ADAMS INTEGRA

Winchester City Council

WINCHESTER CITY COUNCIL

VIABILITY POSITION PAPER

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Contents

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1. Introduction

1.1 The viability evidence formally submitted to the CIL examination has been prepared by independent consultants Adams Integra, and comprises:

- **Community Infrastructure Levy Residential Viability Reports November 2012,** residential and non-residential uses.

- Further assessment work in response to representations submitted to the respective consultations on the Preliminary Draft and Draft Charging Schedule, namely the **Winchester City Council CIL Addendum Report, April 2013** and additional **Advice Note, June 2013**.

1.2 To assist the CIL examination this paper provides an overview of all the previous technical work, including earlier viability studies in 2010 and 2012, and an explanation as to how our conclusions and recommendations have shaped Winchester's proposed CIL regime.

1.3 By way of context, we first summarise the relevant guidance, and how this has shaped our adopted methodology.

2. Summary of Guidance

2.1 The objectives of the studies have been set by the requirements of the Community Infrastructure Levy Regulations 2010 (as amended), and our assessments have also been shaped by the requirements of the National Planning Policy Framework. In producing the studies, we have had regard to current viability guidance, issued by the Government (Department of Communities and Local Government), its Homes and Communities Agency, the Royal Institution of Chartered Surveyors (RICS), and the Local Housing Delivery Group.

2.2 The RICS Financial Viability in Planning [1st Edition] guidance document provides a framework of principles and methodology. The guidance defines financial viability for planning purposes as follows:

> "An objective financial viability test of a development project to meet its costs, including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project."

2.3 Further guidance comes from the Local Housing Delivery Group, whose report "Viability Testing Local Plans" was published in June 2012. We have noted the key principles that are set out in that report and which have been relevant to the Winchester studies, namely:

- We should consider the cumulative impact of plan policies.
- Viability cannot guarantee that every development in the plan period will be viable. However, plan policies should produce viability for the sites, on which the plan is relying.
- A demonstration of viability across time and local geography will be of value to local decision-making.
- The report is not suggesting that the outcome of a viability assessment should dictate individual policy decisions. The role of the assessment is to inform decisions made by elected members.
- Viability testing does not require a detailed viability appraisal of every site anticipated to come forward over the plan period. Instead, a range of appropriate site typologies should be created and tested, reflecting the mix of sites, upon which the plan relies.

We confirm that our methodology has complied with the published guidance.

3. Methodology

3.1 Whilst we apply specific methodologies to individual reports, any viability study, whether for affordable housing, CIL, or a combination of both, is going to employ a common approach in many respects.

3.2 For studies of the type carried out for the Council, we are measuring the viability of different development scenarios, by assessing the land value produced by that form of development against a land value, in either its existing use or a realistic alternative use. The forms of development are drawn up as notional scenarios, in which we agree with the Council such matters as numbers of units and densities that are to be tested. In addition, further parameters might be added, for example different affordable housing proportions and tenures. The following headings are common in the context of this methodology:

3.3 Residual Land Value

3.3.1 This is a valuation technique, supported by the guidance, for both residential and non-residential property, that assesses a project's land value by deducting all the development costs, plus profit and finance, from the anticipated gross development value (GDV) upon completion. The land value is the "residue" that remains from the GDV, having made these deductions. It is vital that the inputs into these valuations are both relevant and accurate; the main inputs would, typically, be:

3.4 Sales Values

3.4.1 We research the sales values both on the ground and through online sources. The "on the ground" work involves visits to new developments, assessing both their locations and sales levels, as well as discussion with sales agents. Asking prices are discounted to an assumed dealing price for each relevant house type. From this research we produce a table, known as the Value Points table, that reflects the values of different house types in different locations throughout the plan area. For the purpose of the studies, we might propose up to eight value points, where value point 1 would represent the lowest values, and value point 8 would represent the highest values.

3.5 Build Costs

3.5.1 We derive build costs from both discussion with local developers and published data, such as the Build Cost Information Service (BCIS).

3.6 Fees, Profit and Finance

3.6.1 Any development project is going to incur fees relating to, for example, professional consultants, surveys and planning costs. Since we are dealing with notional development scenarios, we can only apply broad levels of fees and these are normally expressed as a percentage of the build cost. Profit is expressed as a percentage of the sales revenue and will rise or fall, depending upon the state of the market and the requirements of lenders. Profit levels today would be, typically, 20% on market housing and 6% on affordable housing. Likewise, finance costs will vary with prevailing conditions; today's rate would be around 7% plus arrangement fees and surveyor's costs.

