts indicating UK house price inflation of between 24% by the end of 2018 for the West Midlands[9].

2.4.9 The RICS Commercial Market Survey for Q2 of 2014 - stated that '*The Q2 2014 RICS UK Commercial Property Market Survey results show that performance continues to strengthen, both on the occupier and investment sides of the market. Moreover, the data again suggests momentum is also building in areas outside of London and the South East.*

Starting with the occupier market, growth in tenant demand remains firm, at the all-property level and across each sector, with the industrial segment exhibiting the strongest results. Alongside this, availability appears to be contracting at the fastest pace on record, albeit the office and industrial sectors account for the bulk of this trend (68% of respondents identified the conversion of office space into residential as a factor weighing on supply in their markets). Furthermore, the value of incentive packages continues to fall, marking the fourth period in succession in which a decline has been reported.

Against this backdrop, rental expectations picked up further, suggesting gains will accelerate in the near term. From a regional perspective, demand now appears to be rising quicker in the broad groupings of the Midlands/Wales and the North, than in London and the South East. That said, the lack of supply remains most pronounced in London, leading to more elevated rental expectations. Nevertheless, rents are expected to see material growth (in each of the four regional aggregates) across all areas of the market going forward.

38% of respondents reported an increase in speculative development over the past twelve months, which may help to ease supply pressures in the longer term. This trend was most visible in London, where 71% of members stated that speculative development had increased.

In the investment market, enquiries continue to build at a healthy rate and this is expected to translate into further meaningful growth in completed transactions going forward. Significantly, the investment enquiries series shows investor interest has now been increasing, across all sectors, on a consistent basis for the last 18 months.

[9] Savills – Residential Property Focus Q2 2014

What's more, the rise in office sector demand has been outpaced by both industrial and retail units in each of the last two quarters (a strong sign of a more balanced recovery coming through). Capital values are projected to remain on their upward trajectory as a result of the expected improvement in investment activity.

The prospects for robust capital value growth are becoming increasingly widespread, with the pace of gains anticipated to pick up materially in the north of the country. Although the London market remains the standout performer, the underlying results are firming across all four regional blocks. Critically, 77% of respondents reported that investor interest has extended beyond primary assets, and into secondary (at least), while 20% stated that investor appetite had moved into tertiary assets.'

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

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

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

2.5 Development Costs – General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required and is appropriate.

2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

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

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS rebased to a Nuneaton & Bedworth location index. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS – lower quartile), Nuneaton & Bedworth Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses – estate houses generally	£695
	Houses – one-off (3 units or less)	£989
	Flats - generally	£790
	Flats - Sheltered housing	£822
Retail - larger format (A1) - convenience	Smaller supermarket - Town centre	£948
Retail - larger format (A1) - comparison	Retail Warehousing	£544
A1- A5 - Town centre retail - mainly comparison	Nuneaton town centre	£841
A1-A5 - Small Retail units generally - conv. / other	Nuneaton other, Bedworth & various / other areas	£690
B1(a) Offices - Town Centre	Office Building (principally Nuneaton)	£1,222
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£1,116
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£848
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£627
B8 - warehousing / distribution	Distribution unit	£448
C1 - Hotel	Hotel - budget (approx. 60 rooms)	£1,269**
C2 - Residential Institution	Nursing home / care home	£1,262

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

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

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

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

2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM) as relates to Policy CLIM2. In the residential scenarios, this was applied to all dwellings assuming that construction standards met the requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4). Sensitivity testing on further changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to meeting zero carbon requirements. We have utilised information within the DCLG Housing Standards Review Impact Assessment[10] and Zero Carbon Hub respectively[11]. Costs associated with Policy CLIM2 in regard to district heating networks have not been specifically modelled as those costs would vary on a scheme by scheme basis dependent on the nature of the provision or connection. The large scale strategic development types modelled for this study aligned to policies SHS1, SHS2, SHS3 and SHS4 looks at the surplus to fund s106 / CIL as described in more detail in Chapter 3. The cost of providing a district-heating network would therefore form part of that overall cost to be funded from the available surplus, depending on detailed review of viability as part of the delivery process. For sites below the on-site provision threshold, it is expected that owing to the s.106 pooling restrictions following the adoption of CIL (or after April 2015) that any financial contribution would need to be collected via CIL. Appendix I provides more detail.

2.6.5 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

---

[10] DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)
[11] Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

2.6.6 Survey and normal site costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios).

2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we saw build costs fall, but moving ahead they are expected to rise again, if only over the longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, building costs have been at relatively consistent (flat) levels. This trend is forecast to continue with steady tender price increases forecast through to early 2017 (rising from about a 2% per annum increase in 2014 to 3.9% at the beginning of 2018). Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (12th August 2014) stated on build cost trends:

'Tender prices rose by 1.7% in 1st quarter 2014 compared with the previous quarter, and by 3.4% compared with the same quarter in 2013.

The General Building Cost Index rose by 0.6% in 1st quarter 2014 compared with both the previous quarter and a year earlier.

Materials prices rose by 0.8% in the year to 1st quarter 2014 and nationally agreed wage rates rose by 1.4%. General inflation rose by 2.7% over this period.

On the back of an improving construction economy and the wider economy going forward, materials prices as a whole are expected to increase from 2.7% over the first year of the forecast to 4.1% over the final year. The global economy, and in particular the emerging economies, are not predicted to grow fast enough over the forecast period to put significant upward pressure on materials prices.

With construction demand increasing over the forecast period, the average of wage settlements is expected to rise at an increasing rate. It is anticipated that the average *of wage awards will rise from 2.6% over the year to 2nd quarter 2015, to 3.9% per annum over the final two years of the forecast period.*

New orders for construction work fell by 6% in 1st quarter 2014 compared with the previous quarter, but rose by 8% compared with a year earlier. It should be noted that ONS changed the methodology of data collection for construction orders in 2nd quarter 2013, without applying any conversion factor, which may continue to distort the yearly percentage changes through to 1st quarter 2014.

Building on the modest recovery in new work output in 2013, strong growth in new work output is expected during the forecast period, with the position of the economy as a whole improving. However, both at sector level and regionally, the recovery in the construction market is likely to be sporadic.

Short term capacity constraints may lead to higher annual tender price rises over the next few quarters, as contractors find it difficult to cope with the increase in workload. Tender prices are therefore expected to rise by an annual 5% to 8% over the next few quarters, with tender prices rising by 5.6% over the first year of the forecast. As contractors start to cope with the rising workload over the second year of the forecast, it is anticipated that tender price rises will slow to 4.6%. Driven by increasing demand and pressure from rising input costs, tender prices are expected to rise between 5.0% and 5.5% over each of the final three years of the forecast period. The level of tender prices is predicted to return to the pre-recession peak in 2014, and tender prices are forecast to rise by around 30% over the forecast period'[12] See the table

[12] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (August 2014)

Annual % Change	2Q12 to 2Q13	2Q13 to 2Q14	2Q14 to 2Q15	2Q15 to 2Q16	2Q16 to 2Q17	2Q17 to 2Q18	2Q18 to 2Q19
Tender Prices	+2.6%	+5.1%	+5.6%	+4.6%	+5.5%	+5.2%	+5.3%
Building Costs	+1.3%	+0.6%	+2.8%	+2.8%	+3.3%	+3.8%	+3.9%
Nationally Agreed Wage Awards	+1.0%	+2.1%	+2.6%	+3.1%	+3.7%	+3.9%	+3.9%
Materials Prices	0	+0.4%	+2.7%	+3.0%	+2.9%	+3.5%	+4.1%
Retail Prices	+3.1%	+2.3%	+3.3%	+2.9%	+3.1%	+3.4%	+3.3%
Construction New Work output*	-11.3%	+1.3%	+6.8%	+5.9%	+5.6%	+5.7%	+5.6%
* Year on Year (e.g. 2Q12 to 2Q13 = 2011 to 2012)							

(Data Source: BCIS)

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

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

Professional fees:	*Total of 10% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
Finance:	6.5% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
Marketing costs:	*3.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 17.5% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

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

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

<u>*Professional and other fees*</u>*:*	*10% of build cost*
<u>*Site Acquisition Fees*</u>*:*	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
<u>*Finance*</u>*:*	*6.5% p.a. interest rate (assumes scheme is debt funded)* *Arrangement fee variable – 1-2% loan cost*
<u>*Marketing / other costs*</u>*:*	*(Cost allowances – scheme circumstances will vary)* *1% promotion / other costs (% of annual income)* *10% letting / management / other fees (% of assumed annual rental income)* *5.75% purchasers costs – where applicable*
<u>*Developer Profit*</u>*:*	*20% of GDV*

2.9 Build Period

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

Figure 9: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	1 House	6
	3 Houses	6
	5 Houses	6
	10 Houses	9
	15 Mixed	12
	30 Mixed	18
	30 Flats (Sheltered)	18
	100 Mixed	24
	500 Strategic Sites (SHS1)	48*
	750 Strategic Sites (SHS3)	60*
	1,000 Strategic Sites (SHS2)	78*
	3,000 Strategic Sites (SHS4)	180*
Retail - larger format (A1) - convenience	Smaller supermarket - Town centre	12
Retail - larger format (A1) - comparison	Retail Warehousing	7
A1- A5 - Town centre retail - mainly comparison	Nuneaton town centre	6
A1-A5 - Small Retail units generally - conv. / other	Nuneaton other, Bedworth & various / other areas	6
B1(a) Offices - Town Centre	Office Building (principally Nuneaton)	12
B1(a) Offices - Out of town centre	Office Building (business park type - various)	6
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	6
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	9
B8 - warehousing / distribution	Distribution unit	12
C1 - Hotel	Hotel - budget (approx. 60 rooms) - revenue indications per room	14
C2 - Residential Institution	Nursing home / care home	16

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

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

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

2.10.2 On discussion with the Council it was considered that a great majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. The appraisals therefore included a notional sum of £1,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements. This figure should not be used as a 'rule' or 'guide' in place of site specific requirements as would be the case in practice and cannot be considered, for the purposes of a strategic study of this nature, as some form of absolute minimum or maximum. This is purely a high level assumption / allowance / estimate of the potential additional cost of on-site mitigation (per unit) not covered by CIL used within the development appraisals.

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

2.10.4 Appraisals were run on the basis of scenario testing with a fixed land value input to allow a surplus to be generated after all other development costs had been

[13] DCLG – Community Infrastructure Levy Guidance (February 2014)

accounted for. That sum could then be expressed as a sum per unit available for on-site s106 requirements.

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

2.11 Indicative land value comparisons and related discussion

2.11.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any CIL, will also have a bearing on land value; as has been recognised by CIL examiners and Planning Inspectors.

2.11.2 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme relevant to the Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), trial CIL and other sensitivity tests (crucially including the effect of affordable housing policy targets applied fully in the case of the residential tests).

2.11.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as 'benchmark' land values, 'viability tests' (as referred to in our results tables – Appendices IIa and IIb) or similar. They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change.

2.11.4 As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.

2.11.5 The local context features an expected ongoing important and even increasing / predominant overall supply roll for suitable greenfield sites. In addition, it is likely that a range of typically smaller schemes will continue to come forward and support the overall supply picture (although this will tend to be in a diminishing way over the Local Plan timescale) from previously developed former commercial / employment land, as well as in some cases reuse and intensification of existing residential sites and garden areas.

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

2.11.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. In our experience, sites will come forward at alternative figures – including in some cases beneath the levels assumed for this purpose. We have been able to consider land values in a way that supports an appropriately "buffered" type view to CIL rates setting.

2.11.8 This also needs to be viewed in the context that in terms of CIL, invariably (as we see across a range of viability studies) the levy rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added. Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that Councils need to find between funding local infrastructure and the viability of development in their area. Affordable housing on the other hand has a proportionally greater impact on viability so that a 5% or 10% increase in the affordable housing requirement can be equivalent to £10's or even £100's of CIL.

2.11.9 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. We reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, seeking local soundings, EGi; and from a range of property and land marketing web-sites. Details of the research are provided in Appendix III.

