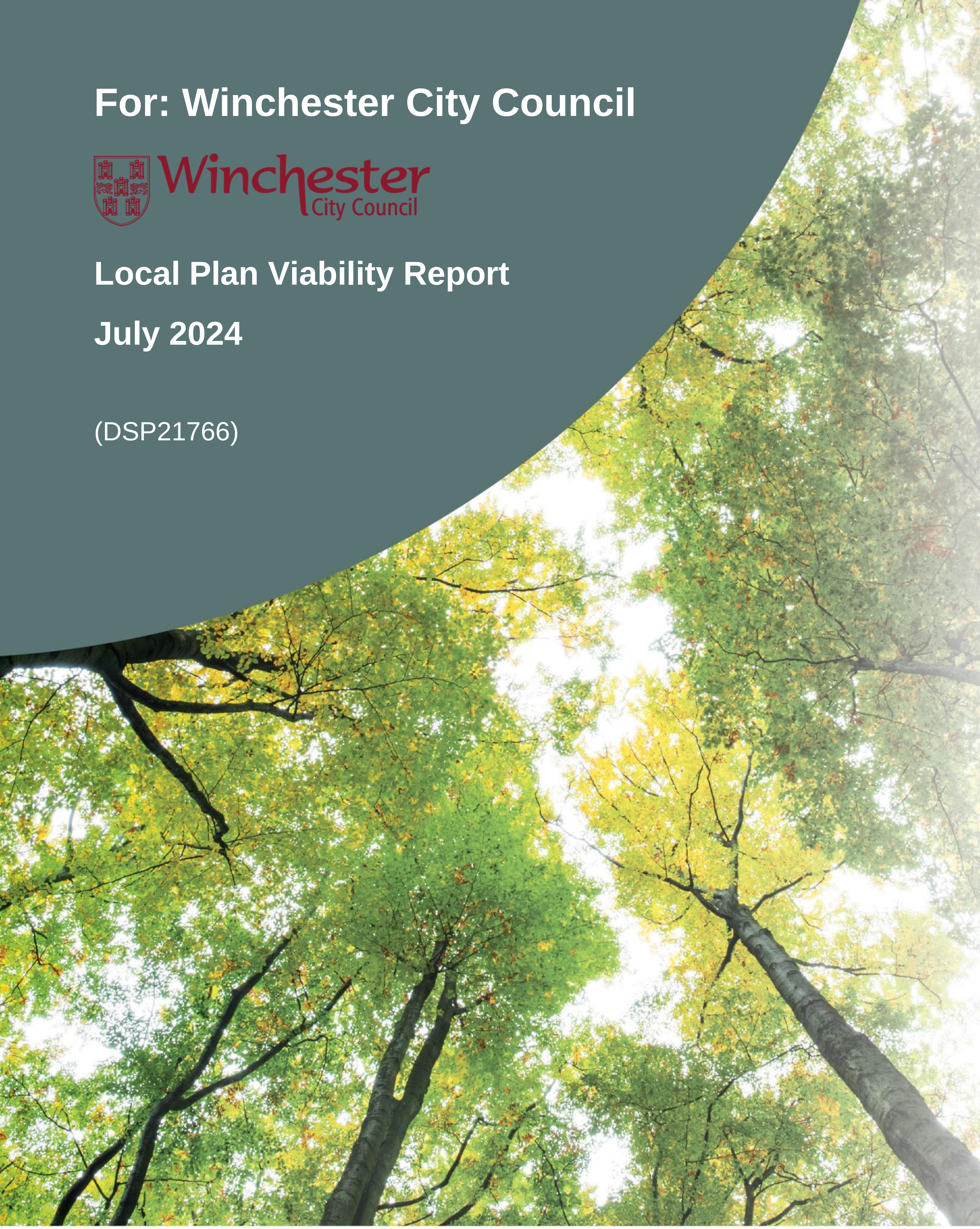
For: Winchester City Council

Winchester City Council

Local Plan Viability Report

July 2024

(DSP21766)



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DixonSearle Partnership

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1. Introduction & Context

1.1. Dixon Searle Partnership (DSP) has been commissioned by Winchester City Council (WCC) to undertake a Local Plan Viability Assessment. The Council is preparing a new Local Plan that will set the development strategy to 2040. An initial 'Strategic issues and priorities' consultation was conducted in early 2021 followed by the Regulation 18 Plan consultation in November/December 2022. The responses from this consultation were reviewed by the Council and fed into the development of the Regulation 19 Plan – due to be consulted on in Autumn 2024.