3.6.2 Prior to the commissioning of a CIL viability assessment for Winchester City Council, Adams Integra undertook residential viability studies for the Council to assist in the preparation of the Local Plan Part 1 – Joint Core Strategy. These reports dealt with the relationship between development viability, the provision of affordable housing, and contributions towards infrastructure though S106 obligations and, potentially, S106 payments. This research therefore provides useful background as to our methodology and findings, and summaries of the Affordable Housing Viability Study dated April 2010 and the Viability Report of March 2012 - residential land uses are therefore attached as Appendices 1 and 2 respectively.

3.6.3 The CIL-specific evidence is now discussed in turn.

4. Community Infrastructure Levy Residential Viability Reports November 2012; Residential and Non-residential uses

4.1 These viability reports support the Council's proposed implementation of a Community Infrastructure Levy. This report builds upon and verifies the viability conclusions of the previous report of March 2012. We summarise the residential report first, before moving on to the non-residential report.

4.2 Residential

4.2.1 It is important to note here that the March 2012 report was subject to examination at the Council's Joint Core Strategy Examination, which took place at the end of October/early November 2012.

4.2.2 A basic premise of the November report was to take the 40% target for affordable housing, examined in relation to the Core Strategy, and assess the imposition of varying levels of CIL on this affordable housing base position. For completeness other levels of affordable housing were assessed within the November 2012 report, however the thrust of the Council's policy on affordable housing (along with other planning policies) was confirmed as sound in early February 2013.

4.3 The Residential Brief

4.3.1 The brief for this latest study was similar to that of the March 2012 report, but it reaffirmed the following two points:

1. It was agreed that the principle test in terms of affordable housing would be the emerging Joint Core Strategy position of a target of 40% affordable housing but that, as in the previous study, for comparative purposes we would test 30% and 35% targets.

2. Have regard to the previous study undertaken to assess the Council's affordable housing requirements.

4.4 The Residential Methodology

4.4.1 The methodology for this report is similar to that adopted for the March 2012 report, but with the following additional points:

4.4.2 We proposed that the existing use values should reflect residential, employment and agricultural, to which we would apply the following land values:

- Agricultural £450,000 per hectare

- Employment £900,000 to £1,500,000 per hectare
- Residential £2,200,000 per hectare

4.4.3 The employment threshold was expressed as a range to reflect the difference in land values between, say, rural areas and central Winchester.

4.4.4 We tested the same housing numbers, although the densities varied from 25 to 60 dwellings per hectare. As with the previous report, the build costs included the water element of code 4 and the energy element of code 5 of the Code for Sustainable Homes.

4.4.5 We tested the Core Strategy affordable housing target of 40%, but also considered proportions of 30 and 35%. As with the previous report, we tested a range of CIL levels against different development scenarios.

4.5 The Residential Conclusions

4.5.1 Many of the conclusions of this report are similar to those of the previous report. The main ones are set out below.

1. We found it appropriate to adopt the three different geographical areas that the Council has previously identified in its document "Plans for Places".

2. Potential housing numbers from existing residential sites make up a small proportion of total supply. We believed, therefore, that due consideration should be given to non-residential existing uses.

3. The policy to encourage smaller family units had a bearing on the assumptions that can be made in respect of housing mixes and total floor area achieved on a site.

4. It should be noted that this exercise was taking place at a time of considerable market uncertainty, with international issues generating weak levels of housing transactions and very small movements in house prices. Whilst Winchester would normally be considered a more buoyant location, it has not escaped the impact of the reduction in housing market activity.

5. Lower levels of value in locations such as Whiteley and Waterlooville resulted in reduced levels of viability, which was exacerbated by the higher build costs involved to achieve the water requirements of Code Level 4 and Code Level 5 for energy similarly the infrastructure burden of the North of Winchester Strategic site merited further consideration. It is important to note that the green field strategic sites at Whiteley, west of Waterlooville and north of Winchester rely

on a considerable infrastructure burden in order to bring the sites forward for development. That critical infrastructure when costed means that the sites cannot achieve any CIL as well as the essential on-site infrastructure requirement, and where possible affordable housing, to be provided through extant or proposed S106 obligations.

6. We do see viability for these locations, however, with no affordable housing or infrastructure requirement under some circumstances.