2.11.10 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends.

2.11.11 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results), we have made indicative comparisons at land value levels in a range between £250,000/ha and £1,250,000/ha so that we can see where our RLVs fall in relation to these levels and the overall range between them. These benchmarks are based on a review of available information from site specific reviews, local research and research carried out by others in carrying out viability studies for Nuneaton & Bedworth.

2.11.12 Where greenfield or other lower value land were to be relevant then the results can be used in exactly the same way; to get a feel for how the RLVs (expressed in per ha terms) compare with a lower land value levels of say £250,000/ha. The minimum land values likely to incentivise release for development under any circumstances is probably around £250,000/ha in the Nuneaton & Bedworth context. Land values at those levels are likely to be relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the Borough. This range could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at £15,000 - £20,000/ha in existing use, verified by our own research). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances.

2.11.13 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables') to inform a view on market value and may well also involve considering land value relating to an existing or alternative use ('EUV' or 'AUV'). Existing use value may also be referred to as 'CUV' (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over 'EUV' or similar required to enable the release of land for development.

2.11.14 The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that '*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development*'. This benchmark is referred to as threshold land value in that example: '*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely*'. Further it goes on to say that '*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied*'.

2.11.15 RICS Guidance[14] refers to site value in the following '*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations*'.

2.11.16 In the Local Housing Delivery Group report[15] chaired by Sir John Harman, it is noted that '*Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'.

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

2.11.18 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set

[14] Financial Viability in planning – RICS Guidance note (August 2012)
[15] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

2.11.19 Essentially this approach leads to the comparison of the RLV results in £s per hectare (£/ha), having taken into account all values and costs including varying levels of CIL and affordable housing, to a range of potential land values representing various greenfield, previously developed land (e.g. former commercial uses) or existing residential (residential intensification) benchmark land value indications. The range of land value comparisons is set out beneath the results tables (at Appendices IIa and IIb) and further information is set out within the wider research as included at Appendix III. The results trends associated with these are seen at Appendices IIa and IIb as explained in Chapter 3 below.

3 Findings

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

A guide to the results and appendices tables

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

- Appendix IIa (residential scenarios – base - tables 1a to 1j and appraisal summaries that follow those tables);
- Appendix IIb (commercial / non-residential scenarios – tables 3 to 6 and relevant appraisal summaries);

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

3.1.3 Within residential results summary Appendix IIa, the tables refer to the potential relevance / occurrence of the scenarios based on the local housing supply coming principally from larger greenfield sites and a mix of smaller PDL sites within the main urban areas of the Borough. The key reference sources included the Borough Plan Preferred Options document on which consultation ran in 2013, together with the SHLAA work and a range of background papers and reports supporting the SHLAA – for example on 'Housing Supply and Phasing', and 'Infrastructure Planning'. The information can be found at the 'Borough Plan' section of the Council's web-site via: http://www.nuneatonandbedworth.gov.uk/site/scripts/documents.php?categoryID=200430 .

3.1.4 The same approach was taken to informing the relevance of scenarios for the commercial development use appraisals, and the judgements made from the review of those results, as at set out Appendix IIb. Again the Borough Plan Preferred Options consultation and Background Papers together with the technical reports informing those were amongst the key sources for this review context, covering aspects including employment growth/sites, town centre hierarchy and viability, retail, town centre offices and use others including leisure and other forms of D use class development.

3.1.5 Collectively, the Council is continuing to build and review a comprehensive evidence base for the new Borough Plan. In informing this assessment in terms of both setting appropriate assumptions, reviewing the results and providing our conclusions the following key context points and emerging Borough Plan themes have been considered:

Residential – broad picture:

- An overall development target of approximately 7,900 additional dwellings;

- Whilst in recent years, the great majority of development has been on PDL, and the Council's projections show from around now a steady role for urban SHLAA sites over the next 5 years or so, the role of greenfield release is shown to increase through the Plan period. It is indicated to provide around half of the overall annual supply by 2017/18 – 2018/19. The current picture indicates that a further 5 years on, towards the end of the Plan period, greenfield development is anticipated to be providing the vast majority of the supply. Clearly this is based on current views and projections, but it suggests that greenfield development will increase from around 50 dwellings per year to 200 or so over the next 2 to 3 years; 300 plus subsequently.

- After allowance for completions and permissions (approximately 2,400) development of approximately 1,000 dwellings overall is expected from urban area sites (PDL – SHLAA based) with a requirement for approximately 4,500 new homes to come from larger / strategic greenfield sites;

- The above does not include a reliance on smaller / windfall sites, which are considered likely to provide in the order of 290 dwellings over the period 2018-2028 (over and above the figures above). This estimate was informed by the SHLAA findings that indicated that the average rate of smaller development sites Borough-wide (1 to 4 dwellings on PDL sites) has been running at 29 dwellings per year over a 10 year period. In terms of the overall Plan picture, the very smallest sites clearly have a low-key role;

- In terms of the larger and potentially strategic scale development scenarios (sites SHS1, 2, 3 and 4), current experience is positive in terms of land areas being brought forward – with recent and ongoing pre-application and application work to build on the existing permissions. Only one of these large urban extension areas adjoins Bedworth (the Hospital land – SHS3, for approximately 675 dwellings). The majority of the capacity adjoins Nuneaton to the north (SHS4 – land area with an overall capacity for around 3,000 dwellings) and the remaining c.1,500 are to be accommodated across SHS1 and 2 adjoining the south of Nuneaton urban area.

- Recent and current experience indicates that in respect of these large greenfield urban extensions, they are coming forward so far as a series of smaller sites generally not exceeding 200-300 or so dwellings according to land ownerships etc. At the current stage and potentially in the next few years, this pattern seems set to continue. It looks consistent with the Council's projections and effectively means that the Preferred Options major urban extension areas are strategic development areas containing a number of individual components rather than strategic sites as such.

- This is necessarily all considered on an overview basis, informed by what is known about the larger sites and the variety within the smaller sites supply; but also bearing that in practice each site will be different.

Commercial – broad picture:

- Similarly, the Borough Plan Preferred Options work, supporting evidence / Background Papers and consultation informs the key themes that are relevant to our review:

- Aims to improve the shopping offer particularly in Nuneaton but also in Bedworth; in both cases with a main emphasis and some identified demand for additional comparison-shopping provision. This will complement the existing offer and further increase their appeal given the competition from larger centres outside the Borough;

- A significantly lower level of emphasis is placed on further convenience shopping, given the relatively strong offer and choice already in place; possibly limited to no more than approximately 4,000sq. m over the Plan period;

- An objective to encourage the provision of a better range and quality of office stock in the town centres;

- Likewise, an objective to increase the employment offer in the Borough also through further development of industrial/warehousing property; acknowledging the Borough's relative success and attraction to occupiers for the latter;

- A limited capacity / expected additional demand for most forms of other commercial development in the foreseeable future – in terms of uses such as cinema, bowling and similar.

- Overall, an acknowledgement that considerable challenges lie ahead in terms of securing investment in the range of enhanced commercial property / employment generating offer, given the still relatively fragile nature of the commercial market outside prime sectors and locations, the nature of the existing offer and competition from other locations nearby. Broadly, our views and findings were consistent with the commentary within the evidence base reports – for example such as the Council's 'Town Centre Office Requirements' report (October 2013) by DTZ.

3.1.6 The Plan related viability assessment of potential affordable housing policy position variations (aside from market conditions) and the Plan related potential CIL charging rate(s) scope is based on the running of sensitivity tests. Each of these corresponds with an individual row of figures within each coloured section of the Appendix IIa table 1a to 1j.

3.1.7 Each table within Appendix IIa shows the resulting RLVs (£) and RLVs/ha (£/ha) from each appraisal and at each value level (VL) across the range of CIL charging rates tested - £0/m^2 to £120/m^2. The affordable housing (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.

3.1.8 Affordable housing (AH) has been tested across a range of potential / trial policy positions from 10% to 40% equivalent financial contribution on sites of 1 to 10 dwellings and across a range up to 40% on-site AH for the sites of 10 or more dwellings. For the larger / potential strategic scenarios testing has been undertaken at a baseline 25% AH reflecting the adopted (saved) Local Plan policy requirement and recent experience of operation in practice.

3.1.9 It should be noted again that the way the numbers of units are calculated (and rounded) has a significant effect on the detail of this. For completeness, where it was mathematically workable, small site scenarios were added to include on-site AH (30%, rounded down to 1 unit on a site of 3; 20% (1 unit) and 40% (2 units) on a site of 5 dwellings). The deterioration of results with the increasing proportion of affordable housing can be seen clearly. Given the mixed range of outcomes, and particularly those at the most relevant areas within the overall values levels (VLs) scale, it was considered not necessary or locally relevant to undertake tests at higher proportions of affordable housing; in fact the tests through to 40% affordable housing provided a more than sufficiently wide context for full review of the results.

3.1.10 Schemes of 1 and 3 houses (tables 1a and 1b) have been appraised given that the CIL would take effect from a single (non-self-build) dwelling upwards, unless some form of differentiation by scale of development were justified and applied. Those appraisals contained a higher build cost assumptions reflecting the BCIS data (see Appendix I).

3.1.11 Tables 1i and 1j show the results for a further range of sensitivity tests carried out beyond those associated with the base assumptions on development costs. A series of variations (assumptions combinations) were tested as noted in the left hand columns of the tables. These tests on 15 and 30 unit mixed housing scenarios were also run at varying affordable housing levels, again as per the table details. Much the same as the wider results, these may be used by the Council to consider the relative impact of various requirements and combinations and the 'trade-offs' between different requirements. These further tests are based on current stage assumptions. On reviewing this area of the results, the Government's likely standardisation of requirements under the building regulations, or similar, through the current Housing Standards Review process should also be kept in mind. Any need or justification for specific, detailed local policy on such matters may be overtaken by the national level review.

3.1.12 Following the main results tables within Appendix IIa, appraisal summaries and Argus Developer software summary reports are included for sample relevant scenarios. 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 – see the text that follows the tables 1a to 1j (base) results discussions.

3.1.13 Tables 2 to 6 at Appendix IIb include the equivalent information for the commercial / non-residential scenarios testing undertaken, limited to the scenarios where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing /care home)). These tables show in their heading the rental yield % assumed for each set – range 5% to 8%. At the lowest yield test the best results within the overall range; these included only the retail scenarios and a trial warehousing scenario - according to the potential relevance of yield % test by development use type. In the main, the higher / highest commercial development yield tests are considered relevant only to any future larger format retail development (principally supermarket type but also potentially to retail warehousing) in the Nuneaton & Bedworth context. This picture is consistent with our review of available information from the Council's evidence base (in forming the Background Papers and Preferred Options), wider research and experience.

3.1.14 Overall, the range of yields used assumes high quality, well-located new-build development as relevant to the Plan objectives and as would be supported by a CIL. It should be noted that in respect of some development uses in the local context (particularly offices and industrial within 'B' (business) Class uses) the yield tests shown are at the positive end of the potential range and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, any scope for CIL payments. For the development use types considered, where poor or marginal outcomes are shown generally (B, C1 and C2 Uses – business, hotels, care / nursing homes) we can see that results would deteriorate further with increased yield trials. This process of exploring the effect of a wider range of assumptions provides greater confidence in the findings by showing the extent to which improvement from currently applicable assumptions might be needed in order to see clear CIL funding scope. It follows that if those and other scenarios (including for hotels and similar uses) produce poor or marginal results with these assumptions then we can see that the results would deteriorate further (and in many cases become increasingly negative) with a range of less favourable yield (or other) assumptions that might be seen in practice.

3.1.15 As noted at 3.1.13, only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because it quickly becomes apparent that the strength of relationship between the values and build costs show there to be no point developing the full testing process beyond initial stages for a range of development uses. This applied where certain scenarios were seen to be clearly unviable as development uses based on the range of assumptions applied. We will pick up this area with further commentary later in this chapter; see section 3.9 and Figure 11.