1.2. This current stage report was completed in July 2024 and will be subject to further updating as the plan progresses towards submission.

1.3. DSP was appointed in October 2021 to provide robust evidence on viability in support of the new Local Plan through an iterative testing process seeking to inform and support the plan development. The findings from this assessment can be used for any update on the CIL Charging Schedule when more information is published by the government on the Infrastructure Levy (IL).

1.4. The assessment has progressed through various stages (outlined in Section 2), with an Interim Report published alongside the Regulation 18 consultation. Building on previous work, the current stage assessment will continue to inform and support the new Local Plan through the next Regulation 19 consultation. 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 plan.

National Policy & Guidance

1.5. The requirement to consider viability stems from the NPPF, specifically paragraph 31 on *'Preparing and reviewing plans'* which says: "*The preparation and review of all policies should be underpinned by relevant and up-to-date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals.".*

1.6. In addition, the NPPF paragraph 31 on *'Development contributions'* states: *"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan."*

1.7. The accompanying PPG on viability essentially provides more comprehensive information on considering viability in plan making, alongside other relevant information such as 'Viability Testing Local Plans – Advice for planning practitioners' published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the 'Harman' report) and 'Assessing viability in planning' published in 2021 by the Royal Institution of Chartered Surveyors (RICS).

1.8. Planning and in particular national policy are constantly evolving processes, with the current environment for these being especially uncertain and fluid – potentially now subject to further change with the new Labour Government elected in July 2024. A viability assessment such as this, however, is necessarily carried out at a point in time based on knowledge of the system and policies in place at that time or – to the extent that may be practical – taking into account likely changes to policy moving forward (for example through sensitivity testing or commentary). It needs to be acknowledged however that no study can cover every future eventuality and further work may be required as the plan moves forward to Examination.

