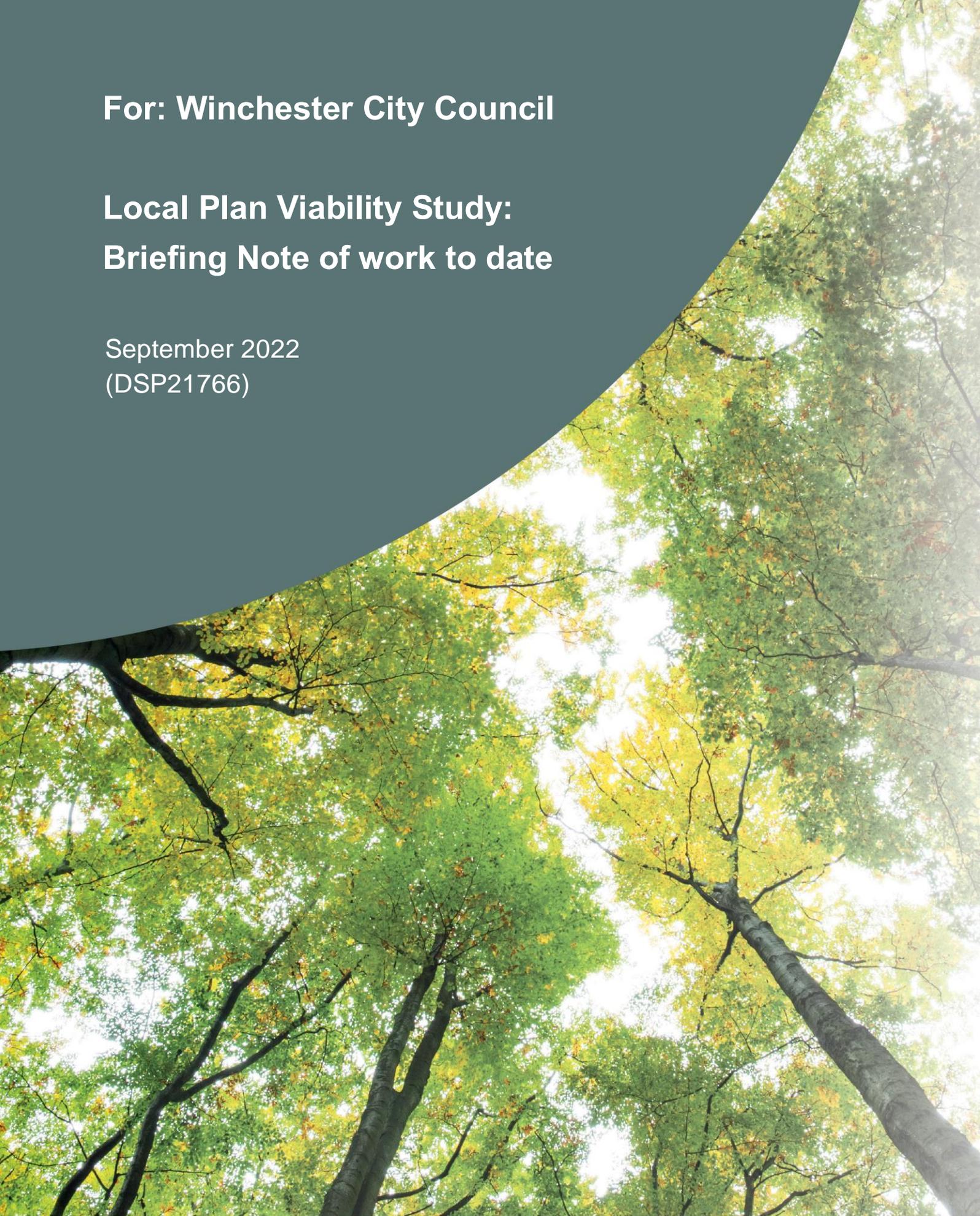


For: Winchester City Council

**Local Plan Viability Study:
Briefing Note of work to date**

September 2022
(DSP21766)



