Affordable Housing and Community Infrastructure Viability Study

Draft Report

On behalf of **Craven District Council**

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1 Introduction

1.1.1 Peter Brett Associates LLP has been commissioned by Craven District Council (hereafter referred to as 'the council') to provide specialist viability advice for the development and preparation of an Affordable Housing and Community Infrastructure Levy (CIL) study.

1.1.2 The aim of the study is to provide high level, area-wide development viability assessments to inform the Council's approach to affordable housing policy as part of its emerging Local Plan. This will enable us to demonstrate what levels of affordable housing provision are viable, and the scope in viability terms for the introduction of CIL, taking all other policy requirements into account.

1.1.3 There are complex questions involved when trying to come to a view on an effective balance between different policy requirements and the need to maintain the viability of development. This study seeks to understand these trade-offs and inform policy the choices. We proceed by testing various levels of affordable housing, taking into account current market conditions, build and other development costs, land values and policy costs. We then go on to consider what levels of CIL charge are feasible (consistent with maintaining development viability).

1.1.4 In addition to viability assessments of residential development, we also consider the viability of key non-residential development types in order to determine which can accommodate a CIL charge and the likely extent of any such charges.

1.1.5 The study method is set out below. This report and our work more broadly, is part of an on-going, iterative process. The modelling may well have to be revisited as and when requirements and market conditions change. Once the full range of policy costs are known nearer to the Local Plan adoption.

1.1.6 At this stage of the process, no site-specific assessments have been undertaken. More detailed analysis of key strategic allocations may need to be undertaken at a later stage, working alongside landowners, promoters and developers of the sites in question.

1.1.7 The remainder of this report is structured to meet these aims and objectives, as follows:

1.1.8

2 Policy Context

2.1 Introduction

2.1.1 The importance of maintaining plan viability is a central theme of national planning policy and guidance in recent years. This section of the report sets out the policy and regulatory context at a national level covering the consideration of viability in the development of local planning policy and proposals for the CIL.

Defining Viability: The Harman Report

2.1.2 The Harman Report usefully defines viability, stating that:

'*An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs, and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place, and generates a land value sufficient to persuade the land owner to sell the land for the development proposed.*'[1]

National Planning Policy Framework

2.1.3 The National Planning Policy Framework (NPPF) resembles the Harman Report, both in its approach to the concept of viability, and its concern to ensure that cumulative effects of policy do not combine to render plans unviable:

'*The costs of any requirements likely to be applied to development, such as requirements of affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development land mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be delivered.*'[2]

2.1.4 The NPPF also states that viability assessments should be proportionate and utilise appropriate available evidence. As such, it is not necessary to demonstrate that every site proposed to be allocated for development remains viable in the context of all policy costs and the balance of development costs and values. Rather, a high level and area-wide assessment that takes these factors into account in testing whether the bulk of planned growth will remain viable.

2.2 Community Infrastructure Levy

2.2.1 The legislation and guidance supporting CIL has a similar concern to ensure that planning policy does not render development unviable.

Finding the Balance

2.2.2 Regulation 14 requires the Charging Authority (CA) to 'aim to strike what appears to the CA to be an appropriate balance' between:

a. The desirability of funding from CIL (in whole or in part) the… cost of infrastructure required to support the development of its area… and

b. the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

[1] NHBC (June 2012) Viability Testing Local Plans (p14)

[2] DCLG (March 2012) National Planning Policy Framework (para 173)

2.2.3 By itself, this statement is not easy to interpret. The statutory guidance explains its meaning. This explanation is important and worth quoting at length:

'By providing additional infrastructure to support development of an area, CIL is expected to have a positive economic effect on development across an area in the medium to long term. In deciding the rate(s) of CIL for inclusion in its draft charging schedule, a key consideration for authorities is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing CIL upon development across their area. The CIL regulations place this balance of considerations at the centre of the charge-setting process. In view of the wide variation in local charging circumstances, it is for charging authorities to decide on the appropriate balance for their area and how much potential development they are willing to put at risk through the imposition of CIL. The amount will vary. For example, some charging authorities may place a high premium on funding infrastructure if they see this as important to future economic growth in their area, or if they consider that they have flexibility to identify alternative development sites, or that some sites can be redesigned to make them viable. These charging authorities may be comfortable in putting a higher percentage of potential development at risk, as they expect an overall benefit.

In their background evidence on economic viability to the CIL examination, charging authorities should explain briefly why they consider that their proposed CIL rate (or rates) will not put the overall development across their area at serious risk'. [3]

2.2.4 In other words, the 'appropriate balance' is the level of CIL which maximises the quantum of development in the area. If the CIL charging rate is above this appropriate level, there will be less development than there could otherwise be, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be less than it could be, because it will be constrained by insufficient infrastructure.

2.2.5 Common sense suggests that this appropriate balance is not easy to find, and must be a matter of judgment as much as rigorous calculation. It is not surprising, therefore, that charging authorities are allowed considerable discretion in this matter. This point is stressed repeatedly in the official documents. For example, the statutory guidance says:

'It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure and the potential implications for the economic viability of development…

'The legislation… only requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed CIL rate (or rates) should appear reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism'.[4]

2.2.6 The guidance adds that charging authorities should 'take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites in a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk'.[5]

2.2.7 This reinforces an earlier message: charging rates do not need to be so low that CIL does not make any individual development schemes unviable. The levy may put some schemes at risk in this way, so long as it strikes the appropriate balance overall, and hence does not put the overall development of the area at risk. Significant discretion is afforded to CAs to set the balance they consider best for the area as a whole.

[3] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (5)

[4] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (10)

[5] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (8)

2.3 Keeping clear of the ceiling

2.3.1 The guidance advises that CIL rates should not be set at the very margin of viability, partly in order that they may remain robust over time as circumstances change:

2.3.2 'Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area… In setting a CIL rate, [they] will need to bear in mind that economic circumstance and land values could change significantly during the lifetime of the charging schedule'.[6]

2.3.3 We would add two further reasons for a cautious approach to rate-setting, which stops short of the margin of viability:

- Values and costs vary widely between individual sites and over time, in ways that cannot be fully captured even with the best will in the world.
- A charge that aims to extract the absolute maximum would likely be opposed by landowners and developers, which would make CIL difficult to implement and potentially put the overall development of the area at serious risk.

2.4 Varying the charge

2.4.1 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by land use, or both. As part of this, some rates may be set at zero. But variations must reflect differences in viability alone; they cannot be based on policy considerations. Nor should differential rates be set by reference to the costs of infrastructure.

2.4.2 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid 'undue complexity'[7]. Moreover 'it would not be appropriate to seek to draw zones on the basis of individual sites'[8] or in ways that 'impact disproportionately on a particular sector, or small group of developers',[9] otherwise the CIL may fall foul of State Aid rules.

2.5 Supporting evidence

2.5.1 The legislation requires a charging authority to use 'appropriate available evidence'[10] to inform their charging schedules. The statutory guidance expands on this, explaining that the available data 'is unlikely to be fully comprehensive or exhaustive' [11].

2.5.2 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate, avoiding excessive detail. One implication of this is that we should not waste time and effort analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area. This suggests that the viability calculations may leave aside geographical areas or land uses which are expected to see little or no development over the plan period.

[6] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (10)
[7] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (12)
[8] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (13)
[9] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (13)
[10] Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (9)
[11] Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (9)

2.6 Chargeable floorspace

2.6.1 CIL will be payable on 'most buildings that people normally use'[12]. It will be levied on the net additional floorspace created by any given development scheme[13]. Any new build that replaces existing floorspace on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old. Such floorspace will only be disregarded where 'it has been in continuous lawful use for at least six months in the 12 months prior to the development being permitted'[14], although proposed changes to the CIL regulations recently consulted upon suggest that this requirement may be lifted and replaced with a requirement that buildings must not have been 'abandoned' (i.e. would require planning permission to bring them back in to any use).

2.6.2 In more urban parts of Craven, where the development will generally take place on previously developed land, a proportion of new development is therefore likely to escape the levy as it is simply replacing existing floorspace. The main source of CIL revenue will be the intensification of sites that are already built up.

2.7 What the examiner will be looking for

2.7.1 According to statutory guidance, *'the independent examiner should check that:*

- The charging authority has complied with the required procedures;
- The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence;
- The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and
- Evidence has been provided that shows the proposed rate would not put at serious risk the overall development of the area'[15].

2.8 Summary

2.8.1 To meet legal requirements and satisfy the independent examiner, a CIL charging schedule should:

'Aim to strike what appears to the charging authority to be an appropriate balance between the need to fund infrastructure and the impact of CIL'; and

'Not put at serious risk the overall development of the area'.

2.8.2 As explained in official guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making certain schemes unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the local authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.

2.8.3 In our analysis and recommendations below, we aim both to meet these legal requirements and to maximise achievement of the council's own priorities, using the discretion that the legislation and guidance allows.

[12] DCLG (May 2011) *Community Infrastructure Levy – An Overview* (para 38)
[13] DCLG (May 2011) *Community Infrastructure Levy – An Overview* (para 39)
[14] DCLG (May 2011) *Community Infrastructure Levy – An Overview* (para 40)
[15] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (5)

3 Planning and Development Context

3.1 Introduction

3.1.1 To help ensure that the CIL supports the development of Craven in general and delivery of the council's priorities in particular, we need to understand the nature of this development and their objectives. In this section we therefore first review recent patterns of development, followed by a review of the objectives and proposals in the Local Plan.

3.1.2 To conclude the section, we look at the implications of this analysis for the charging schedule.

3.2 Policies Impacting of Viability

3.2.1 In order to be able to identify the full implications of local policies on development viability, a scoping exercise has been undertaken to include "a thorough consideration of the potential policy requirements within the emerging local plan."[16]

3.2.2 At this stage, we have not included any amount in the viability assessments to cover contributions towards strategic infrastructure and public transport where necessary. Further work is required to define the list of infrastructure that is required to enable the level of growth envisaged in the Local Plan, to quantify the likely costs of each item and identify potential sources of funding. The Council is considering the introduction of a Community Infrastructure Levy for Craven as a means of securing developer contributions towards strategic infrastructure requirements, subject to further viability and infrastructure delivery work that is required to provide the evidence base for it.

3.2.3 Further, it is not possible at this stage to take all S106 costs into consideration. The full policy requirements for any particular development are not yet clear, given the early stage of the Local Plan's development. For this study, the only S106 costs that have been taken into consideration are those relating to open space provision. This is particularly important in relation to the larger strategic sites, as S106 costs can increase significantly depending on how strategic infrastructure such as schools is proposed to be delivered (either through S106 or CIL. Once the full range policy costs are known, the viability assessments can be adjusted to reflect the revised position with known costs.