3.1.16 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 1j (and 2a to 2j further sensitivities), the AH policy requirement or other development cost/requirement sensitivity variation tested. For each results set the assumed AH% is stated.

ii. Across the top grey row: other assumptions headings and the increasing 'trial CIL charging rate' tested from £0/sq. m to £120/sq. m applied across all residential scheme scenarios and variations at £10/sq. m intervals (Appendix IIa) and at the same intervals up to £200/sq. m for the commercial (Appendix IIb) scenarios.

iii. Within the table section for each residential scenario type and AH assumption variation, the increasing market sales value level (VLs 1 to 6) used to test the sensitivity of the outcomes to varying values. Overall, this covers values from £1,500 to £2,500/sq. m (approximately £139 to £232/sq. ft.). This range enables us to consider viability as influenced by location and by the market (e.g. including values falling or rising from current typical levels). This provides full context for considering the potential for the varying value levels to support viable developments with reference to the delivery of the emerging Plan proposals and for considering the CIL funding scope. It should also be noted that for the 30 unit apartments scenario included at this stage, envisaging retirement (sheltered housing), we looked at higher VLs at 5 plus (7 - 10 added to provide an overall values range starting at £2,300/sq. m for this type) – reflecting our view of the expected premium level pricing of most new-build schemes of this nature; a common observation made through our wider work (table 1g within Appendix IIa refers).

iv. VL1 represents the lowest market values sensitivity test, through a scale including the highest market values sensitivity test at VL6 (VL10 upper end test for sheltered / retirement scenarios). VL1, however, is largely to be regarded as lower-end sensitivity test for residential, in the main outside the range of typical values considered relevant to delivery moving forward, and therefore represents the effect of a falling market from the current lower-end.

v. We consider that the range of values currently most relevant to the emerging plan and to the CIL that will support it, is represented by VLs 3 to 4 with, overall VL4 being the most representative of the overall Plan supply mix of development at the time of writing this report (given that we cannot project forward for likely values growth to underpin the delivery or the suitability of any CIL charging rate(s)).

vi. As the research shows, in practice values are variable from scheme to scheme. However, the indications are that there is little difference between the values relevant to the emerging Borough Plan whole delivery picture; i.e. the values for scheme types that will support the great majority of the overall housing growth. More on this follows at section 3.2 below.

vii. Under each commercial / non-residential scheme type (Appendix IIb): Increasing value (this time meaning rental value that underpins the completed scheme (sale) value – OR GDV - in combination with the yield %) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. 'L' and 'H' allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through any further weakening of commercial property market conditions. For context here, in our wider work we are seeing that for prime sectors and locations the commercial market is beginning to show signs of picking-up from the recession period in some respects. To date, however, the signs of market pick-up are not so evident in areas such as Nuneaton & Bedworth, which do not have a well-established prime commercial property offer. The Borough is noted to be attracting warehousing / distribution interest, which will be considered further.

viii. The main areas of results in table sets 1 and 2 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 the RLVs expressed in £/ha terms. The main, coloured sections Commercial results tables – tables 3 to 6 – again show the RLVs in £/ha from each appraisal scenario.

ix. The coloured table sections act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the scope for potential CIL charging in the context of the emerging Plan. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability alongside the affordable housing and other policy led or wider development costs (together with further sensitivities as at tables 1i, 1j and 2a to j.

x. The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as the trial CIL charging rates increase (moving from left to right within all Appendix IIa and IIb tables) and, more so, as the AH % increases moving from top to bottom within each Appendix IIa table set.

xi. As discussed earlier, realistically this testing of trial CIL rates has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. In our experience the approach provides useful wider context for results review and so to inform the making of judgements behind the recommendations. Provided that these trial rates span a sufficient range, and the steps between each trial level are not too large, an element of interpolation can be applied and considered. It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £120/sq. m for residential and to £200/sq. m for commercial scenarios to give a sufficient range for review; we could see that higher rates testing was likely to take the results beyond the realistic CIL scope in the local context. As with the AH% exploration, the emerging results did not warrant further exploration of higher potential CIL charging rates alongside the emerging Plan policy directions.

xii. In many previous assessments of this type, DSP's approach has been to test CIL at £15 to £25/sq. m increments. Given the mixed nature of earlier stages trials here, however, the decision to test CIL impacts in a fine-grained way at £10/sq. m increasing steps was considered appropriate. For this locality the small increments approach was considered part of exploring the potential balances between the current CIL scope and affordable housing - to help inform the Council's further Plan development work.

xiii. It is important to note that the colour-coding shown on the Appendix II tables provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs. This is all in the context of the emerging Plan development strategy so far as it was possible to make financial assumptions at this post Preferred Options review stage; in advance of but, appropriately, to inform the proposals for more settled policy and delivery details.

xiv. The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative RLVs – 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). There are no precise cut-offs or steps in terms of the results interpretation. In practice a range of outcomes within the non-red table areas could prove viable depending on particular scheme and site circumstances. The footnotes to the Appendix IIa and IIb tables describe these as a series of 'viability tests', referring to the various land value comparison levels considered:

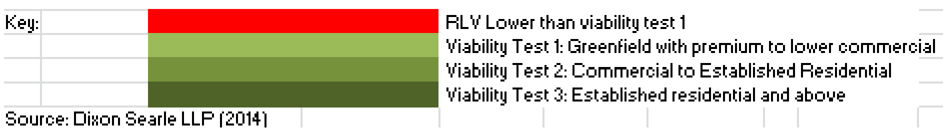
- Boldest green cells - considered to provide very good viability prospects; the best results from the range produced; likely to be workable across the full range of site types.

- Mid-green cells - considered to provide good viability prospects in a range of circumstances meeting a wide range of likely former commercial use and lower residential values expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for a limited range of high-value commercial / non-residential developments (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of previously developed land (PDL) site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above) that are considered capable of working even on the highest value PDL scenarios in the Nuneaton & Bedworth context.

- Paler green cells – Positive RLVs, but which are under our higher land value comparisons and therefore indicating reduced confidence in results, particularly in respect of most PDL scenarios. Potentially representative of scenarios that may be workable on some lower value PDL (former commercial) or (with greater confidence in some cases) on greenfield sites.

- Red coloured table cells (results) – negative RLVs – schemes in financial deficit or in any event representative of clearly poor viability outcomes – no prospect of viable schemes based on the collective assumptions used in each case. In most of the table rows that have part red shading, it can be seen that the CIL trial rate is seen to have relatively little impact on scenarios that are inherently unviable. In a small number of cases, however, it can be seen that a nil or very low CIL rate might contribute to supporting a level of viability.

- This traffic light style colour scale, showing the results trends within Appendices IIa and IIb (as per the table footnotes there) is as follows:



xv. 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.

xvi. 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.

xvii. Individual results are seen to increase through assumptions on higher sales values (increasing VL), reducing affordable housing or other downward policy / cost adjustments. Conversely the results show decreasing viability (decreasing ability to meet or beat the viability tests (benchmarks)) as the VL reduces, AH increases and / or other costs increase. As above, we can see the effect of an increasing CIL charge.

xviii. Again, this is not about firm cut-offs or steps, but judgements made with the benefit of this method of viewing and filtering the results.

xix. The comparison levels do not set a limit. It can be seen that some development scenarios will readily exceed even the higher viability tests. However these appear to be restricted to larger format retail scenarios and 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 – for example we might expect a supermarket development use to need to pay a premium level of land value 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.

3.1.17 To the rear of Appendices IIa and IIb (residential and commercial) are relevant sample appraisal summaries. Bearing in mind the assessment purpose and nature, these are not the full appraisals or sets, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used. The summaries included represent a selection of scheme / use types with a focus where, ultimately, positive CIL charging scope and recommendations have been made. Appraisal summaries are not included for the full range of scenarios that were included within the assessment – e.g. those non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).

3.1.18 The results discussion within this section, and the reported policy and CIL options / scope that is supported by our findings is based on the review of current stage assumptions based on the Preferred Options for the Borough Plan. This is the focus because to consider CIL we also have to build-in the likely effect of the plan policies for the cumulative impact on viability. So the commentary refers to the emerging Plan in respect of:

- the various relevant forms of and locations for development;
- key viability impacts of policies on affordable housing and potentially on sustainability;
- CIL viability implications alongside these, because the range of viability influences from them needs to be taken account of in a collective way.

3.1.19 Government guidance states that the CIL charging rates should not be set up to their potential limits (up to 'the margins of viability', or similar phrases). On reviewing the results and for the Council taking this further into the wider consideration of its Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, a number of key principles have been and will need to be considered as set out below (at 3.1.20 to 3.1.39) .

3.1.20 Costs will vary from these assumptions levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher than assumed through such factors as site-specific abnormals and / or increasing national level carbon reduction agenda requirements longer term, scheme-specific design / materials, etc. It is usual not to take account of unknown abnormal costs within this assessment type; those will need to be dealt with in settling the final planning obligations package at the planning stage.

3.1.21 When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the 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 is relevant to informing and supporting the development of the Borough Plan and to informing the associated approach to any CIL proposals by the Council.

3.1.22 Land owners' situations and requirements will vary. Expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the continued market conditions for some types of commercial property; existing and alternative use value assessments as part of land negotiations and planning stage viability assessments will need to be realistic. 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.

3.1.23 As the Council's wider evidence recognises, the economic backdrop remains mixed, although at the point of writing-up this assessment there are increasingly established signs of an improved level of housing market stability and pick-up. Local house price movements have remained relatively flat or risen only steadily as prices in stronger market areas have surged ahead. However more recently the local market has shown signs of uplift. In general the more positive climate has been noted through bank and government figures, house prices indices and also through some performance reporting coming out from the house-building sector. In addition, a level of continued development activity and interest in promoting sites suggests a reasonable underlying strength and confidence in the local market. Nevertheless, the uncertainties and experiences of the last few years have not left us totally. The economic and market directions are unknowns, particularly with a general election approaching and some reporting suggesting that more stringent mortgage lending criteria, introduced in May 2014, may have a dampening effect on the rate of market pick-up. Overall, the most recent signs are of a market and local market continuing to support increasing sales activity and, rising house prices and increased development activity in the next few years. Various reports have forecast a 20% or more rise in prices over the next 4 to 5 years (Appendix III provides further market context).

3.1.24 We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend; the use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis so that to inform the viability scope put to the Council we are looking at the range of values expected, from the information currently available. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.25 Certainly a significant factor for the residential scenarios, as is always the case, will be the Council's approach to affordable housing (AH) provision secured from market developments. This assessment aims to test alternatives so as to provide advice on potential for AH target %s within the new Plan. Our understanding is that the saved Local Plan 25% AH target operated at 15 or more dwellings has been effective.

3.1.26 HCA funding for affordable housing appears to be uncertain at best, and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormals or other requirements).

3.1.27 The potential CIL charging rates scope needs to be considered alongside other factors relevant to the locality and the development plan delivery. Amongst these, the location and frequency of site and scheme types forming key parts of the local growth delivery is key – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns for example). This will influence the selection of the Council's approach to implementing any refreshed approach to affordable housing policy and the CIL; and may subsequently vary for future CIL charging schedules.

3.1.28 In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council's proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.

3.1.29 Under the Borough Plan Preferred Options, strategic scale delivery of circa 4,500 homes from larger developments with potentially significant infrastructure requirements looks set to be highly relevant in considering the scope to bear affordable housing and CIL costs in addition to the site-specific costs. In the short term most likely relevant to a first charging schedule, however, these locations are starting to host individual proposals of a non-strategic scale - with more typical level planning obligations. In order to be able to support a satisfactory level of infrastructure from these, the Council may need to consider a CIL charge applied to all residential development until such point that these development areas take on a more planned strategic growth role at a later point (see the context at 3.1.5 above).