7. The outcomes in which we are testing differing proportions of affordable housing, including affordable rent at 80% market rent, indicate that there would be viability in most scenarios. We pointed out, however, that there could be viability issues in some market town locations, where an office use could be a realistic alternative to residential. When we tested 40% affordable with social rent, instead of affordable rent, we saw greater viability problems building up, even in Winchester.

8. The degree to which Community Infrastructure Levy can be charged on a site would vary according to the level of other costs that are imposed. In Value Point Areas 3, 4 & 5, at 40% affordable housing proportions, there was viability in most circumstances at rent levels below 80% of market rent.

4.6 The Residential Recommendations

4.6.1 We recommended that the Council should consider a zero CIL charge for the three Strategic Housing Allocations at West of Waterlooville, North of Whiteley and North of Winchester and also on small infill sites within the South Hampshire Urban area and separate residential CIL charges for the Market Towns and Rural Area, and Winchester. Specifically we recommended:

Value Point/Typology	Location	Recommended CIL
Value Point 2 and Strategic Housing Allocations	Infill sites within the South Hampshire Urban area and the Strategic Housing Allocations- North of Whiteley, North of Winchester and West of Waterlooville	£0
Value Point 3	Market Towns and Rural Areas	£80
Value Point 4	Winchester Town and immediate locality	£120

4.6.2 We recommended that the Council carries out regular reviews of local house prices, in order to assess likely ongoing viability trends. In the event that a broader assessment of prices was considered appropriate, then we suggested that this be done by reference to a widely published index, such as the Nationwide House Price Index (Outer South East).

4.7 Non-Residential Report

4.7.1 The non-residential report was part of the November 2012 study. It is summarised under the same headings.

4.8 The Non-Residential Brief

4.8.1 The brief was fundamentally similar to the residential part of the study, in that the Council was looking for a report that would support their proposed implementation of a Community Infrastructure Levy. We were asked to assess the viability of a range of non-residential uses, as set out below:

Retail	Classes A1 to A5
Offices	Class B1a
Industrial	Class B1b and c, B2 and B8
Hotels	Class C1
Residential Care/Nursing Homes	Class C2
Student Accommodation	Sui Generis
Community Facilities	Class D1
Leisure	Class D2

4.9 The Non-Residential Methodology

4.9.1 This followed similar principles to the residential methodology, in that a residual land valuation appraisal was used to assess the land value attributable to a particular form of development. This is then assessed against a viability threshold.

4.9.2 As with the residential appraisals, we look to generate a capital value from which development costs are deducted to arrive at a residual land value. In the non-residential sector, however, this capital value is the product of passing rents and yields, each of which can have a significant bearing on the valuation outcome.

4.9.3 We produced a range of threshold site values from discussions with local agents, as well as from published data. These site values were based upon an assumption that the new development would be replacing an existing building, whose floor area was 50% of the new build floor area. The same rent and yield principle was then applied to arrive at a capital value that would represent an existing use value.

4.10 The Non-Residential Conclusions and Recommendation

4.10.1 We concluded that the different non-residential uses could take the levels of CIL, as set out below, and we recommended that the Council should give consideration to these rates.

Office		£0
Hotel		£70
High Street/Centre Retail	Winchester centre	£120
	Other areas	£0
Convenience stores, supermarkets & retail warehouses		£120
Industrial/warehousing		£0
Student Accommodation		£0
Residential and non-residential institutions		£0
Any other development		£0

5. CIL Charging Schedule Consultation

5.1 In accordance with the CIL Regulations the Preliminary Draft Charging Schedule and its evidence base was published for consultation between late November 2012 and early February 2013, with the second consultation on the Draft Charging Schedule from early April to late May 2013. Adams Integra's brief was to assess the technical issues in respect of viability identified by respondents and to advise the Council accordingly.

5.2 Consultation on the Preliminary Draft Charging Schedule

5.2.1 The consultation generated a number of objections and comments, which Adams Integra were instructed by the City Council to review and provide a recommendation on the response.

5.2.2 Areas of concern raised in regard to the first consultation include:

- Concern regarding some of the appraisal inputs used in the viability assessment.
- The land values used were too simplistic.
- Property prices do not reflect true values.
- There was not enough evidence to justify build costs and specification.
- Adverse ground conditions etc not taken into account.
- Levels of contingency, fees etc.
- Lack of viability buffer.
- Impact of imposition of CIL on retirement development/extra care.
- Concern at the level of CIL charged on supermarkets.
- Concern at definitions of food and non-food retail.