3.3 History

3.3.1 Patterns of past development provide one guide to the likely patterns of future development. Table 3.1 below highlights the pattern of previous development across the district. No clear pattern can be discerned from the data with net completion figures fluctuating markedly from year to year and not particularly mirroring wider economic conditions.

Table 3.1 Craven Achieved Housing Completions

2004/5	250	206
2005/6	250	165
2006/7	250	199

[16] Harman (June 2012) Viability Testing Local Plans

2007/8	250	148
2008/9	250	289
2009/10	250	83
2010/11	250	129
2011/12	250	267

Source: Craven District Council AMR 20011/12

3.3.2 In the 8 year period covered, a total of 1,486 net additional dwellings were constructed, against a target of 2,000 over the period. Assuming an average size of 120 sq. m, this equates to a total floorspace of 178,320 sq. m of residential floorspace. The council is yet to adopt a defined amount of housing delivery required during the proposed local plan period, although the 'Spatial Strategy and Housing Figure Discussion Paper' suggests a range of 137 – 208 dwellings per annum based on detailed analysis of population change and migration.

3.3.3 Over the period 2008 to 2012, a total of 23,079 sq. m of net additional floorspace of employment development was built. The Draft Employment Land Review of 2008 suggests provision of between 52-61ha of employment land to meet needs over the plan period.

Development Central to the Delivery of the Local Plan

3.3.4 A review of the adopted local plan and other documents suggests that a number of development types are and will be critical to the delivery of the emerging plan. These types of development will deliver the overwhelming majority of growth across the district over the plan period. Outlined below are these key uses.

3.3.5 It is important not to focus on floorspace alone, however. Some developments sought in the local plan might not represent a very large slice of floorspace delivery, but might be very important local aspirations that deliver Craven's wider aspirations for its community and economy. We have therefore included these uses where appropriate.

3.3.6 The following development types will create the greatest amount of new floorspace in the district over the plan period, or be strategically important to the broader objectives of the plan.

- Residential;
- Town centre office;
- Business park office;
- Industrial and warehousing;
- 'High Street' Comparison retail;
- Retail warehousing;
- Supermarkets
- Neighbourhood convenience retail; and
- Education, health and community facilities.

Uses Less Likely to Come Forward

3.3.7 Some uses are currently considered unlikely to come forward to a substantial degree over the plan period. These do not currently merit special treatment but will be kept under review. They are as follows:

- Hostels;

- Scrapyards;
- Petrol Filling Stations;
- Selling and/or displaying motor vehicles;
- Nightclubs;
- Launderettes;
- Taxi businesses;
- Amusement centres; and
- Casinos.

4 Residential Viability Testing: Method

4.1 Introduction

4.1.1 This section of the report sets out our approach to considering the viability of development in Craven, in line with the requirements of national policy and reflecting the implications of local policies on the costs and values of development.

4.2 Development Appraisal

4.2.1 Viability assessment is at the core of the process. The purpose of the assessment is to identify levels of affordable housing and CIL that the bulk of the development proposed in the plan is financially viable, in order to ensure that affordable housing, CIL and other policy costs do not put at risk the overall development planned for the area.

4.2.2 We have developed a bespoke excel-based model for assessing the viability of residential development for this purpose. The model takes as its basis hypothetical sites of different sizes and allows us to assess the value of a development by reference to density, typical average unit sizes, the proportion and type of affordable housing, the size of houses and typical sales values achieved.

4.2.3 The model also enables us to input the cost of acquiring the land and to calculate all the other principal costs associated with development, including construction costs, fees, contingency and finance costs, amongst others.

4.2.4 The output of the model is a residual developer's margin, expressed as a percentage of the total development costs – a measure commonly used by developers in considering the viability of development. Typically, developers and their funders would seek a minimum return of 20% of cost in current market conditions. Our approach to assessing the viability of residential development can therefore be summarised as follows:

Net development value
Minus
Reasonable land acquisition costs
Minus
Total development costs
Equals
Residual developer's margin
(Determines ability to pay for a CIL)

4.2.5 No standard assumptions are made by the model, so that each appraisal is entirely bespoke. Assumptions are inputted with respect to:

- The proportion of the site that is developable for housing (i.e. not required, for example, for open space, infrastructure or other non-housing requirements);
- The density of development and the mix between houses and apartments;
- The level of affordable housing and the mix of shared ownership, affordable rented and social rented;
- The average size of houses and apartments;
- Build costs per sq. m;

- Sales values per sq. m;
- Sales rates
- Land price per hectare (including associated purchase costs);
- Typical S106 costs;
- Costs for secondary infrastructure;
- Professional fees;
- Costs of sales and marketing; and
- Finance costs.

4.2.6 At this stage, any potential CIL charge has been excluded from our assessment, however we do make an allowance for residual S106/278 which will still apply after the adoption of the CIL charging schedule. The potential level of CIL contributions is discussed separately in Section X below.

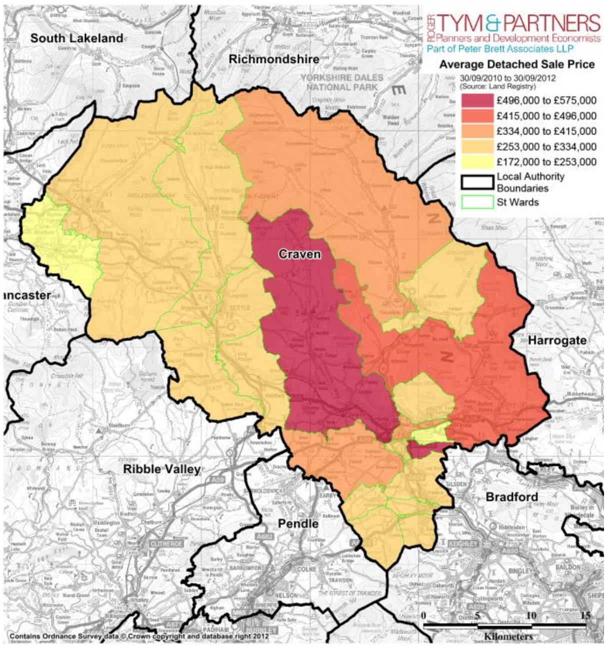
4.2.7 A balance must be struck between the need to supply affordable housing within the district whilst also maintaining development viability that will ensure development takes place. Affordable housing provision will be tested at a wide range of levels.

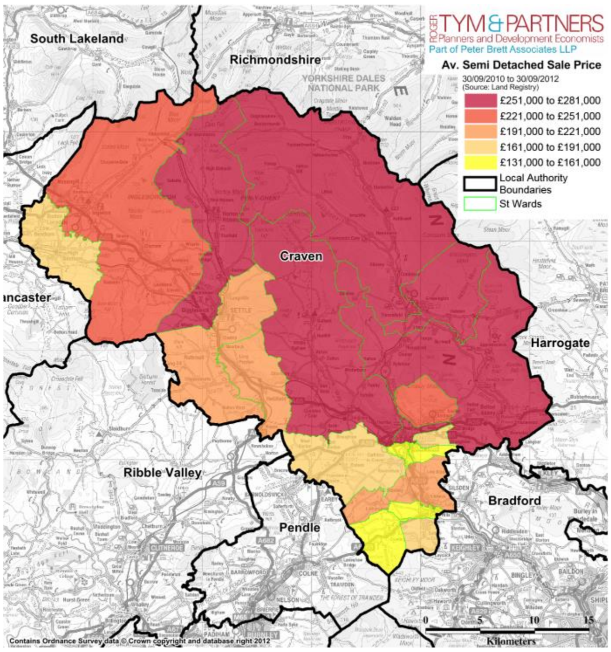
4.3 Market Overview

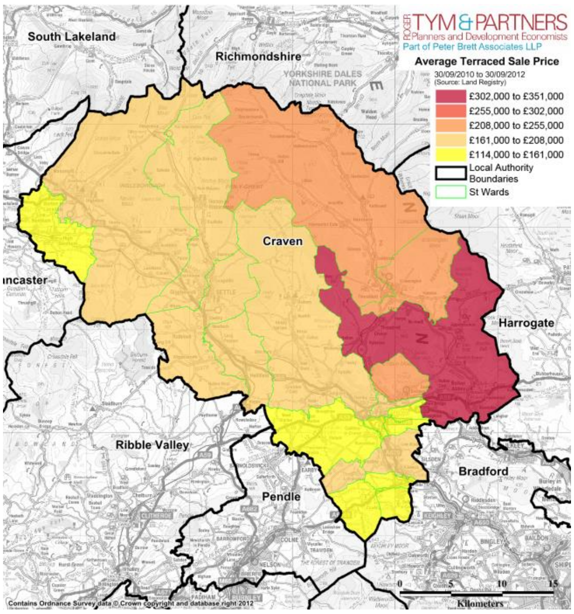
4.3.1 We have gathered and analysed a wide range of available data on residential property market conditions (including in relation to sales values, land costs and build costs, amongst other factors) that provide the evidence base for the assumptions that underpin our assessments.

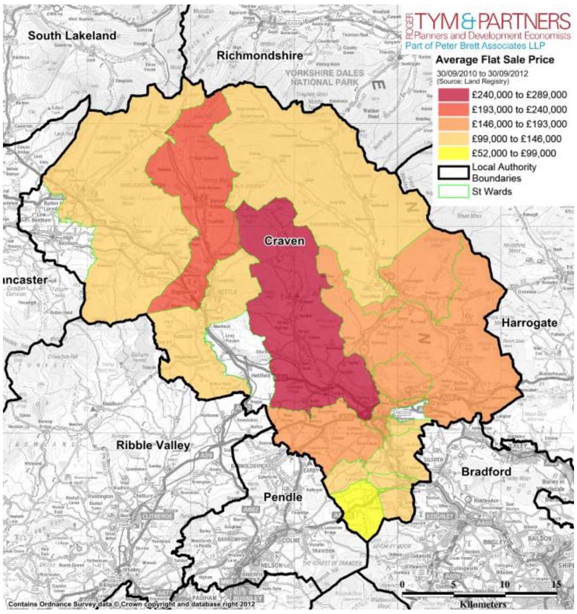
4.3.2 The maps shown below map Land Registry achieves sales price averaged for each ward in Craven. Darker red colours indicate higher values and light yellows reflect lower values. This 'Heat mapping' is provided for each different dwelling type: Detached; semi-detached; terrace; and flats in Figure 4.1 below. Larger versions of the heat mapping can be viewed in the appendices.