3.1.30 Strategic scale developments, and/or larger sites within identified strategic development areas adjoining the urban areas of Nuneaton and Bedworth, using greenfield land, look set to play a key role in the overall scale of delivery. As the Council's picture on the sites likely to be contributing to the delivery becomes clearer through the settling of outcomes from the options consultation and review process, the implications of CIL charging alongside the site-specific costs and planning obligations may need to be considered further. Given the nature of CIL and the need to keep it as simple as possible, in any event this could in some cases mean that other planning obligations aspects may need to be negotiated with CIL in place at levels suitable for the majority of sites.

3.1.31 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected Nuneaton & Bedworth area delivery.

3.1.32 Some individual schemes (residential and commercial) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to the CIL rate. They are more likely to be associated with market conditions (arguably the biggest single factor), affordable housing, scheme design / construction / specification requirements (including sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that CIL charges are non-negotiable once in place.

3.1.33 Under the CIL principles this is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery as a whole, or the approach to CIL. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk.

3.1.34 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL (and / or greater levels of other obligations) than the recommended levels. This is again in the context of seeking an appropriate local balance in setting the affordable housing, other policies and CIL charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting contributions towards meeting the infrastructure needs associated with the required new development. The latter points here tie in with the Government's latest CIL Guidance (February 2014 - as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. The Council will need to be able to show that it has struck an appropriate balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.1.35 Consideration is to be given to the opposing tensions of the scale of local infrastructure needs that require funding contributions and the level of development viability available to support those. The Council needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided.

3.1.36 At the time of this study, work on infrastructure requirements is ongoing and is likely to be further updated. This is part of the usual evolving process. Nevertheless, there is a significant infrastructure funding gap in the Borough as a basic driver for CIL where viable given that the pooling restrictions will reduce the flexibility of s.106 especially in dealing with a range of requirements from non-strategic sites. This means that we expect the Council is likely to need to secure a level of CIL that is as meaningful as possible to underpin a more predictable level of infrastructure delivery, but realistic. This is a key ingredient of the overall growth and funding packages, in support of the Council's development strategies; led by the emerging Borough Plan.

3.1.37 CIL charging calculations relate to net new development – added floorspace. As is typical, in practice we understand that in line with the CIL regulations a number of developments in the borough will entail some level of "netting-off" of existing floor-space within the charging calculations. This means that any selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will have a highly variable influence on individual scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set right 'at the margins of viability' [16] as part of this overall theme.

3.1.38 Local authorities (the charging authorities, including this Council) have significant scope to consider exactly how they will assess what the right balance is given the

[16] DCLG – Community Infrastructure Levy Guidance (February 2014)

particular characteristics of their area. To this end, in the CIL guidance terms the selected approach need not mirror exactly the viability evidence. They and the Plan policy positions should be informed and supported by it though, as part of the 'appropriate available evidence' overall.

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

- These are not factors that only affect Local Plan and CIL considerations in 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;

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

- In the case of residential and commercial scenarios, the non-viable and marginal viable indications that result from the assessment basis and assumptions (in accordance with the relevant guidance and regulations to ensure that policy positions and CIL levels are not set at unrealistic levels) do not necessarily mean that schemes will not come forward. There may well be some examples brought forward in practice that appear to be contrary to the findings. 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 inputs and a buffered rather than any potentially honed-down approach to assumptions and results interpretation must be used here. 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.

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 and then commercial / non-residential.

3.2.2 Adjustments from asking price, as are usual to some extent, are often handled by way of bespoke incentives to particular purchasers, rather than by headline price adjustments. In whichever form, adjustments will vary by developer, by scheme and often by individual plot in practice. Nevertheless, in the present local market circumstances we consider that a 5% deduction from asking prices in most cases is likely to represent a reasonable current approach to the sales value estimate, especially given the recent more positive market trends and continued signals that we are seeing. This depends of course on the approach to marketing price setting, and will be influenced by a range of economic factors at any particular point in time, however we consider it a reasonable current stage assumption amongst the range of property values information that we reviewed to inform the assessment.

3.2.3 Any clear values patterns that influence viability and are critical to the relationship between viability and housing (or other development) supply in terms of ensuring overall plan delivery are to be respected. However, it also needs to be understood that there are bound to be imperfections in defining any viability zones or similar (linked to any differential CIL charging rates). In practice values can change over very short distances (even within schemes, between different sides or ends of roads, with different aspects, particular surroundings, school catchments or other specific local influences).

3.2.4 As is a usual finding, these blurring factors are seen in the borough on several levels – from the site / street or local area specific level to the higher level characteristics varying between the 2 main settlements and most other areas. However, in terms of general values patterns (house price relativities as seen through overall market research), we found the following general picture. This is considered relevant to the viability of both affordable housing (for setting target %s and considering any policy variance by area) and CIL (for setting a rate or differential rates), bearing in mind the likely overall plan relevance of different localities:

- In general, current values in the Borough for new build development that will be most relevant to overall plan delivery are relatively modest; typically they are at around or just above the "cusp" of viability where a carefully judged mix of planning obligations will usually be supported, but viability outcomes are sensitive to increasing development costs / requirements;

- In the overall Borough context, marginally higher values were noted as potentially applicable to sites in or around the northern/north-eastern areas of Nuneaton, compared with typical central/western/southern Nuneaton and with Bedworth values. This could be relevant to development area SHS4, compared with the other strategic housing site areas, for example;

- Again as a general rather than very clear-cut observation, usually values were seen to be higher in the north and north-eastern areas of the borough; typically higher than elsewhere. This includes areas such as Whitestone, Bulkington, Weddington and St Nicholas;

- We also found signs of higher values in the south-western extreme of the borough;

- Overall, we found that new build values from the types of sites that are of key relevance to the whole plan picture to be relatively consistent across the Borough – we consider there to be little meaningful variation as values do not seem to move far away from the central area of our VLs range under any key circumstances.

3.2.5 We consider that the key part of the new-build residential values range is either side of approximately £2,000/sq. m; VL 3 to 4. We think having seen an improving market over the full study period it is appropriate to focus on the mid to upper end of this key values area. Therefore VL4 (at £2,100/sq. m or thereabouts) reasonably represents the typical picture for most new-build estate type housing - looking at the schemes most to the overall plan picture coming forward now and in the short term (thinking about the likely life of a first charging schedule).

3.2.6 The results show though how sensitive to assumptions variations they are. Overall, therefore, we would describe viability in the borough as quite finely balanced; once a positive scenario is created through realistic assumptions it is quite readily deteriorated through a reduction in sales values and / or any increase in affordable housing or other costs (including CIL).

3.2.7 At best, overall we feel that the results can be described as mixed. 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. 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 underway based on the typically relatively modest sales values available to support it.

3.2.8 Within this finely balanced and variable picture, we are 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 support the Borough Plan overall.

3.2.9 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 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.

3.2.10 These are usual provisos, but just take effect at lower levels where modest sales values are available to support viability; as in Nuneaton & Bedworth. Flexibility in operation does not exist with CIL, except so far as the initial rates setting process and any differential rates allow different levels by development use type, location and (soon to be confirmed) scale of development. Once the CIL rates are set, there is no flexibility (apart from where a charging authority decides to offer exceptional relief).

3.2.11 Overall, the new-build housing values for the type of housing most significant in overall Plan delivery terms, appear to be relatively consistent across the Borough. That research provides a fuller picture of values than seen from review of the overall (re-sales dominated) market in the Borough alone; while providing general patterns as noted above, those do not necessarily indicate the level of the values achieved for new-builds. As always, there are local and site-specific variations, but in general the new-builds appear to be creating an offer that is considered attractive, is selling well and does not vary greatly in terms of pricing by location across the borough as seen recently.

3.2.12 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 VL4 or similar values overview appears widely applicable. This type of overview is appropriate for both Local Plan and CIL rated viability testing and, it suggests that there could well be little justification for complicating the Council's policies and approach by including different AH% targets and / or CIL rates by locality (geographical zone or similar) alone.

3.2.13 However, amongst the next steps as it progresses with the emerging Borough Plan development strategy, the Council will need to check the relevance of the various localities (and therefore VLs) to the latest picture on the expected distribution of housing growth and also how the scheme types fit into this overall delivery picture (i.e. a further reminder of the link to the relevance of locations and site types to overall plan delivery).

3.2.14 It is our understanding that the emerging Local Plan only specifically provides for 89 new homes within Locality 7 - Whitestone & Bulkington area the only area where there may be a case for a differential rate supported by typical value levels that are higher. Other than an unspecified potential number of dwellings within the Nuneaton urban area, the number of dwellings coming from the generally higher value (on resale / overall market evidence) eastern side of the Borough looks set to be very small in the overall Local Plan delivery context (aside from the from strategic development north of Nuneaton which we are recommending should be nil-rated for CIL – see below).

3.2.15 For these reasons we are of the opinion that unless the delivery picture changes, the non-zoned approach remains appropriate. Any further complexity (through a differential / zoned approach) would not be justified and the added CIL receipts would be insignificant so far as we are aware.

3.2.16 Following on from this, it appears more likely that any differentiation would be by type (and potentially scale) of development in the case of any CIL funding scope; and similar in respect of affordable housing (e.g. considering whether to incorporate any form of sliding scale of % requirements / approach driven by scheme size). As has been noted, at present there are Government-led considerations to bear in mind in respect of how these factors come together. This year's changes to the CIL regulations have formalised and clarified the scope for rates differentiation by scale of development. On affordable housing, there has been a Government proposal (out to consultation) that this should not be required on schemes of fewer than 10 dwellings, and such principles appear to be under review. These aspects are also linked – they will potentially interact as an affordable housing threshold creates a viability switch that will now be able to be considered for CIL rates differentiation based on scale of development. The Government's look at AH thresholds could determine where there is a clear viability step, notwithstanding local policy.

3.2.17 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 <u>target</u> recommended at not more than 25%-on larger sites – i.e. on all sites of 15+ dwellings. This represents a continuation of current policy;

- Alternatively, consideration could also be given to reducing the AH policy threshold, but we suggest not to impact schemes of fewer than 10 dwellings in the local context, where most of those will be on PDL. A lowered AH% target would be appropriate for consideration (and in any event 25% AH should be regarded as the absolute maximum) in respect of any sites of 10 to 14 dwellings if either the Council decides to extend the AH policy scope or a new Government minimum 10 dwellings threshold comes in. In the latter case, it is assumed that this would be a minimum rather than a fixed position, so that in any event the Council could continue its existing 15 threshold approach. Consideration of this will again be influenced by the typical / expected number of sites of various sizes occurring, the likely resulting additional AH "yield" versus the additional development management effects and the relatively dispersed nature of AH provision that might flow from such an approach.

- A practical view is needed as to the workable extent of potentially ambitious / challenging policies on sustainability that go further than current and short-term future Government (Building Regulations based) standards, subject to how the national standards may settle down as a result of the Housing Standards review. The testing carried out for this assessment will inform the Council's consideration of likely impacts and potential trade-offs – see especially Appendix IIa tables 1i and 1j;

- Limited CIL funding scope, linked to the type of sites likely to be key within the overall delivery picture – larger scale greenfield delivery and a variety of smaller sites from PDL (based on the urban areas focus alongside the larger sites / development areas); particularly in conjunction with a meaningful AH target of not more than say 25%.

- In our view and experience of Local Plan / Affordable housing and CIL viability to date, given the finely balanced viability picture, the possibility of site-specifics varying (to include greater costs – e.g. through abnormal issues) and the probable need to avoid placing further viability pressure on AH delivery at this stage we have reservations about the suitability of a CIL at any level in combination with AH requirements beyond the 25% noted.

- Depending on the assessment of relative priorities locally, bearing in mind that both affordable housing and appropriate supporting infrastructure are key aspects of sustainable development, further consideration of the affordable housing approach may well determine the realistic CIL scope. The assessment of priorities and the local balance between them will be an important next step.

3.2.18 Therefore, as a next review stage here, we will consider the outcomes on affordable housing and then look at the sensitivities to other potential planning requirements (e.g. on sustainability matters). Since the review process can become too circular if both AH and CIL are not fixed; initially we look at the nil (£0/sq. m) CIL results so that we clearly view the varying AH% impact alongside the other usual policy and development related costs.