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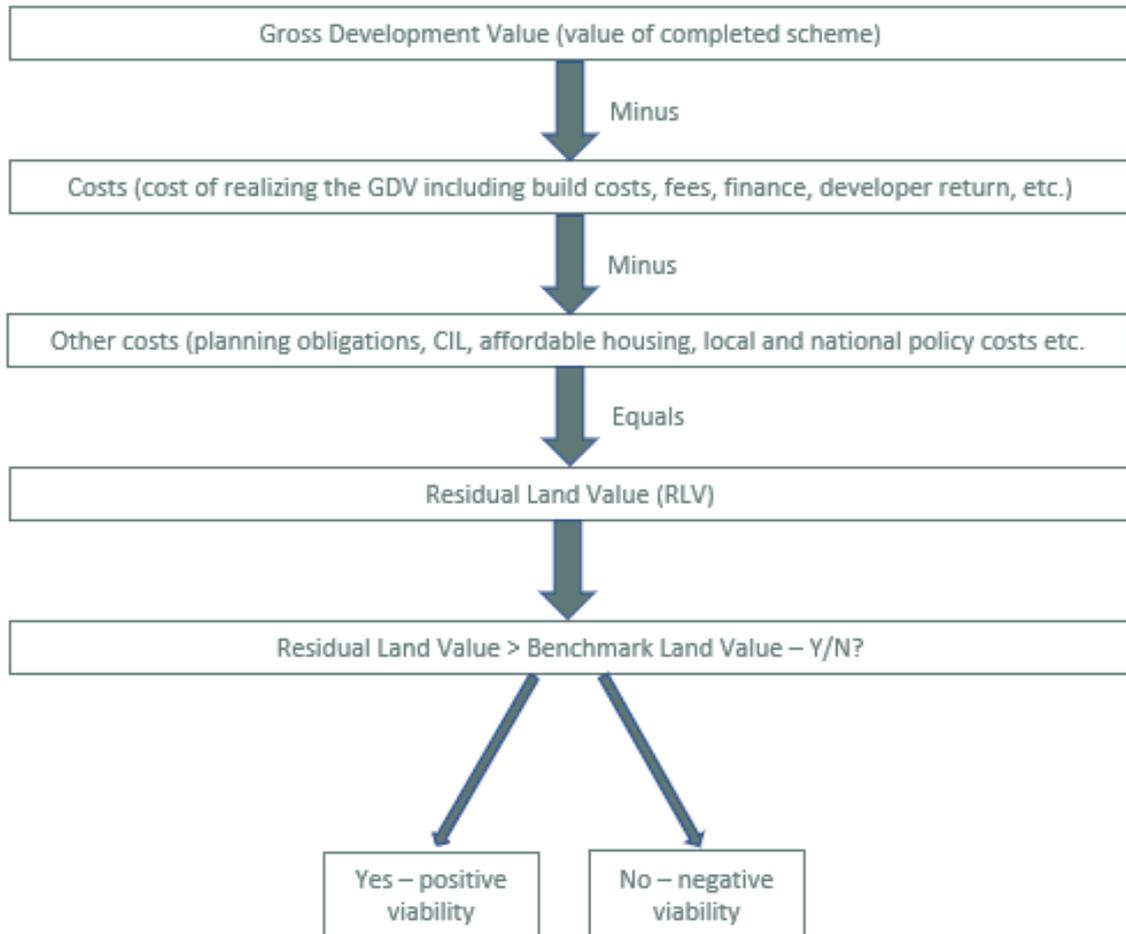
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1. Introduction & Context

- 1.1.1. Dixon Searle Partnership (DSP) has been commissioned by Winchester City Council (WCC) to undertake a Local Plan Viability Study. With inception taking place in October 2021, the work has so far progressed through various initial stages that are now being built upon, all as part of the evidence base developing to inform and support the new Local plan. This is an important part of the plan-making process as reflected by the National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG). The study seeks to assess the impact on viability of the emerging policy scope as well as the potential viability of sites to be allocated through the emerging plan.
- 1.1.2. The study adopts a well-established methodology tested through numerous examinations and consistent with PPG principles, conducted through testing a mixture of site typologies (representative development scenarios agreed with the council) and more specific consideration of site allocation proposals that are intended to be key in supporting the planned delivery overall. Ultimately, the development identified in the new local plan should not be subject to such a scale of obligations and policy burdens that its ability to be developed viably is unduly affected. The settled levels of obligations and developer contributions will need to be clearly set out and informed by evidence of need and viability.
- 1.1.3. Viability in this context is assessing the “financial health” of development, considering the strength of the relationship between development values and costs (completed sale value and cost expended to create that value) which varies by development type, location etc. This assessment uses ‘residual valuation’ principles to explore this value/cost relationship, how this varies and therefore how much scope exists to support planning policies in the varying circumstances that are relevant locally. Figure 1 below depicts the ‘residual valuation’ (Residual Land Value (RLV)) methodology approach taken as part of this assessment.