5.2.3 Adams Integra gave these comments careful consideration and provided the Council with clarification on these topics to feed in to the processes required by the Council and its committees as well as to meet the Councils statutory requirements under the CIL Regulations.

5.2.4 Adams Integra reported on these topics and recommendations for change if necessary and provided further clarification in a draft Addendum Report dated February 2013. This suggested that further appraisal and modelling work would need to be undertaken principally to consider the concerns expressed regarding the retail recommendation and secondly in regard to retirement housing. Further work was also required in respect of the definitions for each non-residential use and some of the default inputs made in the toolkit used to assess viability.

5.2.5 Subsequently that appraisal work was undertaken and reported to the Council in the **Winchester City Council CIL Addendum Report dated April 2013**. To support that report the following work was undertaken:

- Sensitivity analysis to consider objectors scenarios for build cost, revenue amendments and fees, in effect retesting viability with respondents variations in mind.

- Further appraisals to support the retail recommendation

- Further appraisals to support the recommendations for C2 and C3 extra care and retirement housing.

- Refinement of definitions.

5.2.6 It was Adams Integra's view at the time that we would not recommend any change to the proposed CIL rates.

5.3 Consultation on the Draft Charging Schedule

5.3.1 Following the instruction outlined above the Council consulted on their revised Draft Charging Schedule in early April 2013 with a closing date of 24 May 2014.

5.3.2 A number of respondents reiterated concerns expressed in the first round of consultation and respondents on the C2/C3 retirement development viability assumptions presented additional information.

5.3.3 As some respondents sought further justification of the explanation and findings given in the Addendum report, further sensitivity analysis was undertaken.

5.3.4 An assessment was made of the objections received once the consultation had concluded and further clarification provided to the City Council in a series of technical notes and appraisals that allowed officers to recommend to Cabinet and Council a final position on the submission Draft Charging Schedule and accompanying Modifications**.** The technical note, entitled **Notes to accompany responses to consultation representations** (June 2013) is attached as Appendix 3 and provided:

- Assessment of additional retail S106 and S278 costs.

- Explanation of the residential buffer calculation.

- Advice on the special circumstances pertaining to retirement schemes particularly in terms of extended sales, the need to complete buildings before sale and particular costs.

- Advice on rural worker housing.

5.3.5 Scenarios were tested to consider the different build costs and fees suggested by respondents along with a range of contingencies. Sensitivity testing was undertaken to assess the impact of some or all of the changes suggested. It was considered that the respondents' cases provided insufficient justification for amending the recommended CIL rates.

5.3.6 However, a key finding of this further assessment of the respondents' evidence was that in terms of retirement housing there were particular circumstances which differentiate this type of housing from mainstream (not age restricted) C3 housing. On the basis of the additional information submitted by the respondents and our assessment thereof, Adams Integra were able to recommend an amendment to the level of CIL to be charged for retirement housing schemes where a lower CIL appeared appropriate.

6. Key Conclusions

6.1. In addition to the recommendations on charging rates and locations as set out in our two main reports (2012) and the Addendum and Additional Notes (2013), we can also summarise our extensive assessment research by setting out some of the key conclusions:

1. The studies have taken place at a low point in the residential sales market. This impacts on sales values, finance rates and profit levels. We have, therefore, recommended that periodic reviews should take place, as and when market improvements are seen (as possibly suggested by current indicators).

2. The studies were based on a 40% on-site affordable contribution tested through the Council's Joint Core Strategy, and found to be sound in February 2013.

3. Viability was improved with the use of affordable rent, as opposed to social rent, as the affordable housing rented tenure.

4. Sites of less than 5 units could make a financial contribution towards affordable housing.

5. It would appear that a relatively small proportion of new developments would come from existing residential sites. Due weight should be given, therefore, to the viability of sites in existing non-residential uses.

6. There were viability issues in respect of the Whiteley and Waterlooville and north of Winchester strategic sites based on the need for significant infrastructure through S106 obligations necessary to bring those sites forward for development.

7. There were issues surrounding the viability of specialist residential retirement schemes.

Adams Integra
July 2013

Appendix 1

Affordable Housing Viability Study April 2010

This report considered residential land uses only. It was one of three similar reports, prepared by Adams Integra, the others being for Basingstoke and Deane Borough Council and East Hampshire District Council.