3.2.19 This gives a view on the collective impact of affordable housing together with those other expected costs, and then enables the consideration of CIL impacts as a further layer alongside that. Combined with considering the nature of development that looks set to support the delivery, this informs a viability view of the Borough Plan proposals, including on the relative impacts of various potential policy / standards requirements.

3.3 Base results

3.3.1 The 1 unit scenarios (Appendix IIa table 1a) appear not to rule out the lowest level of AH £ financial contribution (FC) tested; at 10% AH equivalent. However, it is likely that this would have the effect of reducing the CIL scope as that has to be set to allow for its fixed nature. Bearing in mind the smallest developments would tend to be on some of the costliest sites (most expensive land including residential development), we can see that the highest viability test is passed at 10% AH FC combined with up to around £60/sq. m CIL (on top of the £1,000/unit base s.106 assumption). That in effect represents a maximum level of CIL. This relies on VL4 sales values and is sensitive to any fall away in that assumption. Whilst in our experience CIL rates are more dependent on the underlying assumptions and appropriate review judgements, making an arbitrary say 50% "buffering" adjustment would give us CIL scope of say £30/sq. m. in combination with the 10% equivalent AH financial contribution.

3.3.2 Many 1 unit schemes now appear likely to come forward as self-builds which have mandatory relief from CIL charging. Furthermore, as was noted in the Borough context reminders at 3.1.5 above, schemes of this scale provide a very small proportion of the overall housing supply. For the Council's consideration, therefore, we suggest that a more workable balance of obligations may be a higher CIL and no AH contribution. This would not be affected by any upcoming or future national small sites AH policy restriction and any chargeable schemes found non-viable through the CIL liability would not be prejudicial to overall plan delivery. In our experience weighting the planning obligations towards CIL rather than AH might well be simpler to administer and provide a clearer, more predictable and development friendly approach to individual site developers.

3.3.3 The 3 and 5 unit scenario results (tables 1b and 1c) basically indicate a similar picture. If anything they indicate that even that low level of CIL could contribute to already marginal viability in some cases; with a 10% equivalent AH FC included. We can also see that looking to on-site AH (1 unit from 3 or 5) deteriorates results to the point that, in combination with that approach, CIL looks to be firmly ruled out unless such schemes come forward regularly on lower value land. Overall however, the principles noted at 3.3.2 appear relevant for the Council's consideration.

3.3.4 A balance towards CIL rather than AH appears to also fit better with the potential to consider differentiation by scale of development, with either a national minimum or local threshold in place, beneath which the viability of schemes improves by virtue of no AH requirement.

3.3.5 The 10 houses scenario (table 1d) produces RLVs meeting the highest test with a combination of 20% AH and around £50/sq. m CIL – at VL4. VL5 values (beyond current typical) are needed to support 30% AH (with approx. £70 - 80/sq. m CIL on the same basis). On lower value PDL (i.e. meeting / exceeding likely former commercial land value expectations) 30% AH can be supported, even if values are lower (at VL3) - but then combined only with a modest CIL of up to say £20/sq. m. We suggest that this type of scheme could come forward on a variety of sites, so in any event this points us to not more than 20 – 30% AH as a target. The upper end of that AH range combines viably with little or no clear CIL scope again unless there are smaller greenfield / lower land value scenarios relevant to such schemes regularly.

3.3.6 Overall, that scenario indicates a potentially appropriate combination being no more than 20% AH (as a target) with no more than say £50/sq. m CIL. Again, as with all smaller sites, the CIL scope could be reviewed and any differentials considered, or the current results used to inform alternative scenarios if the Council decides to leave the AH threshold at 15 dwellings and look at optimising the CIL scope rather than introducing AH requirements at a lower threshold than the existing 15.

3.3.7 The 15, 30 and 100 unit mixed housing scenarios also point to similar findings. On smaller uncomplicated greenfield / lower value commercial sites there appears to be scope for supporting up to 30% or perhaps more AH combined with CIL up to the full £120/sq. m CIL tested. However, compared with the £750,000/ha commercial land value test, we can see that the maximum is 30% AH at VL4 (with CIL up to a max. of say £110/sq. m); 25% at VL3 with no real CIL scope. So again these outcomes are highly sensitive to the sales values assumptions and, at their more positive end, should probably be brought back to CIL rates of not more than say £50 – 60/sq. m in our experience. Sites represented by this range of scenarios look set to continue to be important to overall delivery and so their delivery risk should not be unduly increased. To beat the highest land value test (e.g. established residential) we need to look to the VL4 results at 20% AH (with no CIL) or to VL5 at 30% AH with max. and say £20/sq. m CIL.

3.3.8 Overall these findings point to no more than say 25% AH combined with a modest CIL charge again, unless there are regular occurrences of sites of this scale on greenfield or lower value PDL land underpinning a significant amount of the overall projected supply.

3.3.9 Overall, given an expected mixed delivery (site types and locations) of smaller sites (10/15 to say 500 dwellings bracket – assumed with no major on-site infrastructure / site-specific mitigation costs) our view from the base results is that:

- We consider the realistic parameters for affordable housing (e.g. under Preferred Option policy 'HOU1') to be 20 to 25%. Therefore a continuation of the existing 25% target represents the limit of this from our findings and, on balance, is probably the optimum position representing a suitably challenging basis given the level of need that acts as the opposing tension to development viability. Our recommendation is not to pursue a target of more than 25% AH. Whilst a lower target of say 20% would aid viability where other extensive planning obligations come into play and particularly on some PDL sites, this may be considered to weigh the balance towards viability and away from housing need. Furthermore, a lowered target may see the scope of any negotiations extended downwards.

- 25% AH represents around the likely maximum; still accepting that to be a target for practical application according to site-specific viability reviews as needed (as with current practice in the Borough);

- The realistic CIL scope is limited to no more than say £40 - £50/sq. m overall (but even at that level should be considered cautiously in our view – i.e. in combination with the other obligations);

- The AH has a far more significant effect on viability than CIL, but setting a fixed CIL charge in combination with other costs reduces the scope for variation on other assumptions – i.e. increased development cost (see below), increased land value (as per higher viability tests), increased sustainability related costs (see below with regard to sensitivity to added costs);

- Once we look beyond the base assumptions (which include CfSH4 and lifetime homes costs) whilst there may be scope to bear costs for added renewable energy and rainwater harvesting costs too, there is currently insufficient scope to go to full CfSH5 in combination with as much as 25% AH. Bearing in mind these are using VL4 values and assume nil CIL (£0/sq. m), reaching full CfSH5 would require reliance on greenfield land values; or PDL values with no more than 20% AH and again no CIL. Clearly this is a snap-shot look at the potential further viability impact of these extra-over costs based on assumptions informed by today's available evidence and estimates. This will need future review as the available information on the technologies, construction techniques and their costs increases and potentially as more is known about the outcomes of the Housing Standards Review.

3.4 Sensitivities – added costs – e.g. sustainability measures; and other related points

3.4.1 This theme of prudent policy placing extends to the potential further consideration of other Local Plan policy areas, such as on housing standards / sustainability and on centralised energy networks.

3.4.2 In general the results show that with 25% AH and a £750,000/ha land value assumed then the limit of expectations is likely to be around CfSH4 or equivalent standards, with lifetime homes encouraged if appropriate (again, probably dependent on the Housing Standards Review outcome). On the basis of the above, however, the Council may wish to consider that currently there is limited scope to go beyond current national requirements under the Building Regulations.

3.4.3 It also looks possible in viability terms to aim for (we suggest rather than require) the renewable energy and rainwater harvesting policy objectives, particularly where developments are on greenfield or former commercial land (sites without established residential use). Once again, this will probably be dependent on the Housing Standards Review detail. As it develops its policy detail, the Council will wish to factor in the Government's progress on the potential new 'Housing Standards' as a result of its current review process; it remains to be seen how this will play out on terms of final detail.

3.4.4 Given the likely further standardisation of requirements and the continuing development of the building regulations, 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 encourages - rather than requires - the inclusion of measures going beyond the developing national policy backdrop.

3.4.5 We think this merits consideration in respect of (but is not limited to) policies such as those proposed under HOU2, CLIM1 and CLIM2 (for example covering Building for Life, Lifetime Homes, Code for Sustainable Homes, Passive Solar Design, and the Renewable and Low Carbon Energy Policy proposal; which appear in some cases either to go beyond or potentially duplicate the emerging national standards and continued building regulations led direction of the national approach.

3.4.6 Full CfSH5 or equivalent standards allied with 25% AH only looks regularly achievable on greenfield or other low value land (envisaging smaller scale development without strategic site type infrastructure / s.106 mitigation costs). It follows that CfSH6 only looks potentially workable on similar sites and most likely in combination with AH lowered to perhaps around 10%, or not much more. However it is important to note that these are based on today's significant extra-over costs assumptions. In an improving market with increased use of the relevant materials, techniques and technologies it seems reasonable to suggest that the extra-over costs view may well reduce over time.

3.4.7 Therefore, as above, these aspects could be reviewed in future. As elsewhere in the country, it may well be necessary to take a fairly short-term view based on what is known at present; and monitor developments and delivery so as to inform likely future review.

Scheme details sensitivity - Sheltered (retirement type) housing

3.4.8 The results indicative of a 30 unit sheltered housing scenario, viewed at the increased build cost level (Appendix IIb table 1g) are relatively strong looking. This is due mainly to the premium (higher) levels of sales values assumed for this form of development. As a further emerging finding, this shows that there would be no justification for treating this form of development differently; as a starting point a 25% AH target would be suitable; as would the basic sustainability aspirations and a CIL if that were to be considered (equivalent to the general residential outcomes at up to around

£50/sq. m). The results do need to be considered alongside relatively high land value expectations in such cases and it would not be appropriate to single-out a particular form of market housing development for a higher AH target and / or CIL rate.

3.5 Larger (strategic type) sites

3.5.1 The Council's approach to any CIL progressed will need to be capable of responding to a mix of scenarios on larger sites. The aspects of the assessment providing information for the Council on the larger Preferred Options sites will need to be considered with this in mind. Based on the sites that have progressed to planning and delivery stages and those that are currently moving towards that, in itself a positive viability and deliverability indicator, the context for the Council to consider our findings against covers a mix different circumstances:

- A - Sites that have planning permission, are currently in planning or pre-planning application stages and likely to progress prior to the adoption of any CIL (all being or to be progressed solely using s.106 for infrastructure provision). These have come forward, and are continuing to come forward on a non-strategic basis, including where they are part of strategic site locations;

- B - Sites that have yet to come forward but may continue to do so in a similar way – i.e. effectively bringing forward of land in a piecemeal sense within strategic development areas, according to land ownerships and market drivers;

- C - Sites that may come forward, non-strategically, once CIL is in place;

- D - Larger scale master-planned development of what we would refer to as strategic development, where the s.106 obligations to serve that development as a whole are likely to be very significant.

3.5.2 Summaries of the appraisals, produced with 'Argus Developer' software, accompany this report – found at the end of Appendix IIa. These are associated with the large scale development locations that they represent, as identified by the Council through the Local Plan Preferred Options development. As 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 Preferred Options and with a broad view of general development costs that are likely to applicable.

3.5.3 At this stage the settled and estimated / costed information available on the potential infrastructure requirements for each of the strategic scale sites / areas tested is in the development stage (and is a picture that will build further over time in the usual way). DSP therefore used an approach to consider the potential surplus available from the gross development value (GDV) to support infrastructure and planning obligations. This was undertaken on the basis of a fully applied 25% AH policy, representing the currently applied and likely maximum parameter for AH moving forward (noting DSP's wider findings). This is considered to be the most informative approach based on the available information. The scale of estimated financial surplus arising from the various scenarios tested, based on the assumptions applied, is viewed per dwelling. This is calculated after allowing for fixed land costs and developer's profit. The outcomes are 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.