Figure 1: Residual Land Value (RLV) Methodology



1.1.4. Following an extensive information review and research exercise, including review of emerging policy and analysis of property values and costs (including via stakeholder consultations), the assessment work to date has provided initial findings over a number of early-stages. This is consistent with the development stage of the emerging plan (with the viability work and dialogue on it getting underway early here) and informed by an iterative testing scope, provided to officers as well as via briefings involving members. This approach was designed to assist the Council in shaping a likely viable set of policies at the earliest opportunity as part of seeking to inform and support the wider strategic direction and viability check of the policy aspirations of the emerging plan.

1.1.5. These initial findings stages focused on sample scheme typologies (reflecting both PDL and greenfield development of mixed housing (houses and flats)). The indications on key policy matters that are most influential for viability (such as affordable housing, climate change response and nutrient neutrality) are now being further tested using a full range

of typologies leading to full draft reporting scheduled to be issued in October 2022. The results of these initial testing phases sought to determine whether the emerging policies as drafted to date are likely to be viable when considered cumulatively and, if not, to inform any potential adjustments – i.e. compromises and policy priorities the Council would need to consider from a viability perspective as part of developing the new plan. The viability assessment does not deal with the need for housing, affordable housing, infrastructure and other key themes covered by the wider evidence base that is viewed in balance with our assessment. Overall, the Council needs to reflect a suitable balance between policy objectives addressing these matters and viability so that the development proposed can come forward sustainably.

2. Key Appraisal Assumptions – viability impacts

2.1.1 As above, the information review informs and underpins the study through first setting a suitable and robust set of assumptions for use as inputs to the viability appraisal testing. The detailed range of appraisal assumptions are set out in the draft (working version) Appendix I. Broadly, these assumptions can be grouped into three categories – (1) Development Revenue (value), (2) Fixed Development/Policy Costs and (3) Flexible Policy Costs. This basis provides a suitable way of testing and comparing the cumulative effect of development and policy costs / potential options. The approach means that we are able to reduce some of the variables so as to focus on the policy areas where the council has judgements and balancing choices to make, as briefly discussed below.

(1) Development Revenue (value) – informed by research into both new build and re-sale property values in the district, including via the stakeholder consultation process. For market dwellings, overall, we have found a reasonably broad range of values from £4,000 to £7,000/m². We consider typical new build values overall are represented by a narrower range of assumptions, generally around £4,500 to £5,500/m² with the former more likely to be seen in smaller settlements/market towns and rural areas, and the latter more representative of some Winchester city wards. However, as examples of values more likely outside this range, St Paul and St Michael wards indicate supportable values of £5,750 to £7,000/m² with, conversely, at the lower end, areas such as Denmead probably supporting values lower than £4,500/m².

In addition, revenue assumptions also have to be applied to the affordable housing proportion. Assuming a mix of Affordable Rent (AR) and Affordable Home Ownership (AHO) as informed by the Council's Strategic Housing Market Assessment (SHMA), revenue has been based on a combination of Local Housing Allowance Rates (AR) and percentage of market value for AHO (made up of Shared Ownership and First Homes).

We note that, as with the development costs (overview below), in practice the values will be variable both by scheme/location and with time. For viability in planning purposes, we need to select appropriate assumptions and sensitivity test those, which our ongoing process for the council reflects.