Figure 4.1 Average Sales Prices









4.3.3 The heat mapping shows that the highest values in Craven are generally within those areas covered by the National Park. Other areas with generally above average values include Gargrave and Settle. The lowest values in the District are seen in Bentham, and in the very souther tip of the District around Cowling, Lothersdale and Cross Hills/Glusburn/Sutton-in-Craven.

4.3.4 Whilst we are not drawing firm conclusions on the scope for CIL charge variation by zone at this stage, this is the kind of evidence that could support such an approach. Guidance states that 'Charging Authorities can set differential levy rates for different geographical zones provided that those zones are defined by reference to the economic viability of development within them'[17] There is no requirement on Charging Authorities (CAs to introduce charge variations by geographical zone within its area, by land use or both. There is no requirement on CAs to set differential rates, but statutory guidance notes that '[charging authorities] should seek to avoid undue complexity.'[18]

4.3.5 Outside of the national park area, the diversity in values is somewhat more limited. On this basis, we would recommend that any further consideration of CIL charge variation by zone is focussed around one or two levels of charge, rather than any more. Further, more detailed analysis in defining charging zones will be undertaken as part of future updates to the viability work in preparation for the publication of the Preliminary Draft Charging Schedule.

Economic and Housing Market Context

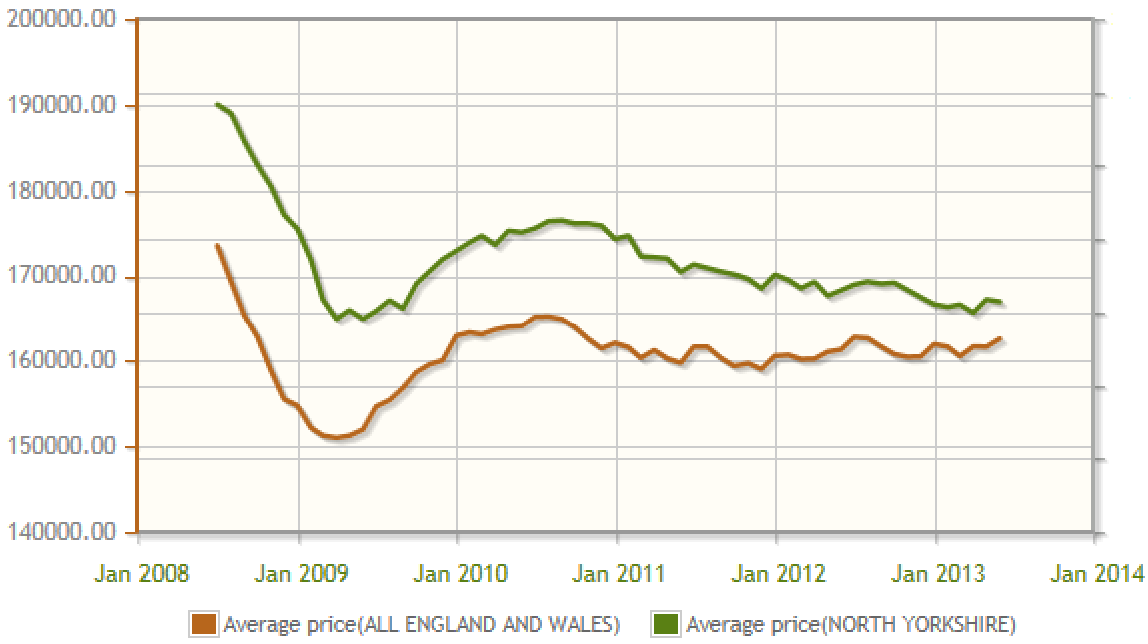
4.3.6 Figure 5.2 below shows the average house price data for North Yorkshire for the period July 2008 to July 2013. It shows that North Yorkshire has tracked the national average over the five year period, although the national average is now starting to close the gap in the difference.

4.3.7 Whilst the data shows house prices to be somewhat erratic, the graph shows a downwards trend. The financial crisis and the resulting crash in the market can clearly been seen in the graph. The North Yorkshire market showed signs of recovery through 2009, reaching a peak in August 2010 at £176,383. Since then there has been a declining trend to present where the average value is at £166,982. Compared to the national average (£165,226 and £162,621 respectively, 2% drop) North Yorkshire has seen an overall drop of approximately 6%.

[17] DCLG (April 2013) Community Infrastructure Levy Guidance para 34

[18] DCLG (April 2013) Community Infrastructure Levy Guidance para 37

Figure 4.2 Average House Prices



Source: Land Registry

4.3.8 Having a clear picture of past figures is extremely useful, however it is important to understand the future trends likely to be witnessed in the area. Looking forward, the latest projections of house prices prepared by Savills in their Residential Property Focus (Q2 2013), shown below, suggests that values are going to remain reasonably flat over the next 3 years, showing the green shoots of recovery during 2016 and 2017.

Figure 4.3 Savills Residential Values Forecast

	Actual	Forecast					
	2012	2013	2014	2015	2016	2017	5yrs to end 2017
UK	-1.1%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
London	0.7%	1.5%	4.0%	4.5%	5.0%	4.5%	21.0%
South East	-0.2%	1.5%	3.5%	4.0%	4.5%	4.5%	19.5%
South West	0.2%	1.0%	2.5%	3.0%	4.0%	4.0%	15.5%
East	-1.9%	1.0%	3.0%	3.5%	4.5%	4.0%	17.0%
East Midlands	-0.8%	0.5%	2.0%	2.5%	4.0%	3.5%	13.0%
West Midlands	-0.8%	0.0%	0.5%	1.0%	3.0%	3.0%	7.5%
North East	-1.3%	-0.5%	-0.5%	0.0%	2.5%	3.0%	4.5%
North West	-1.6%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%
Yorks & Humber	-2.5%	0.0%	-0.5%	0.5%	2.5%	3.0%	5.5%
Wales	-2.7%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
Scotland	-3.3%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%

Source: Savills Research forecasts based on Nationwide actuals

4.3.9 For the purposes of understanding affordable housing viabilities and CIL charge setting, it is current market conditions that must be the primary consideration. However, we have also sought to 'future-proof' this analysis to some extent by considering several sales value scenarios. These are discussed and set out below but can be considered to reflect a reference case current market conditions scenario, and scenarios around it that broadly reflect both better and worse locations across Craven under current market conditions, and how values could change in the future.

4.4 Development Revenue and Cost Assumptions

4.4.1 The viability assessments are based on a wide range of assumptions on the cost and revenues of development. These are discussed below along with their sources. We have also sought to test some of these assumptions through selected consultation with developers and agents. The approach to engaging with key stakeholders is also discussed below.

Sales Values

4.4.2 In order to establish typical sales values in Craven, we undertook a detailed review of new-build housing that is currently on the market in the district. Information on the price and size of new houses and apartments was gathered and used to determine a value per sq. m for each dwelling. These per sq. m values could then be averaged and used as the basis for analysis of differences between areas and development types.

4.4.3 The assessment of new build houses currently on the market revealed asking price values within a broad range between £1,581 per sq. m and £3,177 per sq. m, although more commonly between £2,300-£2,900 per sq. m. The average asking price for 2-storey houses is £2,491 per sq. m. However, if 3-storey townhouses are also included in the analysis, then this figure falls to £2,201, reflecting their unpopularity with buyers. Typically, these townhouses range in value from £1,580 - £1,650 per sq. m and are an increasingly less popular development product with both house buyers and developers.

4.4.4 The average asking price for apartments in the district is £2,469 per sq. m , excluding the three units in Gargrave House (a high-end conversion, which appears atypical of the remainder of the market). Including these units, the average asking price rises to £2,787 per sq. m.

4.4.5 When analysing new build sales, it is important to understand that these figures are based on asking prices. It is typical that some level of discounts will be offered to buyers. Discounts are typically around 5%, but can be as much as 10% off the asking price. Applying a 5% discount from the average house asking price above gives a likely average achieved price in the region of £2,365 per sq.m. The equivalent figure for apartments is £2,345 per sq.m.

4.4.6 Due to relatively low levels of new build properties currently being marketed in Craven, we have also taken into account Land Registry data for achieved sales prices on newly built homes. Our analysis of this data suggests that, on the basis of our assumed property sizes, average achieved values for houses are typically in the region of £2,400 per sq. m. This is based on the breakdown by type and assumed average sizes below:

- Detached properties - £2,545 (based on an average size of 150 sq. m);
- Semi-detached properties - £2,235 (based on an average size 100 sq. m);
- Terraced properties - £2,405 (based on an average size of 90 sq. m); and
- Apartments - £2,447; Average size – 60 sq. m.

4.4.7 Bringing together the findings of our analysis of both the new houses currently being marketed, the land registry data on new build sales and the feedback from consultations with developers and agents, we have established three different value levels – a reference case scenario with a low scenario and high scenario either side. These scenarios also effectively act as a sensitivity test of the reference case against likely changes to market conditions that may occur in the foreseeable future.

4.4.8 The three values that have been calculated are as follows: reference case - £2,350 per sq. m; low value case - £2,250 per sq. m; and high value case - £2,450.

Land Values

4.4.9 In respect of residential development land prices/values, we took account of recent Valuation Office Agency (VOA) reports covering this issue, as well as the findings of consultations with local agents and residential developers.

4.4.10 Clearly, the value of a piece of land to a developer will vary significantly from one site to the next as a result of its specific characteristics, including:

- Size and shape;
- Topography and ground conditions;
- Location and potential sales values;
- Capacity of, and ease of, connection with surrounding infrastructure e.g. local utility networks;
- Whether the site is allocated and/or benefits from a suitable planning permission; and
- The nature of the planning permission and Developer Contributions that can reasonably be expected.

4.4.11 Until 2009, the VOA's reports were more detailed and identified typical residential development land values for a wide range of towns and cities, including several geographically close and comparable in market terms to Craven. Looking at this 2009 data, land values are provided for Harrogate (£2.0m per Ha), Bradford (£900,000 per Ha), Halifax (£700,000 per Ha) and Blackburn (£1.1 per Ha). These data were taken into account in considering land values in Craven.

4.4.12 More recent data from the VOA is only available for larger conurbations and was published in January 2011). In Yorkshire, data is only of Leeds (£1.36m per Ha) and Sheffield (£1.33m per Ha). It is important to note that what policy requirements are taken into account in the VOA data and its implications for land values of policy requirements such as affordable housing.