3.5.4 With 25% AH and a minimum likely acceptable land value of around £250,000/ha (net developable area) assumed, with base costs (and external works together with added site works / infrastructure costs allowed) we find indicative scope for approximately £14-15,000 per dwelling surplus that could potentially be available to support s.106 and / or CIL (and / or other added costs such as district heating network connection costs or later identified abnormals). This is at VL4 and for information equates to up to approximately £200-220/sq. m maximum if purely viewed in CIL terms (i.e. assumed CIL revenue from the market dwellings only). However, these positions should be regarded as maximums in combination with this land value assumption. A higher land value, for example at £370,000/ha (£150,000/acre) would have the effect of squeezing the potentially available surplus (again for s.106 and / or CIL and / or other added costs such as abnormals). The scope may reduce to nearer to £10,000/dwelling from what we can see at this stage, based on a current market sales values view.

3.5.5 So, on considering the higher end of this range in terms of a theoretical maximum CIL rate for such development (i.e. based on the minimum likely land value) if the full level of potential surplus were converted to CIL this would amount to a CIL rate of say £100/sq. m after buffering.

3.5.6 However on the lower range view, providing more land value tolerance, this same approach worked back from a maximum CIL rate indicates scope from no more than around £60/sq. m; if CIL is to be the main planning obligations funding mode on such sites.

3.5.7 Clearly, the full conversion of potential funds to a CIL approach then potentially significantly limits the room for variation of s.106 or other matters, assuming the affordable housing provision remains a priority at or approaching the 25% appraisal assumption levels.

3.5.8 As we increased the dwelling number within the appraisals, to the 3,000 overall SH4 level (although noting that overall number is already reducing significantly in terms of planning progression), we found no significant change in the findings indications and trends.

3.5.9 Unless the market pushes prices on significantly from current levels, we consider that overall this is a relatively positive assumptions set. Whilst as in all such circumstances, in practice the viability outcomes could improve from the assumed positions, they could also deteriorate. Overall, without significant house price growth, we consider that on balance the outcomes may be more likely to deteriorate than improve significantly from the appraised positions. This could be through currently unidentified costs and / or values at reduced levels if the market slows during large site delivery. To illustrate the potential sensitivity of the outcomes to a less favourable assumptions set, we have run further tests on the 1,000 unit scenario. The outcomes may be compared with those noted at 3.5.4 above, based on the minimum land value. The further sensitivity tests indicate that with a reduction to VL3 the potentially available surplus is reduced to say £5-6,000per dwelling (from the £14-15,000). Conversely, however, at VL5 it increases to approximately £23,000 per dwelling. This demonstrates the wider range over which these outcomes could settle in due course.

3.5.10 Whilst 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. Fixing CIL in respect of strategic scale development could greatly inhibit the delivery scope given that there are likely to be significant s.106 requirements whether or not a CIL charge affects these developments. The view taken by the Council will be subject to the actual nature of delivery though, and more on that point follows.

3.5.11 The significant proviso here is that the pooling restrictions do not affect a s.106 based approach too significantly in practice (again dependent on the nature of infrastructure required and number of sites / applications contributing to that). The results are such that, combined with significant site-specific infrastructure / mitigation via s.106 fixed, (non-negotiable) CIL charging may have an unhelpful effect, subject to the working in practice and scope offered by s.106. Continued use of s.106 for such schemes is the currently preferred approach of most LAs (and developers) where a bespoke approach to the planning obligations and delivery flexibility is needed.

3.5.12 In the short term, however, a specific response to strategic scale development with greatly increased enabling type costs may not be necessary or appropriate for Nuneaton & Bedworth. This is because the strategic development areas, and especially SHS4 north of Nuneaton, are beginning to supply a more piecemeal approach to development of sub-areas of the overall Borough Plan Preferred Option stage identified sites. At SHS4 for example, there are four sites with planning approved or applications submitted, two of which are in outline and two of have with reserved matters approved. A further two sites are currently at pre-application discussions stage. Prior to a confirmed strategic approach to delivery matters, including infrastructure requirements, being in place the Council may therefore need to be able to collect a reasonable CIL contribution from these non-strategic schemes. Doing so, consistent with the approach to other non-strategic developments, would to secure at least a level of infrastructure contributions from scenarios that might otherwise provide restricted scope owing to the limits on pooling of contributions. In DSP's experience, there is nothing unusual in the fact that some level of compromise on the overall planning objectives and obligations package is likely to be necessary to help support a level of viability – unless there is sufficient values growth to off-set the probable direction of costs in respect of carbon reduction.

3.5.13 Overall however, based on current stage assumptions and review, and considered alongside the Council's developing information on infrastructure needs, we consider that the strategic sites offer a realistic prospect for viable development. Very positive signs are already in place in terms of the current progression of a significant proportion of SHS4 in particular by way of the sub-strategic but nevertheless sizeable proposals through or in planning; or currently emerging. The balance to this, we consider that current sales values appear more likely to support essential / key infrastructure items rather than fuller lists of wider community facilities or amenities.

3.5.14 For the Council's consideration, from the viability and delivery flexibility perspectives, the findings again point to CIL potentially applying short term at a suitable rate applicable to the Borough overall; within the above parameters at say £40-50/sq. m. If progressed, this would apply to all developments except any of a genuine strategic nature likely to come forward during the life of a first CIL charging schedule. Longer term, for example on potential charging schedule review, more of a focus on the use of s.106 may be necessary as the strategic scale delivery scenarios are firmed-up; if a master-planned type approach is progressed. This appears a reasonable fit with the essential infrastructure requirements that appear largely site-specific but taking into account the discussion above, especially with regard to SHS4. In any event, the implementation of CIL may be alongside s.106 obligations that are necessary at a site-specific level, provided that the Regulation 123 list clearly sets out what the CIL monies are spent. A clear relationship between that and the operation of s.106 would need to be set out in any event if a CIL is to be progressed.

3.6 Wider information – Residential CIL

3.6.1 Clear maps will need to be prepared for the CIL consultation stages, showing the extent of the proposed charging zones relevant to any differentials taken forward. Given our findings, in the Nuneaton & Bedworth context this is likely to be limited to any need for differentiation in relation to the strategic development areas. As above, however, we feel that this may be more of a future CIL review consideration and is not necessarily a current one.

3.6.2 The following paragraphs offer additional observations relating to our findings, CIL viability assessment and Examination stages experience.

3.6.3 The CIL principles are such that ideally Charging Schedules should be as simple as possible; i.e. as simple as the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the subtly changing values and viability scenarios moving around such a borough, some level of variety is always found. For CIL it is appropriate to respond only to any more significant variety in broad area characteristics affecting viability.

3.6.4 For clarity, as noted at 3.4.9 above, these residential findings are considered to also apply to sheltered / retirement housing development types that could form part of the wide spectrum of market housing delivery. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites.

3.6.5 By sheltered / retirement housing we are referring to housing-led (rather than care provision based) schemes the generally high density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements on a negotiated basis (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses).

3.6.6 They are distinct in our view from care / nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this study purpose. There are various forms of similar developments, so that the Council will need to consider the characteristics of forms such as “extra-care”. As above, the relevant Use Class and applicability of affordable housing requirements is likely to be a key indicator. In DSP’s view, where the care provision is central to the development, so that it is not purely housing-led (where any visiting / part-time care would more likely be incidental), this may indicate characteristics closer to care / nursing homes development rather than market housing. All affordable schemes would be nil-rated for CIL in any event, by virtue of the statutory exemption under the CIL regulations.

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

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

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

3.7 Values and other characteristics – Findings: Commercial

3.7.1 In terms of viability messages for the Plan delivery of commercial / non-residential development, these aspects are considered through the CIL viability process which involves the same principles of considering the strength of the value / cost relationships and explores that so far as necessary through using the residual valuation process again.

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

3.7.3 In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from negative or marginal outcomes (meaning nil or at best very limited CIL charging scope) to those which produce meaningful and in some cases considerable CIL charging scope. To illustrate the trends that we see, the coloured tables at Appendix IIb use the same "coding" type principles as the residential results tables (strongest green colouring indicating the best viability prospects through to red areas indicating non-viability based on the assumptions used). Once again, these provide a guide to the strength of the results and the trends across them at varying value levels and trial (potential) CIL charging rates, but must not be interpreted too strictly.

3.7.4 Factors such as build costs clearly have an impact as well but, for the given scheme scenarios, are not likely to vary to an extent that makes this a more significant single driver of results than the values influences (rents and yields) outlined above. In practice, it will be the interaction of actual appraisal inputs (rather than these high level assessment assumptions) that determines specific outcomes. As with actual schemes though, again it is the interaction of the various assumptions (their collective effect) which counts more than individual assumption levels in most cases. There are some commercial or non-residential use types where build costs, or build and other development costs, will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development.

3.7.5 From the research and findings, based on realistic current assumptions for the Borough area this will need to acknowledge the ongoing viability difficulties associated with these forms of development. This is not unusual, but again must be noted as a current finding that should again be subject to future review.

3.7.6 The key exception looks like being larger format retail (supermarkets, superstores, and potentially retail warehousing) which in common with most other viability studies that we have undertaken tends to be one of the few clearly viable forms of commercial development in a wider range of areas. This is likely to link to CIL funding scope from those forms of development if CIL is progressed and they occur in the Borough. Provisionally, any town centre, and smaller shops / local parades type development, if occurring as new-build, is unlikely to support a meaningful CIL charge without added risk being added to its delivery prospects.

3.7.7 Similarly, using assumptions considered locally appropriate we have found development uses such as hotels and care homes to not show viability for CIL.

3.7.8 In respect of the current / short term prospects for business development viability, the work to date suggests poor outcomes and a challenge in promoting development opportunities. Those will need to be in the most accessible, most valuable locations and work undertaken with other agencies and the private sector to help facilitate delivery if the local market appetite develops for it given the current more mixed news within the commercial property sector. There are some signs of this locally in respect of distribution type space. However, at present the more positive signs are mainly relevant to prime property and locations. Overall, the current view of a sector needing to go through further recovery must be acknowledged.

3.7.9 We have carried out some initial high level consideration of other development uses such as leisure and other D use classes such as health, community facilities, clinics, nurseries etc. Bearing in mind the key development value / cost relationship that we are examining here, we found as typical that it was not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost (usually before consideration of other development costs) points to poor or (at best) marginal development viability. This is one of the key reasons why these forms of new-build development are generally not seen as stand-alone schemes, but tend to be provided as part of mixed use developments that are usually financially driven by residential and /or retail development. Much the same applies to a wide range of development uses. Further information is provided below.

3.7.10 Similar consideration of the relevant values ranges and any clear patterns was also given in respect of the various commercial / non-residential development use types reviewed.

3.7.11 As with residential, the starting point aim should be a simple approach to the charging regime as far as development viability, and the relationship of that to the emerging plan relevance, permits.

3.7.12 DSP considered that the main types of commercial / non-residential development and particularly the viable types relevant to potential CIL charging (i.e. any larger format retail proposals only in Nuneaton & Bedworth context), would be likely to occur in a limited range of locations – basically Nuneaton or Bedworth town areas, or potentially associated with large scale urban extension of those. Between these it would be difficult to distinguish values and costs for these uses with any real clarity at this level of review. There is no firm, significant requirement for such developments – so no site or location to consider for context. The relevance to the overall plan delivery appears highly limited.

3.7.13 Beyond those, the other forms of retail development that DSP has discussed with the Council as potentially occurring are related to the Borough Plan aspirations to improve the comparison shopping offer in Nuneaton and also in Bedworth towns, together potentially within any new local centres or similar developed as part of strategic scale housing schemes. Rural provision as part of farm diversification or local community shops etc. may have a very small scale role overall. In practice, it is most likely that in the short term smaller units retail provision will occur through the re-use of existing buildings that does not trigger significant CIL liabilities. The Council's wider evidence also acknowledges the level of challenge associated with improving the towns' retail offer following the recessionary period.