1. The Brief

1.1 The brief asked us to focus particularly upon the viability of small sites.

1.2 The starting point of the report was a study carried out by DTZ, titled Central Hampshire Sub–Region Housing Viability Study, dated August 2008 and commissioned by the same three authorities. The purpose of that study was to examine the impact of affordable housing policies on the viability of housing development.

1.3 The Adams Integra study focused on viability in relation to small sites and utilised assumptions made in the DTZ study.

1.4 The initial brief stated that:

> "The purpose of the study is to provide clear, defensible advice on the implications for viability of potential future planning policies for inclusion within the Local Development Framework."

1.5 The Council specifically sought advice and recommendations on the viability and practicality implications for Core Strategy policies of securing contributions (either through on-site development or through a tariff system) towards affordable housing provision from small sites (5 dwellings or less) across the plan area. Adams Integra subsequently advised that the study should look at sites of up to 14 units and the exercise was, therefore, expanded to take this into account.

1.6 The reference to a tariff was to be read as a commuted payment in lieu of on-site affordable provision, with the commuted payment sums being as set out in Appendix 2 of Winchester's Affordable Housing SPD, adopted February 2008.

2. The Methodology

2.1 The specific points to note in respect of this report are:

1. We adopted the DTZ approach in terms of the broad application of different densities for urban, suburban and rural development scenarios that were tested. For each of these we adopted the same density figures for dwellings per hectare. In their report, DTZ set out different mixes and proportions of house types for each density and we sought to follow these as closely as possible within our proposed unit totals.

2. We adopted the same unit floor areas as the DTZ report. We did, however, add a larger 5 bedroom house type, since this type is well represented within the plan area.

3. We evaluated a range of unit numbers, but for 10 and 14 units we tested on-site affordable housing at both 20% and 40% provision. We assumed that social housing grant would not, initially, be available, but we then tested scenarios with grant, based on levels assumed for the DTZ report.

4. With regard to the revenue from affordable housing, we followed the DTZ report and used their figures for both social rented and shared ownership units. In general, we followed a 70:30 split in favour of social rented, but where the number of affordable units would be 5 or less, we followed the terms of Winchester's SPD, adopted February 2008, and made them all rented.

5. We assumed a viability threshold of £1,400,000 per hectare, against which to assess the viability of different development outcomes.

6. A point from the brief related to proposals that would address the position where a percentage on-site contribution results in a fraction of a unit to be provided. For example a site of 8 units with a 40% on-site policy requirement would result in 3.2 units being provided. We considered how the authority could recover the full provision, even if part was by way of financial contribution.

7. Site densities and site areas were based on figures used in the DTZ report and varied between 30 dwellings per hectare for rural sites and 80 dwellings per hectare for urban sites.

3. The Conclusions

3.1 We would summarise the conclusions of this study as follows:

- We were looking to achieve viability at Value Point 4, since this is the level at which most new build developments are seen.

- We concluded that the Council could look for a 40% affordable housing contribution from all sites, with a possible need to negotiate the contribution in certain circumstances.

- We concluded that sites of 1 and 2 units would make a financial contribution towards affordable housing, rather than an on-site provision.

- At the time of this report, the market was at a historically low level. In these circumstances, we noted that it could be preferable for a developer to provide on-site affordable housing, although the financial contribution route would become preferable as the market improved.

4. The Recommendations

4.1 We repeat below the recommendations from the study of April 2010:

- The Council should consider a target position of 40% on-site affordable housing from all sites.

- In instances of demonstrable viability problems on individual sites, the Council should consider a degree of flexibility in the application of affordable housing, grant and infrastructure costs, in order to allow a development to proceed. In these circumstances, however, the council should expect an "open-book" approach from the developer.

- For sites of 1-4 units, we recommended that the Council adopts a flexible stance towards commuted payments as the means of achieving the required affordable housing, instead of on-site provision.

- The Council should target a level of commuted payments based upon the Affordable Housing SPD. In the short term, however, the Council needs to recognise the viability issues that this can produce.

- Where the calculation of the on-site provision results in a fraction of a unit to be provided, then the authority should apply clearly worded policy that allows for a fraction of 0.7 to be rounded up to the next whole number. Fractions of 0.1 to 0.6 will result in a payment based upon the commuted sum figures set out in the Affordable Housing SPD.

- In order to maximise the opportunity for contributions to affordable housing, the authority should monitor the performance of the residential market, so that it can develop robust cases for varying the amounts of the above financial contributions.