4.4.13 In addition to this, we have also discussed land values with developers and agents active in the local market. A summary of the feedback from the residential land agents and developers is that:

- Typical gross residential land values (i.e. before account is taken of policy requirements and site-specific development constraints) are c£1 - £2 million per ha;
- Net land values are considerably more difficult to draw generalised conclusions from and there have been few recent transactions to provide the basis for analysis, however a range of £600,000 - £1.25 million per ha could be considered typical;
- The minimum net land value that many owners of residential land in Craven would be willing to accept is approximately £600,000 per ha. A reduction beyond this level may constrain the supply on land on to the market and therefore the ability to meet housing requirements; and
- That there is little variation between the per ha values of larger sites and small sites, with larger sites usually parcelled off and brought to the market in a series of phases.

4.4.14 As a further layer of analysis, we have considered existing and alternative use values and the uplift factors/multipliers that can be applied to them to inform conclusions on residential land values. Of course, it is difficult to generalise about existing or alternative use values across a whole local authority, but we have sought to consider the principal uses that may be relevant.

4.4.15 Some of the land on which new residential development will take place is likely to be agricultural. The VOA's 2011 Property Market Report indicates that the highest average value agricultural land in North Yorkshire is worth approximately £21,000 per hectare. In order to inform residential land values, a multiplier of between 15 and 25 times is often applied. This would give residential land values in the region of £315,000 per ha and £525,000 per ha.

4.4.16 An alternative use for some sites being considered for residential development is for employment development. The 2009 VOA Property Market Report states that employment land in Blackburn/Burnley (as a comparable market area) typically has a value of £380,000 per ha, with the top of the market identified as £450,000 per ha. Allowing for value growth since that time (in line with locations still covered in the latest version of the report) of 11%, this suggests current employment land values of £420,000 - £500,000 per ha. An uplift of c30% over industrial land values is often used as a proxy for considering residential land values. This suggests residential land values of £545,000 - £650,000 per ha. Applying data for Bradford, a figure of c£680,000 per ha results.

4.4.17 LPAs cannot dictate or predict land sales costs, so reasonable assumptions must be made. However, there is a general expectation across the market that land values will ultimately have to go through a period of rebalancing to reflect current market pressures. Some sites, particularly those purchased without planning permission and where there is a risk it will not be achieved could be acquired relatively cheaply. Where this is the case, higher contributions could be achieved than if a more typical land cost is applied. Conversely, other sites may well command a higher land price, in which case Developer Contributions based on more typical land costs could potentially cause some hardship and delay in delivery, in respect of sites where the land deal is already concluded.

4.4.18 Our assessments set out in this section seek to test the range of likely market conditions evident within Craven, but also seek to ensure that as far as is possible in all other respects, we are comparing like with like. Therefore, our assumption in terms of land is that all sites will be cleared and remediated (if they are brownfield) and fully serviced parcels (if they are greenfield) so that in either scenario they are readily developable. For sites that are not in this condition, these costs would be subtracted from the gross land value in the offer that any rational developer would make to a landowner in any case

4.4.19 Reflecting the findings of the analysis set out above, we have drawn together a range of land value scenarios that provide the basis for our viability assessments. The land values assumptions, based on readily developable parcels, are:

For typical 1ha sites in Craven District

- Lower value: £800,000 per ha
- Reference case: £950,000 per ha
- Higher value: £1,100,000 million per ha

4.4.20 It is possible that larger residential development sites of up to 5ha or more will be brought forward for development in the foreseeable future. It is likely that sites of 5ha and more will be developed in a series of phases and our approach to assessing viability of such sites seeks to reflect this. The size of each phase will reflect market conditions in terms of likely sales rates and the level of risk developers will be willing to take in one go. Typically, such parcels will provide for between 50 – 200 units. On this basis, the assumption applied is that large sites will be developed in phases of 5ha gross site area.

Build Costs and Other Cost Assumptions

4.4.21 We have assumed the following build costs for houses on small sites based on BCIS mean average build cost for 2 storey estate housing in Craven District. On top of this base figure of

£818 per sq. m we have made allowances for external works of 10% of cost, and contingency of a further 5%. Furthermore, we have made an additional allowance of c£10 per sq. m to allow for the achievement of the Code for Sustainable Homes (CSH) Level 4.

4.4.22 For residential development in more affluent and desirable locations such as large parts of the District, buyers will often expect higher specification of items such as kitchens, bathrooms and other fixtures and fittings. Conversely, in building affordable housing, a lesser amount is likely to be spend on those fixtures and fittings. As such, we have sought to reflect this in out build cost assumptions as follows:

- Affordable housing: £950 per sq. m
- Lower value: £950 per sq.m
- Middle value: £960 per sq.m
- Higher value: £970 per sq.m

4.4.23 We have reviewed current Government research on build cost impacts of CSH[19]. On the basis of this research, and assuming current conditions remain in respect of all other factors that affect development viability, it is likely that a requirement for higher levels of Code up to CSH 6 would render much development unviable not just in Craven but across the country. That said, we note that all previous forecasts of cost impacts of CSH (such as in the original Cyril Sweete work)[20] have not materialised to the extent forecast as the costs have reduced significantly with technological advancement.

4.4.24 If and when these requirements come into force, they will impact on both development costs and land values. We have not incorporated these possible impacts into our viability assessments at this point, because for the purposes of CIL they are required to relate specifically to current market conditions, not forecasts of potential future change. Clearly, the Council may wish to monitor this issue and its impacts on development viability.

Other assumptions

4.4.25 In addition to the above build cost, a range of other costs of development are taken into account in our viability assessments. We make an allowance for on-site secondary infrastructure (e.g. utilities extensions, spine roads, strategic landscaping and drainage systems and the like, which are part of ordinary development costs and would not be part of any s.106/278 contribution) of £100,000 per ha in respect of 0.25 ha sites; £150,000 per ha in respect of 1 ha sites and £250,000 per ha in respect of 5 ha sites.

4.4.26 We have assumed development densities for housing of 30-34 dwellings per ha. Our assumed average unit sizes for houses are 100 - 120 sq. m, 80 sq. m in respect of affordable housing.

4.4.27 Other costs, such as professional fees (10% of cost), the cost of sales and marketing (3% of value) are inputted at industry standard rates and provision is made for Stamp Duty Land Tax at prevailing rates.

4.4.28 Finance costs are calculated using a cashflow assessment that forms part of the model and takes account of prevailing interest rates (7%) and likely sales rates of 6 sales per quarter on small sites, 9 sales per quarter on 1ha sites and 12 per quarter on the larger sites where a wider range of development products is likely to be available.

[19] DCLG (2011) Cost of Building to the *Code for Sustainable Homes (Updated Cost Review)*

[20] Cyril Sweete for DCGL (2008) *Cost Analysis of The Code for Sustainable Homes*

5 Affordable Housing Assessment Findings

5.1 Introduction

5.1.1 The first stage of the assessments is to understand the implications of varying levels of affordable housing on the viability of residential developments across the district. Using the assumptions outlined in the previous section we are able to carry out viability assessments for a number of scenarios.

5.2 Findings

5.2.1 The summary table below shows the residual margin that remains once various levels of affordable housing have been inputted to the schemes. This residual margin will also highlight the potential for a CIL charge (which will be discussed later in the report).

5.2.2 Tables 6.1 to 6.3 show the results of the appraisals undertaken in respect to the three site sizes tested. The tables show the site size, the percentage of affordable housing tested and the residual margin shown after the calculations. The headings 'low', 'medium' and 'high' refer to the market scenarios tested.

Table 5.1 Output Table – 0.25 Ha

	0.25 Ha			Comments
	Low	Medium	High	
20%	37.0%	36.4%	37.0%	Not considered effective for AH delivery
25%	33.0%	32.1%	33.0%	
30%	30.5%	29.3.%	30.3%	Gives the best balance between providing AH whilst also maintaining viabilities
35%	26.4%	25.3%	26.0%	
40%	20.9%	21.1%	21.6%	
45%	17.3%	16.9%	16.1%	AH has too great an impact on viabilities
50%	13.2%	12.4%	11.6%	

Table 5.2 Output Table – 1 Ha

	1 Ha			Comments
	Low	Medium	High	
20%	37.5%	37.7%	38.8%	Not considered effective for AH delivery
25%	33.4%	33.8%	34.8%	
30%	29.3%	29.7%	30.8%	Gives the best balance between providing AH whilst also maintaining viabilities
35%	25.1%	25.6%	26.6%	
40%	20.9%	21.4%	22.2%	
45%	16.5%	17.1%	17.7%	AH has too great an impact on viabilities
50%	12.1%	12.6%	13.1%	

Table 5.3 Output Table – 5 Ha

	5 Ha			Comments
	Low	Medium	High	
20%	37.0%	37.0%	39.0%	Not considered effective for AH delivery
25%	33.3%	32.7%	35.3%	
30%	29.2%	28.8%	31.2%	Gives the best balance between providing AH whilst also maintaining viabilities
35%	24.9%	24.8%	26.8%	
40%	20.5%	20.6%	22.4%	
45%	16.0%	16.1%	16.0%	AH has too great an impact on viabilities
50%	11.6%	12.0%	12.3%	

5.2.3 For the purposes of the study, affordable housing levels have been tested at 50% down to a minimum of 20%. A 20% return on cost is a commonly used benchmark minimum level of developer's margin. The summary tables above shows areas of green shading and grey shading. The grey shading shows where the results of the testing give figures that are either unviable as a result of affordable housing, or where the level of provision is not consider adequate enough to meet the needs of the district.

5.2.4 The green areas show the region where our results indicate a healthy balance between development viabilities and where the aspirations of the development plan could be met. An output above 20% indicates that there is a scope over and above the necessary 20% margin for development to proceed.

5.2.5 Our recommendations for an effective balance of affordable housing whilst maintaining development viabilities is to set the requirement at 35%.

6 Residential CIL Viability Assessments

6.1 Introduction

6.1.1 This section of the report considers the potential extent of CIL charge for residential development that could be achieved in Craven, consistent with maintaining the viability of the bulk of development. Our working assumptions in doing so is that the recommended level of affordable housing, as proposed in the previous section, is taken forward.

6.2 Findings

6.2.1 In considering the scope for CIL, we have focussed on the 1ha site size assessments that form part of the affordable housing assessments shown in Section 5 above, so that the assumptions and scenarios are the same, with the exception of the fixed level affordable housing. Table 6.1 provides a summary of the appraisals and their findings in respect of residual margins, showing the extent of viability in each scenario.