3.7.14 In terms of local relevance and seeking an appropriate balance in this borough's circumstances, overall our research supports a simple approach to limited non-residential / commercial CIL charging whereby any differentiation should be as needed based on viability associated with varying development use; and not by location as well.

3.7.15 Variance also by locality was considered not to be justified for commercial / non-residential uses. If a route including that were chosen, in our view the local CIL charging approach could well become unnecessarily complex. As with residential and the potential values variety over short distances, we found no clear justification for further complexity in the circumstances. Further and potentially unnecessary differentiation could not be expected make the approach more reflective of actual viability variations in any event.

3.7.16 This view is reinforced by and linked to the nature of the commercial scenarios results which, as will be discussed below and can be seen at Appendix IIb, currently do not show CIL charging scope in respect of the key area of B (business) use development, regardless of the specific assumptions in any event. Away from the potential for the Council to consider CIL charging for some forms of retail (larger formats – supermarkets, and potentially retail warehousing), the results clearly indicate there to be no CIL charging scope at the current time.

3.7.17 In arriving at this, a number of aspects were considered alongside the values research (see Appendix III). This also helped to determine the scope of the commercial / non-residential scenarios modelling carried out overall.

3.7.18 Although larger format retail unit development (larger supermarkets, superstores and retail warehousing) is not specifically envisaged in the local context at the present time and is unlikely to come forward in significant quantities, it could occur through market forces subject to the meeting of the emerging plan and national principles on impact assessments and suitability of location, etc. The only potential for development of this nature to occur was considered to be supermarket development in the main settlements or associated with strategic scale development, although based on discussions with Council officers even this seems unlikely in the short term and probable life of the early CIL charging schedule(s). The emerging Borough Plan information indicates that the envisaged total Plan period requirement for convenience retail does not exceed circa. 4,000 sq. m in total.

3.7.19 In viability terms, should they come forward these forms of development are considered generally able to support CIL charging rates of approximately £100/sq. m here. This allows for stepping back from maximum theoretical CIL rates, which look to be around or even in excess of the highest £200/sq. m trial rate tested here and allowing for land price to potentially go well beyond the £1.25m more typical upper benchmark level and for additional site, s.106 or other costs to be supported too if necessary.

3.7.20 The Council will need to consider the viability findings alongside the recurring themes that we have noted – i.e. around the local relevance of development types; the likely frequency and nature of development. In our view, such a CIL rate could not be considered prejudicial to the overall emerging plan delivery in any event and could be applied to all larger format retail development types. On the accepted CIL principles, any individual schemes that proved non-viable here would not threaten overall plan delivery.

3.7.21 The appraisals run following extensive research show that other forms of retail development would not reliably support CIL charging in the borough, and the Council's selected approach probably needs above all to be responsive to any potential for smaller shops development, especially within the main town and other centres, so as not to add undue delivery risk to any marginal proposals (as they look likely to be at best in the short term).

Commercial viability outcomes – further detail

3.7.22 Business development (offices and industrial / warehousing – of all types): Experience from elsewhere along with firmed-up findings for Nuneaton & Bedworth suggested again that viability outcomes here would not be sufficient to support CIL charging from this range of ('B' class) uses at the present time at least. This is a finding in common with all of our viability studies to date. If robust assumptions are used, of the type necessary to underpin Local Plan and CIL viability studies, then those and the resulting viability outcomes would be unlikely to improve sufficiently to enable clear evidencing CIL charging scope. Even in the better scenarios our findings indicate that there is no clear CIL charging scope without adding further risk to schemes that at best appear to struggle for clear viability, prior to CIL considerations. This takes into account the level of uncertainty and risk inherent in such schemes at present, prior to considering fixed (non-negotiable) CIL levels being added to scheme costs.

3.7.23 Hotel and care home development scenarios were considered, overall with a similar tone of findings from each of these. As noted at the Appendix I scenarios / assumptions summary, hotel appraisals were run to allow us to consider the sensitivity of outcomes to the relationship between their value and build costs, following the review of web based, BCIS and any other available information. With assumptions considered relevant at the current time, these scenarios were considered non-viable locally – as shown by the extensive 'negative RLV' results areas on tables 4 and 5 at Appendix IIb.

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

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

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

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

3.7.28 Having looked at varying forms of commercial / non-residential development for the viability review of CIL rates scope, the review process and findings also inform the Council's on-going work on the local plan and its delivery details. The study inevitably has to take a view of looking at all of this now, influenced by the recent recessionary conditions and on-going economic backdrop constraints in mind. These cannot be fully projected out of the picture at the current time or, most likely, in the coming few years.

3.7.29 The Council will need to keep all of this under review, a repeated theme here, and in the meantime will also need to work-up up its delivery strategies for employment supporting development so as to maximise opportunities as the market is able to respond and work creatively over time.

3.7.30 In all cases, it is not necessary for the Council to link its approach to particular Use Classes – descriptions and added clarity to the CIL Charging Schedule may be better made by referring to locally relevant development types. Use class may be useful to add further clarity, however.

3.7.31 As a high level outcome this general viability distinction between larger and smaller retail formats is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases. This tone of results is shown by the range of red shaded 'small retail' results areas at tables 5 and 6 (representative of any new units at shopping parades / neighbourhood centres, individual units, farm shops, village or rural provision), compared with the larger format retail results and particularly the most relevant of those at tables 3 and 4 associated with the 5% and 6% yield tests.

3.7.32 DSP has experience of single and differential CIL charging rates approaches for retail development. We consider that a CIL charging rate for the larger retail types (supermarket and retail warehousing formats) could certainly be taken up to around £100/sq. m reflecting a rate not set right at the margins of viability but in any event non-prejudicial to overall plan delivery.

3.7.33 Again, the Council will need to consider the plan relevance of the various retail types; and potentially the following factors:

- The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;

- Non plan relevance would also suggest the prospect of a low level of increase in CIL receipts from setting a higher charging rate for certain development uses;

- However, as part of considering the impacts of its CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the larger centres, shops provided through farm diversification or other smaller settlements / rural areas / tourism and visitor based provision.

3.7.34 We also aim to provide wider information, having taken the exploration of this area of the study further (for any charging rates options based on differentiation by type) in the event that consideration of a differential rates approach is taken forward as a result of the Council's future work on this. If there is to be differentiation by use type, then (to reinforce the points made previously) the viability evidence is such that consideration should be given to a significantly lower or, more appropriately, a £0/sq. m. charging rate for smaller shops developments at this time.

3.7.35 As we noted previously, the Government (DCLG) has recently introduced scope for charging authorities to be able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been discussed above in relation to residential development). Whilst DSP's experience is that differentiation has been possible for scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that), it appears possible that this element of the reforms could expand and cement the scope to consider differentiation on CIL charging rates for retail development. However, DSP's experience is such that a retail use does not necessarily change characteristics at any specific floor area point other than that determined by the Sunday Trading provisions.

3.7.36 Overall, as with the residential findings, the Council may well be able to consider options for any renewed approach to its CIL charging. So in order to provide the Council with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area). These outcomes are not included in detail in this report, but further information can be supplied to the Council by DSP if required. In any event, this may be as much about considering the differing retail offers and development types associated with those, and therefore general principles around CIL and differentiation, rather than the viability outcomes alone.

3.7.37 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not produce a different nature of use and value / cost relationship. The same applies on altering the high levels testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary.

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

[1] Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

[2] Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

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

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

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

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

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

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

3.8 Other development use types

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

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

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

3.8.4 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL scope.

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

3.8.6 In any event, from our viability perspective, a zero (£0/sq. m) CIL rate is recommended across the range of other, wider development uses.

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

3.8.8 Figure 10 below provides examples of the review of relationship between values and costs in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us the gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and complication in the local CIL regime. These types of value / cost relationships are not unique to the Nuneaton & Bedworth. Very similar information is applicable in a wide range of locations in our experience.

Figure 10: Other uses – example guide value / cost ranges and relationships

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)*	Base build cost indications –BCIS (£/m^2)**	Viability prospects and Notes
Cafés	£55 - £675 per sq. m	£550 - £6,750 per sq. m	Approx. £1,080 - £3,220	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£20 - £75 per sq. m	£200 - £750 per sq. m	Approx. £575 - £1,700	Clear lack of development viability
Day Nurseries	£30 - £90 per sq. m	£300 - £900 per sq. m	Approx. £1290 - £1,880	Clear lack of development viability
Equestrian Stables / Livery	£200 - £250 per unit		Approx. £570 - £1,000/sq. m	Insufficient evidence of viability to clearly and reliably outweigh the costs
Garages and Premises	£30 - £45 per sq. m	£300 - £450 per sq. m	Approx. £480 - £930	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls	£15 - £35 per sq. m	£150 - £350 per sq. m	Approx. £830 - £1,600 (General purpose Halls)	Clear lack of development viability Clear lack of development viability – subsidy needed
Leisure Centre - Health and Fitness***	£30 - £100 per sq. m	£300 - £1,000 per sq. m	Approx. £840 - £2,300	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	No comparable information available		Approx. £650 - £1,500	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No comparable information available		Approx. £1,000 - £2,130	Clear lack of development viability – subsidy needed
Storage Depot and Premises	No comparable information available		Approx. £360 - £680 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£80 - £180 per sq. m	£800 - £1,800 per sq. m	Approx. £1,165 -£1,640 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs

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

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

***Small sample size

3.8.9 With the exception, potentially, of any retail linked types such as mentioned at 3.8.46 and 3.8.47 above (should the Council consider those sufficiently relevant to the plan delivery and include those with the CIL charging scope), our recommendation is for the Council to consider a zero (£0/sq. m) CIL rate in respect of a range of other uses such as these. As in other cases, this could be reviewed in future - in response to monitoring information. Our over-riding view is that the frequency of these other new build scenarios that could support meaningful CIL scope is likely to be very limited.

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

3.9 Charge Setting and CIL Rate Review

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

3.9.2 The following figures (contained with the tables at Figures 11 and 12 below) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations at a selection of the potential CIL (trial) rates that were tested for viability. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the study (see chapter 2 and Appendix I).

3.9.3 Percentage of GDV figures are only provided here for the residential and example commercial / non-residential uses (viability study scenarios) that are capable of supporting CIL charging in accordance with our findings (CIL rate as % of GDV figures for other non-viable uses are not provided). See Figures 11 and 12 below.

3.9.4 In our experience, CIL rates in the order of those proposed for NBBC are relatively small when viewed in the context of the gross development value with charging rates at the proposed levels equating to (approximately) less than 3% of GDV. In many other areas we see the CIL rate as a percentage of GDV tending to be within the range say 2-5% of GDV; usually advised at levels not exceeding that, as a rough guide. To put this into context, upwardly moving house prices[17] are currently expected to increase significantly in the next few years with further annual growth indicated to occur in the each of the next few years on average[18]. Appendix II includes market context information in this regard.

Figure 11: Trial CIL Charging Rates as a Percentage of GDV – Residential

Scheme Type	CIL Rate (£/sq. m)	Sample Value Level - Range		
		VL2	VL4	VL6
Capital Value (GDV - £/sq. m)		£1,700	£2,100	£2,500
Residential	£10	0.59%	0.48%	0.40%
	£20	1.18%	0.95%	0.80%
	£30	1.76%	1.43%	1.20%
	£40	2.35%	1.90%	1.60%
	£50	2.94%	2.38%	2.00%
	£60	3.53%	2.86%	2.40%
	£70	4.12%	3.33%	2.80%
	£80	4.71%	3.81%	3.20%
	£90	5.29%	4.29%	3.60%
	£100	5.88%	4.76%	4.00%
	£110	6.47%	5.24%	4.40%
	£120	7.06%	5.71%	4.80%

(Source: DSP 2014)

17 Office for National Statistics (ONS) – House Price Index
18 Savills Residential Property Focus for Q4 2013 for example suggested up to 25% growth in house prices to 2018/19. Subsequent reports also available.