Appendix 2

Viability Report March 2012, residential land uses

This is an update to the Affordable Housing Viability Study 2010. It reports on the viability impact of different levels of both affordable housing and CIL on residential sites throughout the plan area.

1. The Brief

1.1 We agreed a proposal with the Council that would provide the main parameters of the study.

- We would agree the basis upon which viability would be calculated with house builders, to assess both an acceptable basis of calculation, and the premium that landowners might require as an incentive to bring land forward for development.
- We suggested that it was likely that different viability thresholds might be required in different locations.
- The study would be based on notional sites, supported by factual information from developers that would reflect their experiences in today's market.
- It was agreed that we would produce a questionnaire for developers, seeking views on the items that would form the basis of the valuation inputs, such as build cost and profit levels.
- It was agreed that we would model sites of 3 units in connection with commuted sums, together with sites of 7, 20, 50 and 100 units.
- It was agreed that we would use a Value Points table as in the previous report, to denote sales values that would be applicable to house types in different locations.

1.2 We would develop conclusions and recommendations that would:

- Include our own primary research.
- Demonstrate the point at which different scenarios are viable.
- Recommend viable affordable housing proportions and tenures.
- Recommend contribution levels for off-site affordable provision.

- Recommend CIL/s106 contributions that are compatible with the maximum provision of on-site affordable housing.

- Advise on whether viable affordable housing levels and CIL/s106 levels will vary geographically across the plan area.

2. The Methodology

2.1 As before, the fundamental methodology is similar to that used in the previous report.

2.2 In this study, we are testing notional, not actual, sites.

2.3 The housing numbers were agreed with the Council, in order to test the widest range of housing numbers that would be relevant to both actual experience and Council policy. We therefore tested sites of 3, 7, 20, 50 and 100 units.

2.4 We used the same residual land value calculation, as in the previous report.

2.5 For this study, we included elements of Code 4 and Code 5 of the Code for Sustainable Homes, which had the effect of increasing build costs.

2.6 This study adopted different geographical locations. These were agreed with the Council, in order to correspond with those locations identified in the Council's document, titled "Plans for Places" (also subsequently included in the Winchester District Local Plan Part 1 – Joint Core Strategy). The locations are:

- Winchester Town and the immediate environs.
- The Market Towns and Rural Area.
- The South Hampshire Urban Areas (Whiteley and West of Waterlooville).

2.7 In accordance with the proposal, we adopted different existing use values, or alternative use values, for different geographical locations. For the alternative uses, other than residential, we proposed the following viability thresholds, per hectare:

Market Towns and Rural Areas and South Hampshire Urban Areas (based on industrial land values) £900,000 plus 20% premium	£1,100,000

Winchester fringe (based on out-of-town office values) £1,150,000 plus 20% premium	£1,380,000
Winchester town (based on town centre office values) £1,500,000 plus 20% premium	£1,800,000

2.8 These figures were compared to the land value outcomes in the appraisals when assessing viability.

2.9 A range of housing densities was agreed with the Council. These ranged from 25 units per hectare to 60 units per hectare, reflecting rural, suburban and urban scenarios. For each density level we sought to reflect the Council's desire to encourage smaller family units (2-3 bed), where possible.

2.10 We agreed with the Council that we would test the various scenarios at affordable housing proportions of 30%, 35% and 40% of the total units. The affordable element included social rent, affordable rent and shared ownership units, although we did not mixed social rent and affordable rent on the same site. The appraisals assumed, therefore, mixes of social rent and shared ownership as one scenario, with affordable rent and shared ownership as a separate scenario.

2.11 We were asked to consider different rates of CIL alongside the different affordable housing proportions and tenures.

3. The Conclusions

3.1 We concluded that the Council could afford to remove affordable housing thresholds and seek a contribution towards affordable housing from all sites. We supported a policy position whereby the contribution from sites of less than 5 units was through a commuted payment, rather than on-site provision.

3.2 We modelled three unit sites against the commuted sums being used in the Council's Affordable Housing SPD and noted significant viability issues, particularly in lower value locations. They did, however, assume higher build costs, with the addition of elements of Code Levels 4 and 5, at a time of reduced house price levels.

3.3 We concluded that new development on existing (expensive) residential land would make up a small proportion of the future housing supply and that due consideration should be given to viability outcomes on cheaper, non-residential sites.