Table 6.1 Appraisal Summary Findings

Land Cost (per ha)	Sales Value (per sq. m)	Build Cost (per sq. m)	Density (units per ha)	Unit size (sq. m)	Affordable housing (%)	Margin before CIL (% cost)
£800,000	£2,250	£950	34	100	35%	25.1%
£950,000	£2,350	£960	32	110	35%	25.6%
£1,100,000	£2,450	£970	30	120	35%	26.6%

6.2.2 Whilst it is recognised that different developers will consider the performance of projects in different ways, a 20% return on cost is commonly used and was tested at the developer workshop. If the developer's margin/return is over 20% then it can be considered viable. A return on cost of less than 20% is considered unviable.

6.2.3 Table 6.1 shows that on the basis of the assumptions made and with likely s.106 contributions, all residential scenarios tested are broadly viable before any CIL charge is applied.

Maximum Potential Charge Rates & Recommended Range

6.2.4 Using these assessments as the starting point, our model enables us to sensitivity test the proposed CIL charge rate to the margins of viability in order to determine the theoretical maximum charge rates. It is essential to draw down from these theoretical maximum rates when setting the CIL rate. This is to take account of market variations and for sites that may incur higher costs than a typical site might face or where values may be significantly lower than neighbouring areas for example.

6.2.5 There is a need to balance generating enough revenue to fund the infrastructure required to enable growth, with the need to maintaining the viability of development. This is the key test of CIL. In order to achieve this balance, our approach is that any rates set should be between 50% and 75% of the theoretical maximum. This range is applied to show that the charge rate is based on an equitable proportion of the 'surplus' development value and is contributing to the charging authority's CIL revenues, whilst also demonstrably drawing down from the ceiling of viability.

6.2.6 Any profits over and above the 20% benchmark level can be considered to represent the total amount from which a CIL charge could be drawn, whilst maintaining development viability in the majority of cases. In reality, individual schemes may perform better (or worse) than these scenarios, although we have sought to make conservative assumptions throughout. The details of any individual development are almost certain to vary in a number of ways to any generic assessment, depending on the detailed design and density, land price agreed, the build costs a developer can achieve, the level of affordable housing provision negotiated and the capacity of existing infrastructure amongst many other factors.

6.2.7 It is clear from the viability assessments above that margins exceed the benchmark margin of 20% of cost in respect of all of the scenarios modelled to a greater or lesser degree. For those scenarios with margins over 20% of cost, a sensitivity test of the CIL rate has been undertaken to establish the maximum possible CIL charge rate that is consistent with maintaining viability at 20% of cost. The findings of this exercise are set out in Table 6.2 below.

Table 6.2 Maximum Rates and Recommended Ranges

Scenario	Margin Before CIL	Maximum Rate (per sq. m)
Lower value	25.1%	£75
Medium Value	25.6%	£94
Higher Value	26.6%	£108

6.2.8 The recommendations for a potential rate will be set out later in the report.

7 Office and Industrial Viability Assessment

7.1 Introduction

7.1.1 In this section, we provide an overview of the market for office and industrial development in Craven, assess the viability of each and use this analysis to make recommendations about a potential levels of CIL charge for these use.

7.1.2 Office development in town centres can be substantially different in viability terms to that in business park locations, particularly as a result of differences in land assembly costs, and in respect of development and design issues. As such they are assessed separately as part of this study, although it is unlikely that differential CIL rates could be set in line with the regulations because the buildings would be used in the same way, and fine grained evidence required to delineate a value zone is not available for office uses in Craven due to the relative paucity of transactional data.

7.1.3 The viability assessment model for non-residential development assesses a single square metre of development, in order to directly demonstrate any potential charge rate on a per sq. m basis. In identifying appropriate assumptions in terms of rental values, yields and so on, some consideration has to be given to the likely nature of development to come forward. Typically, for town centre office development this is likely to be 3 - storey developments at say 80% site coverage. At business park locations, office development is more likely to be 2 or 3 storeys and site coverage more like 40%. Typical industrial development is, of course, single storey and with site coverage also in the region of 40%. These figures do not feed directly in to the model, but rather inform the assumptions made in other respects.

7.2 Market context

Offices

7.2.1 Office accommodation within the town centres is extremely limited and generally confined to small ‘above the shop’ type units, other than Broughton Hall 3 miles west of Skipton, which appears to offer very small office suites on generally short-term leases. Craven district attracts a range of office occupiers, although the core of the office market is for small to medium sized units meeting the needs of local businesses.

7.2.2 The main office location in the district is Skipton. The significance of financial services employment in the town is evident in the Skipton Building Society Headquarters Building in the northeast of the town and the development in the last decade of the Homeloan Management Ltd (HML) building in the west of the town off of Gargrave Road. In the town centre, apart from the vacant former Skipton Building Society offices (potentially obsolete in terms of current occupier requirements) office stock is limited and is generally lower value space. The demand for office floorspace is primarily for small scale units serving smaller local businesses. The main locations for business park type office floorspace are Acorn Business Park and Snaygill Industrial Estate.

7.2.3 Occupier demand for new office floorspace is currently weak owing to the economic downturn. There is evidence that significant incentives are often necessary to secure occupiers. Our analysis of recent market trends and consultations with commercial agents, suggest that the general opinion is that current office rents and yields are not at a level to sustain speculative office development unless it is part of a mixed use scheme (in the case of the latter, office space would have to be cross subsidised by other more valuable uses).

Industrial and warehouse

7.2.4 As with the office sector, the supply of industrial floorspace is relatively limited in Craven, given its rural character. That said there is some provision in almost all of the main settlements including Crossings Business Park in Cross Hills, Craven Business Park in Earby (just over the border with Pendle district), Ingleton Industrial Estate and Snaygill Industrial Estate in Skipton. The majority of the stock is in relatively small units and the majority of recent lettings are on short lease terms of three years or less, which will have a negative (upward) impact on yields.

Information Sources

7.2.5 As previously stated, central to the assessments is the need to gather robust market data. This section of the report also, therefore, sets out the sources of information that have informed the assumptions that underpin the viability assessments in relation to office and industrial uses, along with the assumptions themselves.

7.2.6 The approach taken to establishing the likely values of new development was to review recent rental and investment transactions across Craven. The transactional data was derived from the Focus/CoStar database, which provides details of the vast majority of transactions, broken down by use. The information includes some or all of the following:

- The address of the property;
- Names of the lessor and lessee and their respective agents;
- The size of the property;
- The length of the lease and other key terms;
- Quoting and/or the achieved rental value on leases;
- The price paid/capital value and yield on investment purchases.

7.2.7 Our analysis of the transactional data from Focus/CoStar focussed specifically on more modern accommodation in similar locations to where future growth is envisaged, wherever possible, so that the information gleaned from the transactions was most relevant and comparable to the types and locations of development likely to occur. Where adequate volumes of transactional data for directly comparable property was not readily available, assumptions were based on informed judgement as to the likely values that new development (of the type envisaged and in the locations proposed) would attract, combined with findings of consultations with agents and developers.

7.2.8 Cost data for office and industrial development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for Craven.

7.2.9 In addition to transactional data that provided intelligence on prevailing yields for different property types in Craven, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE's 'Prime Rent and Yield Monitor Q1 2012'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Craven and more 'prime' locations.

7.2.10 In order to test our initial conclusions as to the likely rental values and yields of each development type, a series of consultations with local agents and developers who are active in the Craven market were undertaken, with revisions made to reflect comments received where it was justified by evidence to do so.

7.2.11 The assumptions on land and purchase costs have been informed by the Valuation Office Agency's Property Market Reports, specifically the July 2009 version and the January 2011 version (the latest report, but which only provides figures for Leeds and Sheffield in Yorkshire and The Humber). These reports provide information on the value of a cleared development site situated in an established employment location with a site area of 0.5 to 1.0 hectare. This information was supplemented by consultations with local agents and developers.

7.2.12 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected in suitable locations is taken as *prima facie* evidence that achieving viability is a challenge.

Assumptions

7.2.13 The calculations have used 'readily available evidence' based on assessment of local transactions and market demand and supply factors, as well as consultations with local agents. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not.

Table 7.1 Office and Industrial Assumptions

Town Centre Office		
	Rent per sq. m	*£130*
	Yield	*9.0%*
	Build cost per sq. m	*£1,250*
Business Park Office		
	Rent per sq. m	*£140*
	Yield	*8.5%*
	Build cost per sq. m	*£1,200*
Industrial		
	Rent per sq. m	*£60*
	Yield	*8.75%*
	Build cost per sq. m	*£600*

7.2.14 Further assumptions are as follows:

- External works at 10% of build cost
- Professional fees at 10-12% of build costs, depending on use;

- Likely residual s.106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Craven;
- Marketing and cost of sales at 5% of development value;
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and
- Developer's margin at 20% of cost.

7.3 Appraisal Findings

7.3.1 The findings of the non-residential viability appraisals are set out in Table 7.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely s.106/278 costs is included.

Table 7.2 Viability Assessment, Offices and Industrial

		Town Centre Office	Business Park Office	Industrial
Rent		£130	£140	£60
Yield %		9.00	8.50	8.75
Minus inducements	1	144	165	69
VALUES	2	**1,300**	**1,482**	**617**
COSTS	2			
Land + Purchase Costs	3	50	40	40
Basic Build Cost		1,250	1,200	600
External Works	4	125	120	60
Fees	5	165	132	66
Section 106/m²	6	0	10	10
Marketing & Sales		65	74	31
Contingencies	7	77	73	36
Interest	8	159	150	78
Margin	9	378	358	182
Total Cost Benchmark		**2,269**	**2,157**	**1,103**
Values - Costs		**-969**	**-674**	**-486**

	Costs exceed values
	Values exceed costs by less than 10%
	Values exceed costs by more than 10%

7.4 Conclusions

7.4.1 As can be seen in Table 7.2, 'pure' office development is not currently viable on the basis of the assumptions made. That is not to say that no office development will take place. The development economics for owner occupiers are quite different to that for speculative development. The driver for new development of office premises by owner occupiers is often to achieve business efficiencies, rather than to generate development profit; as such development by owner occupiers remains a distinct possibility. Furthermore, office floorspace could be delivered as part of a mixed use development which could be cross-subsidised by more viable uses.

7.4.2 We have concluded that, based on our research and the assumptions made, speculative industrial and warehouse development in Craven is not currently viable. However, as we note with regards to offices, development by owner occupiers remains a possibility even in current market conditions.