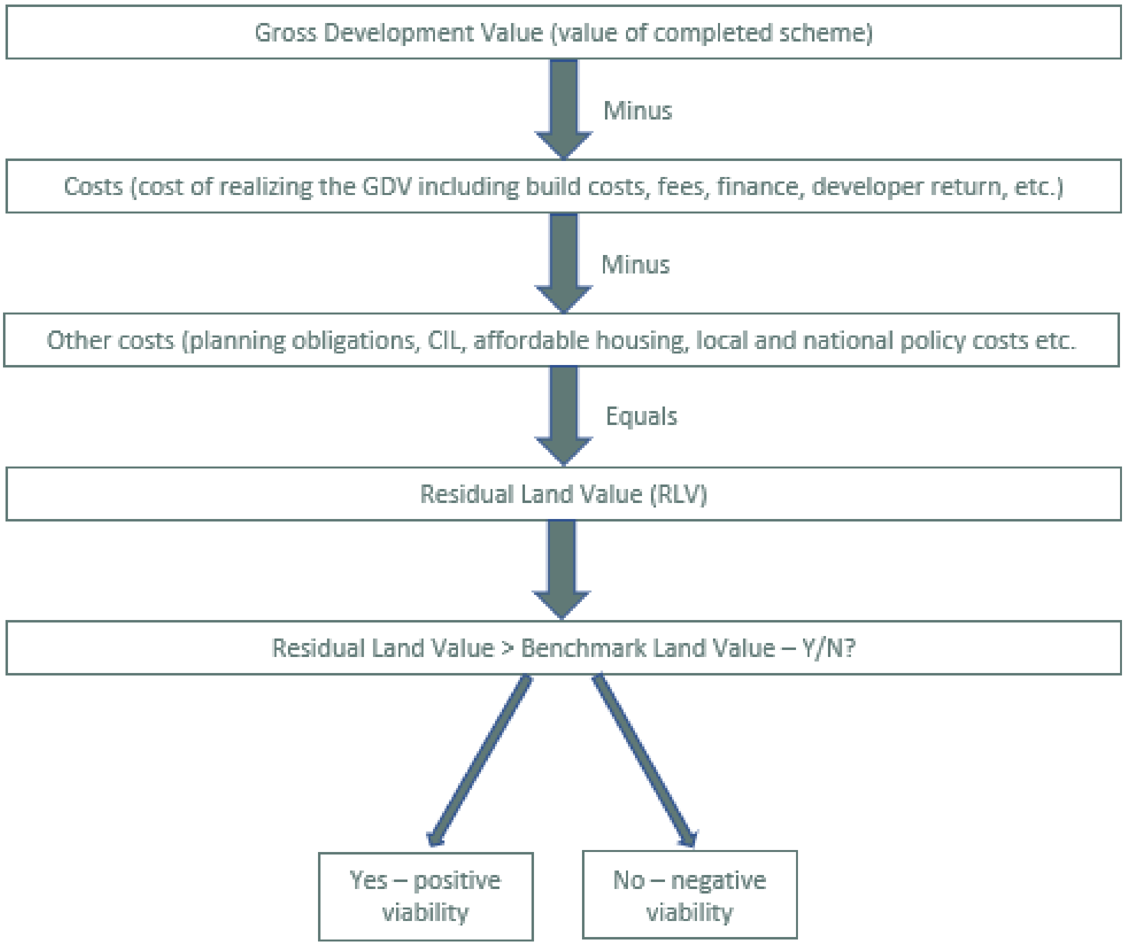
Methodology

1.9. The study adopts a well-established methodology tested through numerous examinations and consistent with the NPPF and PPG, conducted through testing a mixture of site typologies (representative development scenarios agreed with the council) and where appropriate 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 both need and viability.

1.10. The NPPF and associated PPG on Viability indicate a greater link than previous between the role of strategic level viability work such as this assessment and the decision making (development management of planning applications/delivery) stage. The national approach has moved more towards a general acknowledgement that the main role of viability should be at the plan making stage.

1.11. Viability in this context is assessing the "financial health" of development, by 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 used in the relevant context, underlying this assessment.

Figure 1: Residual Land Value (RLV) Methodology



(DSP 2024)

2. Summary of assessment work to date

2.1. The assessment evolved over time (commencing in 2021) through the Regulation 18 stage to the current pre-Regulation 19 stage to inform and support both the strategic direction and policy aspirations of the plan. Approached as an iterative process, the various stages of the assessment reviewed in detail the relative policy positions, development costs and their likely viability impacts to assist the Council in balancing priorities and meeting development needs.

2.2. This iterative process was approached via a continual two-way dialogue between the Council and DSP in reaching the current plan strategy and set of policies for the forthcoming (Reg 19) consultation. There were many aspects of discussion that cannot be fully reflected or repeated here following the Interim Report in 2022. However, the below aims to briefly update how the assessment continued to evolve and develop over the interim period. In this case DSP has been involved at an earlier point than many of the similar assessments we have undertaken previously. This early commencement of the viability considerations is positive and enabled the Council to fully understand any potential viability-related issues so policy could be shaped accordingly to strike an appropriate balance.

2.3. The Interim Report (2022) outlines a detailed summary of the various assessment stages including early stakeholder consultation, detailed research analysis exercise, assumptions development, preliminary findings, member briefings and internal discussions that took place between 2021 – 2022. Following the Regulation 18 consultation, between 2022-2024 DSP continued to assist and advise the Council on responding to representations and continued to discuss policy options as these evolved alongside an ongoing information review and research analysis process.