3.4 Lower levels of value in locations such as Whiteley and Waterlooville are resulting in reduced levels of viability, which is exacerbated by the higher build costs involved to achieve the water requirements of Code Level 4 and Code Level 5 for energy. We do see viability for these locations, however, with no affordable housing or infrastructure requirement, particularly in higher density locations.

3.5 With regard to CIL, we suggested that the following levels could realistically be achieved, assuming different affordable housing proportions and tenures:

30% affordable, assuming social rent and intermediate tenures

VP3	£110 to £120 per sq m
VP4	£140 to £150 per sq m

35% affordable, assuming social rent and intermediate tenures

VP3	£90 to £100 per sq m
VP4	£110 to £120 per sq m

40% affordable, assuming social rent and intermediate tenures

VP3	£60 to £70 per sq m
VP4	£80 to £90 per sq m

30% affordable, assuming affordable rent at 60% market rent and intermediate tenures

VP3	£125 to £135 per sq m
VP4	£160 to £170 per sq m

35% affordable, assuming affordable rent at 60% market rent and intermediate tenures

VP3	£100 to £110 per sq m
VP4	£120 to £130 per sq m

40% affordable, assuming affordable rent at 60% market rent and intermediate tenures

VP3	£70 to £80 per sq m
VP4	£100 to £110 per sq m

30% affordable, assuming affordable rent at 70% market rent and intermediate tenures

VP3	£135 to £145 per sq m
VP4	£170 to £180 per sq m

35% affordable, assuming affordable rent at 70% market rent and intermediate tenures

VP3	£110 to £120 per sq m
VP4	£130 to £140 per sq m

40% affordable, assuming affordable rent at 70% market rent and intermediate tenures

VP3	£75 to £85 per sq m
VP4	£110 to £120 per sq m

30% affordable, assuming affordable rent at 80% market rent and intermediate tenures

VP3	£160 to £170 per sq m
VP4	£180 to £190 per sq m

35% affordable, assuming affordable rent at 80% market rent and intermediate tenures

VP3	£120 to £130 per sq m
VP4	£140 to £150 per sq m

40% affordable, assuming affordable rent at 80% market rent and intermediate tenures

VP3	£90 to £100 per sq m
VP4	£115 to £125 per sq m

4. The Recommendations

4.1 The main recommendations arising out of the study were as follows:

1. We recommended that the Council could look to a 40% proportion on development sites, on the basis of affordable rents set at 70% market rent. This should allow, under normal circumstances, viable schemes to be developed on the type of sites envisaged in the SHLAA documents. This assumed a 70% rented and 30% intermediate affordable housing split.

2. In circumstances where affordability or viability is particularly challenging we recommended consideration of the following potential solutions:

    - Adjust rent levels, particularly on larger units;
    - Amend the split between rented and intermediate affordable housing, or;
    - Change the overall proportion of affordable housing.

3. We recommended that the Council could afford to remove affordable housing thresholds from all sites, with a view to achieving an on-site affordable provision from sites of 5 units and above, with a commuted sum payable on sites of less than 5 units.

4. We recommended that the Council should review regularly the level of commuted sums in order to improve the viability of sites in lower value locations.

5. We recommended that CIL levels should not be finally determined until the Core Strategy has determined the policy requirements for affordable housing.

6. We recommended that the Council should consider a zero CIL charge for small-scale development in the South Hampshire Urban Areas (West of Waterlooville and Whiteley) and separate residential CIL charges for the Market Towns and Rural Area, and Winchester.

Appendix 3

Draft Charging Schedule

Notes to accompany responses to consultation representations.

Paragraph numbers refer to those in the Winchester representations table.

We are only commenting upon those responses that have been highlighted to us by the Council.

1. R1 (I)

1.1 We were provided with copies of planning decisions relating to developments by Sainsbury, Aldi and Waitrose and these provided details of s106 and s278 costs. Our analysis showed that these costs equated to approximately £100 per square metre of built area. When we input these sums into the appraisals, we concluded that recommended outcomes would not be affected.

2. R4 (I)

2.1 We believe that we have allowed sufficient sums to cover s106 costs, but this will be detailed to a greater degree in the addendum report.

3. R5 (III) and (IV)

3.1 Response (III) refers to the need for a buffer, while response (IV) states that the build cost contingency should be 5%, not 3%. We have assessed the viability impact of adopting both these positions.