7.4.3 The latest guidance to local authorities on CIL states that '*Where viability is low or zero, then charges should be low or zero'.*

8 Retail Viability Assessments

8.1 Introduction

8.1.1 In this section, we provide an overview of the market of retail development in Craven, assess the viability of different forms/uses for retail development and use this analysis to make recommendations about a sensible level of CIL charge for this use.

8.1.2 Our assessment takes as its basis the different types of retail development likely to take place in Craven, each of which has materially different characteristics, in particular rental values, yields, build cost and land acquisition costs. The types of development assessed are:

- 'High Street' Comparison Retail – Defined as development for comparison retail use within the main centres of Craven. Development within these centres will have to overcome high land acquisition costs, compared to other locations. Typically development will be 1 or 2 storeys within or as an extension to the core shopping area, that often set new headline rental levels in the market. Site coverage is usually high, with only 10-20% of site area undeveloped for public realm and service access.

- Retail Warehouses – Retail warehouses are usually large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods. They can be stand-alone units, but are also often developed as part of retail parks. In either case, they are usually located outside of existing town centres and cater mainly for car-borne customers. As such, they usually have large adjacent, dedicated surface parking.

- Supermarkets – Supermarkets provide a very wide range of convenience goods, often along with some element of comparison goods also. Most customers use supermarkets for their main weekly shop, using a trolley to buy a large number of different products. The vast majority of custom at supermarkets arrives by car, using the large adjacent car parks provided.

8.1.3 In addition to the above, some development of smaller scale convenience retail space in out of centre locations might take place, although it is unlikely to be significant in scale, nor is it critical to the delivery of the Plan's objectives. Often, such uses occupy buildings being converted to retail use, rather than the new development providing net additional floorspace. As such, these developments would not attract a CIL charge if one was put in place. These stores tend to be located within residential areas and provide only a limited range of convenience goods. Their catchment is very localised and the cater principally for 'top-up shopping' comprising a small number of items that can be carried by hand or in a small basket. The vast majority of custom will access the store on foot and as such there are no large adjacent car parks. Any development of this type is unlikely to generate significant value as a commercial property proposition to warrant specific assessment for the purposes of CIL.

8.2 Market context

'High Street' Comparison Retail

8.2.1 High Street comparison retailing nationwide is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. Developers in the sector have therefore been going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.

Retail Warehousing/Retail Parks

8.2.2 We have also considered retail warehouse development. This is commonly located out of centre, often on or close to major roads. It has been less prevalent in recent years as planning policy has adopted a town centre first approach which still applies. However, there is still the potential for such development.

8.2.3 Retail warehousing traditionally offered bulky comparison goods. They are large stores specialising in the sale of household goods (such as DIY items and other ranges of goods catering mainly for car-borne customers). As a property class it has continued to perform relatively well with new operators entering the sector, which has had a beneficial impact on values and viability.

Supermarkets

8.2.4 Convenience retailing is the provision of everyday essential items including food, drinks, newspapers/ magazines and confectionary. The sector is dominated by superstores and supermarkets offering a wide range of these types of goods with supporting car parking.

8.2.5 The convenience retail sector is one of the best performing investment assets in the UK, with the main operators seeking to expand and seek a greater degree of market share by the development of new store formats and the securing of prime locations both in town and out of town.

8.2.6 Development is likely to primarily comprise new supermarkets. As such, these are the basis of the viability assessments in terms of key assumptions. Smaller stores will attract lower rental values and will have high yields, and will therefore be substantially less valuable. Small convenience stores that are not generally used for the ‘main weekly food shop’ are therefore excluded from this assessment.

8.3 Information Sources

8.3.1 As with our office and industrial assessment, the approach taken to establishing the likely values of new development was to review recent rental and investment transactions in Craven and, where appropriate, from a wider geographical area (for example, supermarket rental values and yields tend to be relatively consistent across broader geographic areas than ‘high street’ retail).

8.3.2 Cost data for retail development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for Craven.

8.3.3 In addition to transactional data that provided intelligence on prevailing yields, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE’s ‘Prime Rent and Yield Monitor Q1 2012’. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Craven and ‘prime’ locations.

8.3.4 Our initial conclusions as to the likely rental values and yields of each development type were tested through consultations with locally active agents and developers, and revisions made to reflect comments received where it was justified by evidence to do so.

8.3.5 Assumptions on land and purchase costs have been informed by the Valuation Office Agency’s Property Market Reports, specifically the July 2009 version and the January 2011 version (the latest report, but which only provides figures for Leeds and Sheffield in Yorkshire and The Humber). This information was supplemented by consultations with agents and developers.

8.3.6 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prima facie evidence that achieving viability is a challenge.

Assumptions

8.3.7 The assumptions that underpin the assessments are based on 'readily available evidence'. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not.

Table 8.1 Key Assumptions

Town Centre Comparison Retail		
	Rent per sq. m	*£250*
	Yield	*7.5%*
	Build cost per sq. m	*£860*
Retail Warehouse		
	Rent per sq. m	*£135*
	Yield	*7.5%*
	Build cost per sq. m	*£575*
Convenience Retail		
	Rent per sq. m	*£185*
	Yield	*5.25%*
	Build cost per sq. m	*£1,050*

8.3.8 Further assumptions are as follows:

- External works at 10% of build cost;
- Professional fees at 10-12% of build costs, depending on use;
- Likely residual s.106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Harrogate;
- Marketing and cost of sales at 5% of development value;
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and

- Developer's margin at 20% of cost.

8.4 Appraisal Findings

8.4.1 The findings of the retail viability appraisals are set out in Table 8.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely s.106/278 costs is included, based on our experience of developments across the Borough.

Table 8.2 Appraisal Findings, Retail

	High Street' Comp. Retail	Supermarkets	Retail Park/W'house
Rent	£250	£185	£135
Yield %	7.50	5.25	7.50
Minus inducements	333	352	180
VALUES	**3,000**	**3,171**	**1,620**
COSTS			
Land + Purchase Costs	1,000	425	200
Basic Build Cost	860	1,050	575
External Works	86	126	69
Fees	114	118	64
Section 106/m²	0	100	50
Marketing & Sales	150	159	81
Contingencies	53	65	35
Interest	206	182	96
Margin	494	425	224
Total Cost Benchmark	**2,962**	**2,648**	**1,395**
Values - Costs	**38**	**523**	**225**
Suplus margin (% on cost)	**1.3%**	**16.5%**	**13.9%**

	Costs exceed values
	Values exceed costs by less than 10%
	Values exceed costs by more than 10%

8.5 Conclusions

8.5.1 Craven's town centres are experiencing the same pressures as other retail destinations following the economic downturn and the difficulties facing a number of national retailers. Viability for new build comparison retailing is therefore potentially marginal across many town and city centres.[21] It is difficult to model the viability of town centre retail development as values are usually more sensitive to location and size of unit than office or residential development. Operators are very sensitive to footfall patterns, which can lead to large variations in values – even on the same street. Our response is therefore to adopt 'overall' rental values to understand the broad potential range of comparison retail viability in Craven's town centres and also an examination of development outside of the main shopping area using a broad average.

[21] Financial Times December 29 2011 *UK retail insolvencies expected to soar*

8.5.2 It is also very difficult to accurately estimate likely land acquisition costs, which are a major factor in redevelopment projects, given the fact that a large number of titles often have to be assembled. Our analysis suggests that town centre comparison retail development within Craven is currently at the margins of viability.

8.5.3 Our assessment of out of centre comparison retail is based on retail warehouse type developments. It assumes a typical scheme away from the defined town centres. Construction costs and rental values for retail warehousing are generally lower than for superstores, whilst yields are higher, reflecting the fact that some operators in the out of town retailing sector have struggled and failed during the recent recession. That said, other operators continue to perform strongly and are continuing to invest in additional retail warehouse space. The assessment shows that retail warehouses generate a surplus that could support a potential CIL charge.

8.5.4 Supermarket retail development continues to be one of the best performing sectors in the UK. Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions. Although there are some small regional variations on yields, they remain strong across the board with investors focussing primarily on the strength of the operator covenant and security of income. We would therefore suggest the evidence base for convenience retail can be approached on a wider regional or even national basis when justifying CIL charging.

8.5.5 Our testing of convenience retailing has focussed on larger out of town grocery stores. Whilst development costs are relatively high, the strength of covenant provided by their operators and the rents that they achieve outweighs these costs. We have concluded that convenience retailing is viable in Craven and generates a significant level of surplus.

8.5.6 In separately defining these retail uses, there is an issue as to how to treat developments where both are proposed. We recommend that CIL is levied at the rate of the principal use of the building. Therefore, where a supermarket development is proposed that is wholly or largely to be used for convenience retailing then it would attract the supermarket CIL charge, even if there is some element of comparison floorspace. It would be a matter for the planning authority to determine the principal use of the building proposed, but is likely to take account of the proportion of floorspace proposed by type.

8.5.7 In the small number of instances where an open A1-class permission is granted (as stated, usually on smaller schemes), we suggest that CIL be levied at the rate applied to comparison retail. The principal reason for this is that the evidence has shown comparison retail development to be less viable than convenience retail and therefore the application of a lower rate, based on then comparison retail charge would mean that development for which open A1 consent is granted is less likely to be rendered unviable. Conversely, applying the CIL charge, based on the convenience retail rate, may hinder the viability of some schemes. It is therefore prudent to charge the comparison CIL charge on an open A1 consent and, if convenience uses are brought forward, then any CIL underpaid should be recouped subsequently. This approach will need to be made clear in the conditions to any open A1 planning permissions. It may also be necessary to define the range of goods that would constitute a convenience retail store. This should be by the predominant type of goods sold.

9 Education, Health, Community and Emergency Services Facilities

9.1 Introduction

9.1.1 This section considers the potential for CIL charging on a range of traditionally non-commercial forms of development. We see this category as including, but not necessarily being limited to:

- Schools, including free schools;
- Community facilities, including community halls, community arts centres, and libraries;
- Medical facilities; and
- Emergency services facilities.

9.1.2 Both the state-funded health and education sectors face the pressure of on-going severely constrained public resources and this is likely to have an effect on the viability of development of such uses.

9.2 Viability analysis

9.2.1 A number of these facilities may be delivered in Craven over the plan period and would potentially occupy net additional floorspace (thereby creating development which is liable for CIL).