2.4. The preliminary findings discussed in the Interim Report (2022) took place over 4 phases as policy priorities developed, focusing on sample scheme typologies (reflecting both PDL and greenfield development of mixed housing). The results of these initial testing phases sought to determine whether the emerging policies as drafted were 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.

2.5. In summary, the above timeline of testing, findings analysis and detailed discussions with officers and members reflects the iterative and collaborative, two-way, high-level approach taken to the assessment and how it informed policy development.

2.6. With the emerging plan now fully developed, the current stage report builds on the above with a more extensive range of appraisal testing and results, based on a complete and final set of assumptions. This includes a wider range of development typologies considering mixed (houses/flats) as well as flatted and housing only development at varying scheme sizes. Appraisal assumptions have now been settled so far as possible to reflect the current Regulation 19 policy position.

2.7. Although this report and the unpinning work significantly builds on the previous Interim Report (in 2022), there are elements to be finalised prior to submission. However, we consider our overall assumptions and findings discussed here are complete with the subsequent final report to include additional contextual detail.

3. Key appraisal assumptions and approach

3.1. The information review and, subsequently, the various stages of findings and discussions with the Council, informs and underpins the study through setting a suitable and robust set of assumptions for use as inputs to the viability appraisal testing.

3.2. This assessment is based on monetising the emerging policy set in order to understand the likely impact of emerging policies on viability (at varying levels in some cases) when considered cumulatively with the usual development costs and national policy influences. We need to consider how the strength of the relationship between development values and costs varies across the current stage set of sample development typologies (and key in due course the more specifically tested / strategic sites) that are relevant to the Plan. From the point of view of sustainable development and normal planning criteria, other policies will have indirect implications and as such do not need to be specifically reflected in the development appraisal assumptions.

3.3. The current stage assessment assumptions and testing framework involved extensive research and has developed following the earlier stage iterative testing and review process (see Section 2) alongside a detailed review of the Regulation 19 draft plan policies. The attached Appendix 1 Assumptions Summary sets out the detail with key elements discussed below. Broadly these assumptions can be grouped into three categories - development revenue (value), fixed development costs (base build costs, external works etc.) and emerging policies with both direct and indirect cost impact.

Development Revenue – property sales values/market values analysis

3.4. One of the key early research elements of the assessment was to conduct a robust market values research analysis in the district for both new build and re-sale properties (the former being the most directly informative, with the latter used to allow data review of values patterns across the local plan area using larger sample sizes).

3.5. This approach utilised a combination of web-based resources (including HM Land Registry, Rightmove etc.), alongside the three elements of stakeholder consultation progressed as far as possible (liaison with and invitation to engage both general development industry representatives, affordable housing providers and specific key site promoters) amongst other sources. It must be acknowledged that in some instances, data samples are small (e.g. relating to a particular period or geography, particularly in small settlements) and this is not unusual.

3.6. During the course of the assessment, the economic and housing market context has moved around due to various factors. Since 2022 we have seen a period of rapid increases in construction cost inflation which began to slow mid-2023 with most recent reporting indicating this is expected to stabilize from 2025. Alongside this, the economic context continues to have a significant influence, particularly in relation to ongoing uncertainty on planning reforms (especially in light of the July 2024 general election), rising interest rates (although now expected to fall) – all resulting in greater levels of uncertainty.

3.7. However, the most recent (national) reporting suggests that the housing market generally is showing signs of improvement. Knight Frank has revised their assessment of the housing market in early 2024 stating *"We now expect UK mainstream prices to rise by 3% in 2024, which compares to a decline of 4% predicted in October. With low-level single digit growth in subsequent years, we expect cumulative growth of 20.5% in the five years to 2028".* In addition, we note the Land Registry HPI house prices in Winchester district have for the most part increased month on month since July 2023.