3.2 In the report, we had regard to the need for a buffer in suggesting viability levels, through the traffic light system, as part of the tables of land value outcomes. In light of the representations, however, we have considered this matter again. By way of reminder, we recommended £0 CIL in VP2 locations, £80 in VP3 locations and £120 in VP4 locations. The land use viability thresholds that we adopted, for assessing viability, were:

Agricultural:	£450,000 per hectare
Employment low:	£900,000 per hectare
Employment high:	£1,500,000 per hectare
Residential:	£2,200,000 per hectare

3.3 We believe that a buffer can be applied by adding a premium, as appropriate, to these thresholds. This premium would act as an incentive to a landowner to bring forward land for development, although we feel that it will not be necessary in every land transaction, for example where there is a distressed sale. Likewise, we do not believe it necessary to apply a further premium to the agricultural threshold, since this value is already so far in excess of existing use value.

3.4 On this basis, if we add a premium of 20%, then the resultant thresholds, against which we assess viability, become:

Agricultural:	£450,000 per hectare	No change
Employment low:	£1,080,000 per hectare	
Employment high:	£1,800,000 per hectare	
Residential:	£2,640,000 per hectare	

3.5 In the report, we recommended that an affordable housing provision of 40% was achievable, assuming affordable rent at 70% market rent. These outcomes were illustrated in Appendix 5, where the infrastructure cost was £0 per unit, and Appendix 9, where infrastructure was set at £2,000 per unit. For the sake of testing viability against a worse case scenario, we have particularly looked again at Appendix 9.

3.6 In Appendix 9, the viability outcomes are tested for different value points and at different CIL levels. These outcomes are summarised in the traffic light representation below the table.

3.7 In order to assess the impact of both the premium and the increased contingency cost, we applied this cost to a number of appraisals, testing outcomes against the lower employment threshold at VP3 and the higher employment threshold at VP4, where both include the 20% premium. With regard to VP4, it should be noted that the table does not include a column with £120 CIL, going from £100 to £150. For the addendum report we will add a column at £120.

3.8 We have not considered VP2 any further, in light of the existing low viability outcomes. Likewise, there is a viability problem at both VP3 and VP4 against the existing residential threshold, so we have not tested this any further.

3.9 The increase in build cost contingency inevitably reduces the resultant land values per hectare. For both VP3 and VP4, we do not believe that the new outcomes require any change to our previous recommendations.

4. R6 (I) to (III)

4.1 The evidence provided by The Planning Bureau demonstrates the main differences between an open market form of development and a sheltered development. For the purpose of definition, we are looking at a development of flats for sale, with an age restriction, where a level of communal facilities is provided on site. These would typically include a warden and communal lounge.

4.2 These facilities will increase the build cost of the development. These costs are also increased through the fact that the sales rate is slower than in an open market development. This impacts upon the sales fees in, for example, manning a sales office. This extended sales period then increases the finance costs. On the other hand, there is often a sales premium attached to a sheltered form of development.

4.3 Regarding sales values, The Planning Bureau included prices for the Winchester area in their appraisals. We have compared these to prices for other sheltered developments in Hampshire and we consider them to be reasonable.

4.4 We have also considered the cost inputs that were provided and we consider them to be reasonable when compared to an open market form of development.

4.5 As a result of this work, we believe that the Council will need to accept a degree of flexibility around either on-site affordable housing or a commuted sum, when compared to current policy positions. In recognition of the higher costs associated with sheltered developments, we considered the implications of CIL at £40 per square metre for sheltered developments and the extent of flexibility required around the provision of affordable housing.

4.6 We are attaching two appraisals to illustrate the extent of flexibility required. The summary sheets end with a land value that is compared to the threshold value. In both appraisals, we are using the higher employment land value, together with a 20% premium, as the viability threshold, resulting in a figure of £720,000.

4.7 If we consider the position with on-site affordable housing the appraisal shows that, with CIL at £40 per square metre on the market housing only, the affordable housing proportion reduces to 20% from 40%.

4.8 If we consider the position with a commuted sum in lieu of on-site affordable the appraisal shows that, with CIL at £40 per square metre on the market housing, the commuted sum needs to reduce to £520,000 from £1,574,000.

4.9 The conclusion here is that a sheltered use could take a CIL of £40 per square metre, but only in the context of a relaxation of affordable housing requirements.

5. R8 (II)

5.1 We are not proposing a charge on rural worker housing, where the provision of the housing is tied to the rural job, such that the property could not be sold in the open market. The landowner is incurring, therefore, a build cost, without being able to see a market return on that cost.

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