9.2.2 We do not recommend that the council proposes to levy a CIL charge on these uses, for the following reasons:

- Ordinarily it is not possible to deliver new capital build state-led community, health, emergency services or education projects (including free schools, which are state provided) without funding support of the type that CIL is hoping to create. Raising a CIL against these uses would simply result in a circular funding stream that would require a return of the CIL funds raised to these uses. This would, amongst other things, incur management costs and so be inefficient.
- Completed developments of these types are not commercial in nature. They do not have a commercial value in themselves. They therefore do not create a residual site value. In other words, considered from a commercial perspective, such developments are not viable.
- Non-state education projects such as private schools generally have charitable status. They will therefore be exempt from CIL. There is therefore no point identifying a separate charge in the schedule.

9.2.3 Primary care facilities that are predominantly occupied by GPs; there is a commercial market for properties of this sort. We have analysed the price paid for completed investments across the country by specialist investors in the field and concluded that, again, the sites used are usually sourced on a preferential basis and the land values generated are not significant in most cases. It is possible that privately-funded BUPA-type health provision might be developed, but this is likely to be *de minimis*.

9.3 Scope for a CIL Charge

9.3.1 Given that these facilities are commonly and predominantly not commercially-driven developments, it is considered that there can be no evidence to justify a CIL charge for such uses. Indeed, there is simply no evidence to suggest that 'value capture' could be achieved from such uses which usually require public funding to be delivered.

9.3.2 We recommend that the proposed level of charge for these types of infrastructure development is zero.

10 Sui Generis

10.1 Introduction

10.1.1 By their very nature, sui generis uses cover a very wide range of development types. Our approach to this issue has been to consider the types of premises and locations that may be used for sui generis uses and assess whether the costs and value implications have any similarities with other uses.

10.2 Types of Development and Likely Viability

10.2.1 The other types of development we have considered are:

- **Hostels** (providing no significant element of care) – these are likely to be either charitable or public sector uses such as probation hostels, half-way houses, refuges etc., or low cost visitor accommodation such as youth hostels. Our view is that the charitable uses are dependent upon public subsidy for development and operation, and therefore not viable in any commercial sense. Youth Hostels are operated on a social enterprise basis with small financial returns. Neither of these scenarios offers significant commercial viability.
- **Scrapyards** – it is unlikely that there would be new scrapyard/recycling uses in the borough in the future, even given the potential for the price of metals and other materials to rise. They are unlikely because of the comparatively low value compared to existing uses in Craven. A further consideration is that these uses are likely to occupy the same sorts of premises as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Petrol filling stations** – we are aware that recent new filling stations have generally come forward as part of larger supermarket developments, with independent filling stations closing. It seems unlikely that there will be significant new stand-alone filling station development in Craven.
- **Selling and/or displaying motor vehicles** – sales of vehicles are likely to occupy the same sorts of premises and locations as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Nightclubs** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Launderettes** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Taxi businesses** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Amusement centres** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.

Scope for a CIL Charge

10.2.2 Given the minimal scale of development likely to occur for these uses, the likelihood that they will be changes of use rather than new development and their relatively marginal viability, we propose either a nominal base charge or a zero charge.

11 Charge Rate Options

11.1 Introduction

11.1.1 This section of the report sets out how we approach identifying potential CIL charging rates, based on the viability evidence presented above. This is achieved by first establishing the maximum potential rates that are consistent with maintaining the viability of the bulk of planned growth, and then drawing away from that theoretical maximum to determine an appropriate level of charge.

11.1.2 We present this exercise separately for residential and non-residential uses and bring the conclusions together into a summary table that can form the basis for the preliminary draft charging schedule.

11.2 Residential Development

11.2.1 The findings in Section 6 showed the maximum potential CIL charge rates for residential development. Table 11.1 below repeats this information.

Table 11.1 Maximum Rates and Recommended Ranges

Scenario	Margin Before CIL	Maximum Rate (per sq. m)
Lower value	25.1%	£75
Medium Value	25.6%	£94
Higher Value	26.6%	£108

Proposed Charge Ranges & Rates

11.2.2 As mentioned previously, it is necessary to draw away from these theoretical maxima in setting a charge rate, in order to take account of potential market changes and sites where costs may be slightly higher than typical and/or values somewhat lower. The need to balance generating adequate revenues to fund infrastructure delivery with maintaining the viability of development is the key test in this respect.

11.2.3 To achieve this balance, our approach is that charge rates should be between 50% and 75% of the identified theoretical maximum. This range is applied to show that the charge rate is based on an equitable proportion of the 'surplus' development value and is contributing to the CAs CIL revenues, whilst also demonstrably drawing down from the ceiling of viability. Where within this range the charge is set, can be considered a matter of discretion for the CA, taking account of their attitude to risk in respect of the scale and rate of development likely to come forward in future.

11.2.4 Simplicity in the charging schedule is also extremely desirable. As such, when seeking to set a charge rate for each market area, it is sensible and appropriate to take the 'lowest common denominator' of the scenarios assessed for each. Our assessment and proposed residential charge rates are set out in Table 11.2 below.

Table 11.2 Proposed Charge Rates

Margin pre-CIL (% on cost)	Proposed Charge Range	Suggested Rate	Margin post-CIL (% on cost)
25.1%	£42-£64	£45	22.4%
25.6%	£47-£70	£45	22.9%
26.6%	£54-£81	£45	23.6%

11.3 Non-Residential Development Viability

11.3.1 The findings of the non-residential viability appraisals are set out in Table 11.3. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely s.106/278 costs is included, based on our experience of developments across the Borough.

11.3.2 The shaded row at the bottom of each table shows the viability[22] of development based on the following traffic light assessment:

- Red shaded cells show those uses for which there is a negative residual value after all costs (including developer's margin) are taken into account (i.e. development costs are higher than development value by greater than 10%);
- Amber cells show those uses which are viable, but where values exceed costs (including developer's margin), by less than 10% and could be considered marginal;
- Green cells show those use types where the residual value is greater than 10% of cost and can be considered viable.

11.3.3 The 10% 'buffer' over and above normal developers margin is to take account of the greater inherent uncertainty in assessing the viability of commercial development in a generic and high level manner, as well as the additional risk involved in undertaking speculative commercial development.

11.3.4 As can be seen from Table 11.3 below, on viability evidence alone, only supermarket and retail warehouse development are comfortably viable as speculative developments on the basis of the assumptions made. We consider charge rate options for these uses further below. For uses that the assessment shows to be typically unviable or marginal on a speculative basis, that does not mean that no development will take place. Development either by owner occupiers for whom the development economics are different or on sites where the land was acquired for a low value remains plausible. Where such development is forthcoming CIL revenues could be captured by means of a base charge.

[22] This traffic light assessment must be treated with caution, as explained earlier; the appraisals are based on a strategic approach and in no way represent site specific valuations.

Table 11.3 Non-Residential Viability Assessments

	Town Centre Office	Business Park Office	Industrial	High Street' Comp. Retail	Supermarkets	Retail Park/W'house
Rent	£130	£140	£60	£250	£185	£135
Yield %	9.00	8.50	8.75	7.50	5.25	7.50
Minus inducements	144	165	69	333	352	180
VALUES	**1,300**	**1,482**	**617**	**3,000**	**3,171**	**1,620**
COSTS						
Land + Purchase Costs	50	40	40	1,000	425	200
Basic Build Cost	1,250	1,200	600	860	1,050	575
External Works	125	120	60	86	126	69
Fees	165	132	66	114	118	64
Section 106/m²	0	10	10	0	100	50
CIL	0	0	0	0	0	0
Marketing & Sales	65	74	31	150	159	81
Contingencies	77	73	36	53	65	35
Interest	159	150	78	206	182	96
Margin	378	358	182	494	425	224
Total Cost Benchmark	**2,269**	**2,157**	**1,103**	**2,962**	**2,648**	**1,395**
Values - Costs	**-969**	**-674**	**-486**	**38**	**523**	**225**
Suplus margin (% on cost)	**-74.6%**	**-45.5%**	**-78.7%**	**1.3%**	**16.5%**	**13.9%**

11.3.5 Table 11.4 below, shows what the maximum possible charge rates, consistent with the bulk of development remaining viable, would be in Craven. For those uses where the surplus is greater than 10% of costs (after developer's margin at 20%, which is built in to the assessment), we have tested the maximum extent of CIL charge that could be accommodated whilst still retaining a surplus of 10% of costs to act as a 'buffer' from the ceiling of viability.

Table 11.4 Maximum Charge Rate Assessment

	Supermarkets	Retail Park/W'house
Rent	£185	£135
Yield %	5.25	7.50
Minus inducements	352	180
VALUES	**3,171**	**1,620**
COSTS		
Land + Purchase Costs	425	200
Basic Build Cost	1,050	575
External Works	126	69
Fees	118	64
Section 106/m²	100	50
CIL @ Max	**207**	**64**
Marketing & Sales	159	81
Contingencies	65	35
Interest	182	96
Margin	425	224
Total Cost Benchmark	**2,855**	**1,459**
Values - Costs	**316**	**161**
Suplus margin (% on cost)	**10.0%**	**10.0%**

11.3.6 The assessment in Table 12.4 shows that the maximum possible charge for supermarket development, that is consistent with keeping the residual margin at over 10% of cost is £207 per sq. m. The equivalent figure for retail warehouse development is £64 per sq. m.

11.4 Base Charge

11.4.1 The CIL regulations state that Charging Authorities must balance the viability of development with the need to fund infrastructure investment. Therefore, it is within the discretion of the Charging Authority to decide whether a base charge should be applied to all development, recognising that some development may take place and if it does, it will have infrastructure implications. Obviously, such a charge would have to be at a level where it is unlikely to be the determining factor as to whether a development takes place or not. Such a 'de minimis' base charge could be pegged at a ceiling of 1% of the cost of development of the lowest cost development – industrial – which equates to approximately £10 per sq.m.

11.5 Recommended Non-Residential CIL Charge Options

11.5.1 We set out below our recommended range for potential CIL charges on these core commercial forms of non-residential development. In the case of each use, we propose a range for any CIL charge that takes account of the need to withdraw from the ceiling of viability. The extent to which the charge draws away from this theoretical maximum is informed by the authority's attitude to development risk, confirmed by discussions with the project steering group and feedback from Council members. The council will need to consider how the quantum and pace of development would be affected by the level at which CIL is set. If imposing a higher CIL charge could result in less development coming forward and at a slower rate than anticipated, the council will need to assess whether this is acceptable given its Core Strategy aspirations. If it is felt that delivery would be put at significant risk, the council should give careful consideration to setting a CIL charge which is further lowered from the theoretical maximum charge.