3.8. For the purposes of this assessment, we need to consider the longer term of the emerging Local Plan and the likelihood that development will be delivered through various economic cycles. Therefore, in our view it would not be appropriate or reflective of the assessment context for assumptions to be set based on a 'worse-case' scenario – a longer term, high-level view is needed.

3.9. Overall, our research indicates a reasonably broad range of value from £4,000 to £7,000/m^2. Our testing has been carried out within that range at various Value Levels (VLs) 1 to 11 to reflect the relatively subtle differences between certain areas. Within the above range, our analysis indicates typical new build values overall are represented by a narrower range of assumptions, generally around £4,500 to £5,250/m^2. However, values in Winchester City are higher than the rest of the district, typically between £5,250 to £6,500/m^2. Conversely, at the lower end, areas such as Denmead probably support values at around £4,500/m^2.

3.10. Therefore, for the purposes of this assessment, we consider the above ranges are reasonably representative of likely new build values and provide a suitable basis for reviewing and interpreting the appraisal testing results. It is important to note that there is normally (but not always) an inverse correlation between dwelling floor area and values expressed by unit area – so that smaller dwellings will often indicate higher £/m2 pricing. We consider that flatted development will typically achieve sales values at the mid-upper end of the above VLs ranges in the wider district and upper end values in Winchester City. However, as normal in any area, there are exceptions whereby higher and lower values can be seen within an area, between nearby sites and even within a site; an overview is needed at Plan making stage.

3.11. As above how the values levels and patterns (and therefore the strength of viability generally available) across the district relate to the planned site supply overall will be key to consider. At this strategic level, there is no single policy response that covers all individual site variables. We understand the nature of the emerging site supply picture indicates all sites in Winchester City (apart from one site 'W4: Land west of Courtenay Road' which is allocated for 150 dwellings) are coming forward on PDL with the vast majority of supply in the rest of the district coming forward on greenfield sites. Windfall development is expected to contribute approximately 12% of supply and may come forward on both PDL or greenfield sites.

Stakeholder consultation

3.12. Consistent with national policy and guidance, consultation with a wide range of locally active development industry stakeholders is undertaken. The first phase took place in 2021 and included consultation with housebuilders, developers, planning and property agents and other parties as well as a directed approach seeking particular information from affordable housing providers. A further phase of consultation with the development industry took place in 2023 to refresh previous contact. The final element of this consultation process is currently being undertaken as we draw together the final phase of the assessment. This consultation will invite the engagement of and request specific information from parties with an interest in specific key site allocation proposals that are intended to be brought forward through the emerging Local Plan and that are to be more specifically appraised as part of this assessment (in addition to the typology based reviewing).

3.13. As part of this process, a full record of all stakeholder interaction is kept, including a log indicating the parties contacted, reminders issued, the feedback responses and level of response overall. Given potential commercial sensitivities/confidentiality in some instances, the details of the responses received are not included within our published report. However, this has all contributed to the overall information review, further informing both the consideration of the assumptions range, and the review of and judgments made around the results in the earlier and subsequent assessment stages. All in all, the work is informed by a combination of sources, including the Council and its supplied information, our own extensive research process and experience and supplemented through the relevant stakeholder sourced feedback as far as available at the time.

Affordable housing

3.14. As part of our assessment scope, we have tested a range of affordable housing proportions from 0% on sites of 1-9 and 20% to 40% on sites of 10+ units. This approach enables us to explore how much affordable housing may reasonably and realistically be sought under the emerging policy positions, alongside cumulative costs of all other development and mitigation/infrastructure.

3.15. The affordable housing tenure mix is based on the policy requirement set out in Policy H6 of the Plan, broadly informed by the Strategic Housing Market Update (2024). Policy H6 confirms the Council will seek a mix of 65% rented and 35% affordable home ownership (including the national requirement for First Homes). Although we note the SHMA Update indicates a reasonable guide on tenure as being 75% rented and 25% AHO with a recommendation for the Council to seek to maximise social rent as far as viable, our assessment assumes the draft policy H6 position (above) based on affordable rent only. This approach was assumed on the basis of seeking to maximise the overall affordable housing proportion as the Council's key priority position. However, this does not mean social rent could not be delivered in some circumstances where viability allows.