(2) Fixed Development/Policy Costs – these comprise development and policy costs that must be supported from the development value (and therefore included as base assumptions through all appraisals) in order for development to take place i.e., with little or no scope for the council to influence/adjust the cost effects to create headroom for other additional or enhanced policy requirements. These fixed costs include typical development costs such as build cost, external works, contingency, professional fees, developer’s profit, land cost, marketing/sales fees, finance etc. but also include some fixed standards/policy requirements as follows:-

- **Provision of electric vehicle charging points** – now a base requirement as set out in Approved Document S of the Building Regulations.
- **Biodiversity Net Gain (BNG)** – minimum 10% requirement as set out in the Environment Act 2021 with the cost of this requirement varying by site type (PDL/greenfield).
- **Solent Recreation Special Protection Area (SPA)** – in accordance with the Solent Recreation Mitigation Strategy, all residential development within 5.6km of the SPAs resulting in a net increase in dwellings must make a contribution towards mitigation projects.
- **Nutrient Neutrality** – there are two key catchment areas within the district – the River Itchen Catchment Area and the East Hampshire Catchment Area (remainder of plan area). The River Itchen Catchment Area requires both nitrates and phosphates mitigation with the remainder of the plan area requiring nitrate mitigation only. The associated costs have a significant impact on viability, more so than is associated with climate change response, with the greatest impact linked to nitrates and phosphates mitigation as required in the River Itchen Catchment Area. As an example, the cost impact as currently estimated by WCC (and in use within our assumptions) to achieve nitrate and phosphate neutrality is broadly comparable to the Council’s current indexed CIL Rate (Zone 2).

(3) Flexible Policy Costs – assumptions in these areas reflect costs related to policies/development standards/infrastructure provision where the level of need to be met and hence viability impact can be influenced by the council and there is potential for adjustment or “flex” in LP requirements in order to balance overall viability (as above). The cost level and therefore viability impact of these varies individually but it is the cumulative impact of the tested levels alongside the fixed

costs (2 above) that must be borne in mind when considering what adjustments could be made, where needed, to maintain the prospects for development to be able to come forward viably.

- **Affordable Housing (AH)** – this is the most costly element to provide (in terms of both overall proportion (%) and its tenure mix) and therefore has the most significant viability impact – in comparison with other policy requirements and base (fixed) standards/ development mitigation costs. To give a broad overview of the reason for this, overall (i.e. based on mixed tenure provision) the AH is likely to support only around half of the market sales level revenue and costs essentially the same to build. As part of the early-stage testing phases, we have considered a range of AH proportions from 20% to 40% noting the council’s current adopted approach of a 40% AH target district-wide.
- **Community Infrastructure Levy (CIL)** – this has been tested at current indexed charging rates. This has a much lower impact on overall viability so that any variation (reduction) to the CIL level(s) would not be sufficient in isolation to support greater AH provision than the parameters indicated by the viability exercise. It is also important to note that scheme-specific s.106 requirements/contributions may well apply alongside the CIL in any case.
- **Housing Standards (M4(2) and M4(3))** – the Government has now committed to raising the minimum standard for all new homes to be built to M4(2) Accessible and adaptable dwellings - consultation response published in July 2022. There are some exceptions and M4(3) remains an ‘optional standard’ through LPA policy according to need and viability.
- **Climate Change Response** – beyond the base level of 31% carbon reduction required in new homes through Building Regulations , the testing to date has considered the potential influence on viability of implementing a range of enhanced standards - from the full Future Homes Standard (currently due to come into effect in 2025) to the London Energy Transport Institute (LETI) standard together and looking at variations between the two. The climate change response evidence is provided through separate work being provided by Elementa Consulting for WCC, with liaison having taken place for consistency of review and assessment approach.

- 2.1.2 The testing conducted to date and resulting indications provided to the council has focused on exploring the viability impact of the above cumulatively but also how that impact might alter, positively or otherwise, with adjustments to the potential range of flexible policy costs. A key aspect of the context being considered is the characteristics of the selected site typologies and nature of development coming forward under the emerging LP, to see how the viability assessment findings “overlay” the wider supply context. As another layer to this context in terms of fixed costs impacts particularly, the majority of these sites overall appear set to come forward within the River Itchen Catchment Area – the area with the greatest level of cost involved in providing nitrates and phosphates mitigation (achieving nutrient neutrality).
- 2.1.3 PDL sites are often more costly to develop and as a key assumption there will usually be a higher existing use value of the site (land cost) that has to be accounted for in the appraisal testing. That is considered through comparing the sensitivity tested residual land value (RLV) results with assessed benchmark land values (BLVs) which will usually be significantly higher for PDL scenarios. Typically, and as is being seen in the work for the council to date, these effects are seen to have a significant influence on overall viability and (because it is the key area offering the most significant viability balancing scope, owing to its cost impact as above) a corresponding impact on the available viability scope to support the AH policy requirements is indicated.