11.5.2 These findings are summarised in the Tables 11.5 below.

Table 11.5 Non-residential maximum and recommended range of CIL charges

Use	Maximum CIL charge (per sq.m)	Recommended range (per sq.m)
Supermarkets	£207	£103-155
Retail warehousing	£64	£32-48
Town centre office	n/a	£0-10
Business park office	n/a	£0-10
Industrial and warehousing	n/a	£0-10
'High Street' comparison retail	n/a	£0-10
Education, health & community facilities	n/a	£0

12 Preliminary Draft Charging Schedule & Revenue Projections

12.1 Introduction

12.1.1 In this Section, we make recommendations on the content of a Preliminary Draft Charging Schedule, bringing together the conclusions of the preceding sections. We then use these proposed charge levels to calculate the likely level of CIL income over the plan period assuming the envisaged scale of development takes place.

12.2 Proposed Preliminary Draft Charging Schedule

12.2.1 Table 12.1 below summarises the findings and recommendations of the previous sections of this report into a clear and simple proposed charging schedule. The charges set out below reflect the viability evidence and comply with the CIL regulations in every respect, as we understand them. We believe that it is exactly this kind of clarity and simplicity that is being and will be sought by inspectors.

Table 12.1 Proposed Charging Schedule

Use	Proposed CIL charge (per sq.m)
Private market houses	£45
Supermarkets*	£140
Retail Warehouses*	£45
Public/Institutional Facilities as follows: education, health, community and emergency services	£0
All other chargeable development	£0-10

*As defined in para 6.1 of this report

12.2.2 As identified in Section 2, in the words of the statutory guidance:

> *'There is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism'*[23]*.*

12.2.3 As such, there remains scope for the Charging Schedule to be amended at the discretion of the council.

12.3 Revenue Projections

12.3.1 In order to give the council a broad indication of the likely potential income from CIL, we set out below in Table 12.2 an assessment of the scale of development of each type likely to be forthcoming over the plan period, and the CIL revenues it would generate at the proposed charging rates. It also provides an annualised figure in the final column.

[23] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Para 28)

Table 12.2: Revenue Projection

	CIL Charge per sq.m	No. units in plan period (note 1a)	Market units (note 1b)	Unit floorspace (sq. m) (note 2)	Gross floorspace (sq. m) (note 3)	Estimated net additional proportion	Estimated net additional floorspace (sq. m)	Estimated CIL revenue in plan period	Estimated annual CIL revenue
Residential									
Houses	£45	3,250	2,112	110	232,320			£10,454,400	696,960
Non-residential									
Retail warehouses	£45				2,000	95%	1,900	£85,500	£5,700
Supermarkets	£140				2,000	50%	1,000	£140,000	£9,333.33
Offices & Industrial	£0				97,200	95%	92,340	£0	£0
Other chargeable	£0				10,000	95%	9,500	£0	£0
Total								£10,679,900	£711,993.33

Note 1a: based on 250 per annum from 2013-2026

Note 1b: affordable housing is not liable for CIL. We assume that an average of 35% affordable housing is achieved.

Note 2: the average unit size is based on our analysis of new build properties

Note 3: office and industrial floorspace relates to the figure of 21ha in the Core Strategy. This is converted into floorspace based on the 85:15 split between industrial and offices with industrial at 40% site coverage with 1 storey, business park offices at 40% site coverage with 4 storeys, and town centre offices at 75% site coverage with 4 storeys.

Note 4: CIL is levied on net additional floorspace, so an allowance is made for existing buildings demolished to make way for new development.

Note 5: revenue projections are based on allocated figures and therefore these projections do not take windfall sites into consideration.

13 Conclusions and Implementation

13.1 Conclusions

13.1.1 This study provides an area-wide and broad brush assessment of the viability of development, covering all of the broad types and locations of development likely to come forward over the plan period. Its purpose is to aid the understanding of where affordable housing can be considered viable and whether once these considerations have been taken into account, there is potential for a CIL charge.

13.1.2 Our findings are that the affordable housing requirements tested through this study show that 35% provision would not render development unviable whilst still providing effective levels of affordable housing. The vast majority of residential development scenarios are demonstrably viable, even at lower sales value scenarios taking account of affordable housing.

13.1.3 Speculative office and industrial development is shown to be currently unviable in Craven, as is the case in most parts of the country. However, some development may still occur where pre-lets are secured, by owner-occupiers or in cases where site development characteristics are particularly favourable. The cause of these uses being unviable is not policy requirements, but rather wider economic conditions, which are projected to improve over the plan period. Such improvement should mean the viability of office and industrial uses will also improve and may well do so to a point where speculative development becomes a possibility again.

13.1.4 Retail uses, particularly supermarket developments and retail warehousing are shown to be viable in current market conditions and in the context of policy requirements upon them. High street retail development is assessed to be of marginal viability. As ever, the challenge in bringing forward such developments is the very high cost of assembling development sites.

13.2 Implementation

13.2.1 This final section of our report sets out some of the issues involved in adopting and implementing the CIL.

Exceptional Circumstances & Discretionary Relief

13.2.2 Affordable housing is automatically exempt from paying CIL. In addition, the authority has the option to offer discretionary relief from CIL charges where the landowner is a charitable body and if the development is in line with its charitable purpose. This is a decision taken locally, although there are detailed rules governing entitlement to such relief and its amount. The CA must publish its policy for giving relief in such circumstances.

13.2.3 A CA can also give relief from the levy in exceptional circumstances, for example where a specific scheme would not be viable if it were required to pay the levy and a signed s.106 agreement that was greater than the value of the CIL charge applicable. Where a CA wishes to offer exceptional circumstances relief it must first give notice publicly of its intention to do so. Claims for relief on chargeable developments from landowners should then be considered on a case by case basis. In each case, an independent person with suitable qualifications and experience must be appointed by the claimant with the agreement of the CA to assess whether:

- the cost of complying with the signed s.106 agreement is greater than the levy's charge on the development; and
- paying the full CIL charge would have an unacceptable impact on the development's economic viability.

13.3 Instalment Policy

13.3.1 Regulation 69B sets out the simplified criteria for enabling a charging authority to instigate an instalments policy for CIL payments. The policy should only contain the following information:

- the effective date of the policy, and number of instalment payments;
- the amount or proportion of CIL payable in any instalment;
- when the instalments are to be paid based on time from commencement; and
- any minimum amount of CIL below which CIL may not be paid in instalments.

13.3.2 It will be useful to assess the general timeframes for the delivery of development schemes and then consider the phasing of the payments. A possible starting point could be a phased schedule of payments spread over two to three years with two or three payments over this timeframe. This will reduce the financial burden on developers who need to invest up front in infrastructure and construction before they can recoup any development costs through disposals. The council may wish to consider a minimum amount below which CIL may not be paid in instalments. Any such decision will need to be informed by an assessment of the level of 'smaller' developments that are anticipated.

13.3.3 Developments which are likely to have a more significant cashflow implication are likely to be those which have a construction period which extends beyond a year or where the scale of the charge exceeds approximately £100,000 (very broadly equal to likely charge from 20 houses).

13.4 Administration charges

13.4.1 There is provision within the CIL Regulations (Regulation 61) to use up to 5 per cent of the CIL receipts towards the administration and set up expenses related to the operation and management of the levy. This will provide the Charging Authority with a useful source of funding to take a proactive approach towards infrastructure delivery and explore opportunities for generating revenue as well as charging.

13.4.2 The viability assessments undertaken as part of this study have not taken account of any additional administration charges that may be levied on developers; rather, they have assumed that the administration charge will be drawn from the levy as proposed.

13.5 Use of CIL Receipts for Revenue Purposes

13.5.1 The CIL Regulations do allow for CIL receipts to be used for revenue purposes, (maintenance, management etc). However, the clear primary intent of the CIL is to deliver a pot of funding for capital investment in essential infrastructure, rather than to plug shortfalls in revenue budgets. In order to maximise the social and economic benefits of CIL, it is important that capital infrastructure spending is prioritised over revenue spending on maintenance and the like.

13.5.2 Therefore, it is recommended the CIL receipts in Craven will only be used for revenue spending in highly exceptional circumstances. It is important that other approaches to resolving any revenue budget problems, particularly approaches to negotiating and securing Commuted Sums, is fully exhausted before any calls on CIL receipts are made for revenue purposes.

13.6 Monitoring and Review

13.6.1 There are no prescribed review periods for a CIL charging schedule; it is a decision for the CA. We would expect this period to be between three to five years, although much will depend on market conditions and their impacts on development viability, as well as additional lessons learnt from the implementation of the CIL.

13.6.2 Clearly, the viability of most forms of development has been negatively affected by the recent recession and could be considered to be at or close to the trough in the market cycle at this time. We suggested that the council implements a programme of monitoring market conditions in relation to a series of trigger points for a review. We suggest this monitoring takes place on a 6-monthly basis.

13.6.3 It is known that development viability is most sensitive to changes in development value. Typically a 10% change in the value of development can increase or decrease viability by c30%. Similarly, a 10% change in build costs can affect development viability by c20%. Other factors which have a significant impact on viability include the density of development and policy requirements, both of which are likely to stay broadly the same over the time period being considered.

13.6.4 We therefore propose the following guidelines: If three or more of the following criteria are met, then a full review of the Charging Schedule should be considered:

- a 5% change in residential sales values since the date of adoption;
- a 10% change in residential build cost since the date of adoption;
- a 10% change in office rental values since the date of adoption;
- a 10% change in office yields since the date of adoption;
- a 10% change in office build costs since the date of adoption;
- a 10% change in industrial rental values since the date of adoption;
- a 10% change in industrial yields since the date of adoption;
- a 10% change in industrial build costs since the date of adoption;
- a 10% change in town centre comparison retail rental values since the date of adoption;
- a 10% change in town centre comparison retail yields since the date of adoption;
- a 10% change in town centre comparison retail build costs since the date of adoption;
- a 10% change in supermarket rental values since the date of adoption;
- a 10% change in supermarket yields since the date of adoption;
- a 10% change in supermarket build costs since the date of adoption;
- a 10% change in retail warehouse rental values since the date of adoption;
- a 10% change in retail warehouse yields since the date of adoption;
- a 10% change in retail warehouse build costs since the date of adoption;

13.6.5 A review of the Charging Schedule should automatically occur if:

- The rate of residential development falls below 50% of the long term average for two consecutive years; or

- There is a significant revision to or departure from the Development Plan or a major windfall development is permitted.

13.6.6 It should be noted that there is a requirement for the Charging Authority to publish a report on its website at the end of each year showing the level of CIL receipts collected and how these have been utilised.