Figure 12: CIL Charging Rates as a Percentage of GDV – Commercial (for retail development uses for which CIL charging / potential charging is discussed in the report)

Scheme Type	CIL Rate (£/sq.m)	5% Yield			6% Yield			7% Yield		
		L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq.m)		**£4,000**	**£4,500**	**£5,000**	**£3,320**	**£3,735**	**£4,150**	**£2,856**	**£3,213**	**£3,570**
Supermarket	**£10**	0.25%	0.22%	0.20%	0.30%	0.27%	0.24%	0.35%	0.31%	0.28%
	£20	0.50%	0.44%	0.40%	0.60%	0.54%	0.48%	0.70%	0.62%	0.56%
	£30	0.75%	0.67%	0.60%	0.90%	0.80%	0.72%	1.05%	0.93%	0.84%
	£40	1.00%	0.89%	0.80%	1.20%	1.07%	0.96%	1.40%	1.24%	1.12%
	£50	1.25%	1.11%	1.00%	1.51%	1.34%	1.20%	1.75%	1.56%	1.40%
	£60	1.50%	1.33%	1.20%	1.81%	1.61%	1.45%	2.10%	1.87%	1.68%
	£70	1.75%	1.56%	1.40%	2.11%	1.87%	1.69%	2.45%	2.18%	1.96%
	£80	2.00%	1.78%	1.60%	2.41%	2.14%	1.93%	2.80%	2.49%	2.24%
	£90	2.25%	2.00%	1.80%	2.71%	2.41%	2.17%	3.15%	2.80%	2.52%
	£100	2.50%	2.22%	2.00%	3.01%	2.68%	2.41%	3.50%	3.11%	2.80%
	£120	3.00%	2.67%	2.40%	3.61%	3.21%	2.89%	4.20%	3.73%	3.36%
	£130	3.25%	2.89%	2.60%	3.92%	3.48%	3.13%	4.55%	4.05%	3.64%
	£140	3.50%	3.11%	2.80%	4.22%	3.75%	3.37%	4.90%	4.36%	3.92%
	£150	3.75%	3.33%	3.00%	4.52%	4.02%	3.61%	5.25%	4.67%	4.20%
	£160	4.00%	3.56%	3.20%	4.82%	4.28%	3.86%	5.60%	4.98%	4.48%
	£170	4.25%	3.78%	3.40%	5.12%	4.55%	4.10%	5.95%	5.29%	4.76%
	£180	4.50%	4.00%	3.60%	5.42%	4.82%	4.34%	6.30%	5.60%	5.04%
	£190	4.75%	4.22%	3.80%	5.72%	5.09%	4.58%	6.65%	5.91%	5.32%
	£200	5.00%	4.44%	4.00%	6.02%	5.35%	4.82%	7.00%	6.22%	5.60%
Capital Value (GDV - £/sq.m)		**£2,000**	**£2,600**	**£3,200**	**£1,660**	**£2,158**	**£2,656**	**£1,428**	**£1,856**	**£2,284**
Retail Warehousing	**£10**	0.50%	0.38%	0.31%	0.60%	0.46%	0.38%	0.70%	0.54%	0.44%
	£20	1.00%	0.77%	0.63%	1.20%	0.93%	0.75%	1.40%	1.08%	0.88%
	£30	1.50%	1.15%	0.94%	1.81%	1.39%	1.13%	2.10%	1.62%	1.31%
	£40	2.00%	1.54%	1.25%	2.41%	1.85%	1.51%	2.80%	2.16%	1.75%
	£50	2.50%	1.92%	1.56%	3.01%	2.32%	1.88%	3.50%	2.69%	2.19%
	£60	3.00%	2.31%	1.88%	3.61%	2.78%	2.26%	4.20%	3.23%	2.63%
	£70	3.50%	2.69%	2.19%	4.22%	3.24%	2.64%	4.90%	3.77%	3.06%
	£80	4.00%	3.08%	2.50%	4.82%	3.71%	3.01%	5.60%	4.31%	3.50%
	£90	4.50%	3.46%	2.81%	5.42%	4.17%	3.39%	6.30%	4.85%	3.94%
	£100	5.00%	3.85%	3.13%	6.02%	4.63%	3.77%	7.00%	5.39%	4.38%
	£110	5.50%	4.23%	3.44%	6.63%	5.10%	4.14%	7.70%	5.93%	4.82%
	£120	6.00%	4.62%	3.75%	7.23%	5.56%	4.52%	8.40%	6.47%	5.25%

(Source: DSP 2014)

3.9.5 The Council may wish to use the above information to consider the potential CIL charging rates parameters recommended, and the wider potential rates / options, as part of its balancing of objectives and overall assessment.

3.9.6 As an example a £50/sq. m residential CIL charge for the Borough amounts to approximately 2.38% GDV at VL4.

3.9.7 A £100/sq. m proposed CIL charge is seen to represent approximately 2.68% GDV for the larger format retail (supermarket / similar) scenario – assumed at 'M' rental values and 6% yield. The same CIL rate represents 4.63% GDV in respect of the retail warehousing scenario at the 6% yield test.

3.10 Local Plan Policy Viability and CIL Charging Rates Summary

3.10.1 It has been necessary for us to acknowledge the various viability sensitivities, which are likely to mean that outcomes move around given the many variables.

3.10.2 Whilst we have made comments about affordable housing and sustainable construction impacts in this way, the key point will be for the Council to work up an adaptable approach for delivery. This will need to be expressed in its final policy positions.

3.10.3 There is a great deal of detail to be built-up and worked-through, all of which will be likely to occur over a number of market cycles, several Governments and changing sets of planning and environmental requirements, etc. In this context we consider that it is not possible to give unqualified support to most plan proposals particularly in early stages, pending detail to be worked up; nor would this be expected. The engagement to date between the Council and its neighbouring authorities, service suppliers, developers, land owners and their advisers in respect of a range of proposals and sites provides positive signs of the delivery scope, and this should be a key indicator of the potential and a vital continued aspect of the planning and delivery processes across the range of development types relevant to the emerging Borough Plan for Nuneaton & Bedworth.

3.10.4 In the meantime, particularly in respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In addition to seeking to ensure that the CIL approach does not further impede investment, the Council could consider the following types of areas and initiatives (outside the scope of this report, but put forward as practical indications):

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;

- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;

- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for;

- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) development;

- Scenarios for particular / specialist uses that are often non-viable as developments but are business-plan / activity led;

- As with residential, consideration of the planning obligations packages again including their timing as well as their extent.

- A likely acceptance that business development overall is unlikely to be a contributor to general community infrastructure provision in the short-term at least.

3.10.5 In summary, from a viability point of view we recommend the following for consideration by the Council in taking forward its Affordable Housing Policy headlines under 'HOU1' and setting of CIL charging approach aligned to the emerging Borough Plan as a whole (see Figures 13 and 14 below):

Figure 13: Recommendations Summary - Affordable Housing (AH) Target %s

Scheme size (no of new dwellings) & AH policy circumstances	AH mode	AH % Target (allied to CIL recommendations) Potential option / alternative(s)?
Headline: **15+** (continuation of saved policy or operation as part of sliding scale if threshold is lowered))	**Strong presumption for on-site provision – all sites**	**25% target** • **No realistic alternative for higher target alongside CIL (with CIL at any level);** Lower target with potentially increased CIL
Information/alternative: 10-14 (i.e. if threshold selection beyond N&B BC control through Govt. review or reduced by N&B BC from saved 15 dwellings policy threshold)	Strong presumption for on-site provision – all sites, if applicable	20% target advised; absolute maximum 25% depending on approach to numbers rounding and detail Alternative: • No AH sought under 15 (current position)
Information/alternative: <10 (Included for wider information at this stage)	Any consideration of AH target requirements beneath 10 dwellings should be allied to a Financial Contributions approach only - if pursued	10% target maximum. Alternatives: • No AH sought under 10 (suggested position for consideration); • Sliding threshold takes policy lower (e.g. to 5, or to all new dwellings)

(Source: DSP 2014)

Figure 14: Recommendations Summary - CIL charging rates

CIL Charging rates for Consideration
• **Residential**
Suggested not more than £50/sq. m alongside 25%AH a) Considered suitable as Borough-wide rate; b) £50/m^2 also recommended on strategic sites continuing to come forward on a piecemeal basis not covered in d) below; c) Reliable viability scope for CIL would be reduced or removed with more than 25% AH; d) Strategic scale development, once due to get underway, likely to require zoning out of the above Borough-wide rate and recommended for setting at £0/sq. m reflecting high site-specific s.106 infrastructure / mitigation and other enabling type costs. Approach depending on the timing and type of schemes relevant to the life of a first CIL charging schedule; e) Potential differentiation beneath AH thresholds, depending on positioning – subject to review and Government threshold review proposals outcome.
• **Retail**
Overall parameters – £0 – £100/sq. m. **Recommend larger format retail – retail warehousing and supermarkets – a charging rate not more than £100/sq. m**. This rate would also be applicable to extensions of any size. **All other retail at £0/sq. m.** Any differentiation by type of retail should be linked to use rather than simply based on size (see 3.7.27 to 3.7.44 and associated text).
• **All other development uses**
Nil CIL charge (£0/sq. m)

3.10.6 ***Additional recommendation*: To consider monitoring and review.** Although there is no fixed period or frequency for this we recommend that the Council begins to consider its more detailed implementation strategies around CIL, including how it will monitor and potentially review CIL collection and levels once adopted – i.e. informed by the experience of operating it once implemented at the levels fixed following the current review. In our view, monitoring or equivalent processes should take place whilst also maintaining an overview of the market context and development plan policies alongside which CIL will have been operating. The DCLG guidance touches on the intended open and transparent nature of the levy and in doing so states that charging authorities should prepare short monitoring reports each year.

3.10.7 ***Additional recommendation:*** As has been the case with s.106 obligations, **to consider the scope (as far as permitted) to phase CIL payment timings** where needed as part of mitigation against scheme viability and / or delivery issues. Through all of our development viability work, particularly in relation to larger developments and especially longer running / phased residential schemes, we observe the impact that the particular timing of planning obligations have. The same will apply to the payments due under the CIL. Front loading of significant costs can impact development cash flows in a very detrimental way, as costs (negative balances) are carried in advance of sales income counteracting those. Considering the spreading of the cost burden to some extent - as far as may be permissible - even on some smaller schemes, may well provide a useful tool for supporting viability in the early stages.

3.10.8 ***Additional recommendation:*** Following the same principles and potentially of great importance to the larger sites / strategic locations delivery over time, the timing and phasing of infrastructure works and planning obligations in general will need balancing with funding availability and viability positions as updated through on-going review.

3.10.9 ***Additional recommendation:*** Given that CIL takes the form of a fixed, non-negotiable charge once implemented, the Council will need to continue to operate its wider planning objectives and policies sufficiently flexibly – approach to be carried in to the delivery detail of the emerging plan. This should enable it to adapt where necessary to viability and other scheme constraints where developers can share their appraisals to demonstrate the need for flexibility on the overall planning obligations package.

Abnormal development costs and other factors could also influence this process in particular instances. Prioritisation of objectives may be necessary, and such outcomes would be highly scheme specific – tailored to particular needs where proven to be necessary.

3.10.10 ***Additional recommendation:*** The Government's CIL guidance (DCLG consolidated latest version 2014) outlines the linkages between the relevant plan (currently emerging development plan), CIL, s.106 obligations and spending of the CIL on infrastructure. One key aspect, as has been the subject of discussion at previous CIL examinations in our experience, is that the Council will need to develop its strategy to clarify the relationship between CIL and s.106. It will need to be able to reassure developers that there will be no double-counting ("double-dipping", as it has been referred to) between the operation of the two regimes in terms of the infrastructure projects that each set of funds (or works provided in-lieu) contributes to. This includes the content of the Regulation 123 list for CIL (confirming the projects or types of infrastructure that CIL funds will be spent on, and therefore precluding the use of s.106 for those same items).

Main text of study report ends – DSP Final v3.
December 2014.

Appendices follow.