3. Headline Findings

(Note: work in progress and emerging findings offered to date, with confirmation pending finalisation of further appraisals/sensitivities and full explanatory report to be provided)

- 3.1.1 The above assumptions formed the framework for conducting comprehensive initial, iterative testing which focused on varying levels and combinations of AH provision and sustainable construction levels/measures (climate change response) whilst also reflecting the likely influence (on current assumptions) of the two catchment areas for nutrient neutrality. At each stage our emerging findings were discussed with the council and testing scope refined as the project progressed.
- 3.1.2 Reflecting this iterative testing process, we understand the council's main strategic priorities focus on the provision of affordable housing and an enhanced climate change response (i.e. over base national level) assuming use of the LETI standard alongside other fixed requirements. The output and analysis of the testing conducted to date indicates that in order to strike an appropriate viability balance, a differential approach to AH policy should be considered varied by both site type (PDL/greenfield) and catchment area as follows. This is based on our indications that a baseline (starting point expectation) of a continued 40% AH could be met in some circumstances but would need to be varied and potentially as follows. From that, the key messages here have been, and remain through work in progress to date, a likely need for a c. 10% differential (AH reduction) for PDL relative to GF development, and a 5% differential (reduction) to balance the full effect of the likely maximum nutrient neutrality scenario (Itchen catchment area, within which most development is likely to come forward):-

Figure 2: Affordable Housing – emerging policy position

Catchment Area	Greenfield	PDL
Itchen Catchment Area	35% AH	25% AH
Rest of Plan Area	40% AH	30% AH

- 3.1.3 To be clear, the above findings are based on assuming the LETI standard alongside other policy requirements/standards/costs e.g., adopted CIL, housing standards, BNG etc. Although we understand the council's current policy position has a target of 40% AH

district-wide, the findings to date point a likely challenging viability scenario and particularly on PDL sites with the necessary updated view of development requirements taken into account, and particularly so in the Itchen Catchment Area. The Council will also wish to consider these findings in relation to the provision to date of affordable housing across various site and scheme types under the current policy in the adopted Local Plan.

- 3.1.4 As reflected by this, the emerging indications based on greenfield sites have been more positive and there is an opportunity in the remaining plan area (i.e. outside the Itchen Catchment) for the current 40% AH target to continue to be viably supported. However, the additional significant costs required to mitigate the effects nitrates and phosphates have the unavoidable effect of pulling down viability in all affected scenarios.
- 3.1.5 As part of the main reporting being worked up, we will also be conducting some high-level preliminary testing of the Sir John Moore Barracks site, subject also (as far as possible at this stage) to our consultation exercise and available information – including on abnormal costs - on those proposals. However, at this stage, we consider the above AH proportion (an indicated 25% in that case of PDL scheme within the Itchen Catchment) is likely to provide an appropriate guide/headline the involved characteristics. This will need to be considered (and confirmed) as our assessment picture builds further but in summary and subject to more detailed testing, it is unlikely in our view that we will expect to see a higher proportion than 25% AH than viable there at this stage.
- 3.1.6 These headline findings should be considered preliminary at this stage (i.e., subject to further work) pending the full detailed report to be issued in the coming period, informing and supporting the emerging LP direction at this still relatively early stage and positively reflecting this early engagement on viability in plan making. Overall, considerable experience of this process continues to inform an appropriate and robust assessment undertaken in line with relevant guidance (the PPG being the key source). Once finalised the above factors and findings as further developed and considered alongside the council's other building evidence base will inform final policy selection at a later stage in the plan making process and enable an appropriate and viable balance between competing priorities leading to supporting the new Local Plan overall.

**Local Plan Viability Assessment – Briefing Note of work in progress ends
(September 2022)**