3.16. Overall, we have assumed the following revenue assumptions for affordable housing tenure:-

- Rented affordable homes – based on Local Housing Allowance Rates, see Appendix 1 for revenue detail.
- Shared Ownership – based on 65% of market value (MV)
- First Homes – based on 30% MV discount (subject to value cap at £250,000, after discount).

3.17. In addition, we have also looked to ensure the overall mix assumptions reflect the requirements of the NPPF to require a minimum of 10% of all homes on major sites to be affordable home ownership tenure (in this case made up of primarily First Homes).

3.18. It is important to note that the potentially improved revenue that may be generated by First Homes compared to other tenures may be offset by the additional market related risk associated with this model; reflected by our assumed profit level for this element. Typically, we assume a return of 6% for affordable housing that is sold to an AH provider - Registered Provider (RP), reflecting the low level of risk associated with off-plan purchases and more of a contracting model. For market housing we assume 15% - 20% on GDV (market sales) reflecting the higher risk associated with developing and selling those properties as well as the PPG on plan making (likely assessment base being a mid-point 17.5% GDV reflecting, overall, development across varying market cycles). At this stage we are working on the basis that First Homes falls somewhere between the two in terms of its risk profile and therefore we assume a significantly higher than affordable housing level of developer profit at 12% GDV on that proportion of the AH.

3.19. From our wider experience, we have undertaken a number of studies that include consideration of the impact of First Homes on viability. Results tend to indicate that at the minimum discount (30% from MV) there may be no or only a little improvement in viability compared with shared ownership/intermediate provision. That relativity will depend on the starting point tenure mix and local values. With higher discounts, which are on a plan-wide basis at either 40% or 50% MV as an alternative to the minimum 30%, the First Homes model appears generally to reduce viability compared to previous tenure mix positions. At 50% of market value, the First Homes sale revenue (receipt by the developer) is broadly similar to that provided by affordable rented homes, as an example of potential relative impact of First Homes compared to other tenures at this level of discount.

3.20. The housing mix required or sought by the Council may also have an influence here as the overall price cap on First Homes (£250,000 after discount, all areas outside London) may limit the income from this tenure or restrict the size of properties which can be brought forward as First Homes. This is a likely effect that we are beginning to see and will be an aspect to consider as part of both the local approach / policy development on First Homes and setting assumptions for the next phase of viability review and testing.

3.21. We have conducted an analysis of the likely effect of the First Homes price cap locally, which demonstrates the likely relationships between the fixed First Homes discount levels and property type/size based on our values research, as set out in Figure 1 below. Within this the red shaded price levels indicate those scenarios which would fall outside (not be workable based upon) the various First Homes discount levels (noting again that the discount can be placed at 30%, 40% or 50% MV, subject local evidence, but cannot be placed at any other level or varied across the Plan area with the potential exception of areas covered by Neighbourhood Plans).

Figure 1: First Homes – Local property values and pricing/cap analysis

100% Market Value												
Unit Type	Size of unit (m^2)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11
		£4,000	£4,250	£4,500	£4,750	£5,000	£5,250	£5,500	£5,750	£6,000	£6,500	£7,000
1BF	50	£200,000	£212,500	£225,000	£237,500	£250,000	£262,500	£275,000	£287,500	£300,000	£325,000	£350,000
2BF	61	£244,000	£259,250	£274,500	£289,750	£305,000	£320,250	£335,500	£350,750	£366,000	£396,500	£427,000
2BH	79	£316,000	£335,750	£355,500	£375,250	£395,000	£414,750	£434,500	£454,250	£474,000	£513,500	£553,000
3BH	93	£372,000	£395,250	£418,500	£441,750	£465,000	£488,250	£511,500	£534,750	£558,000	£604,500	£651,000
4Bh	106	£520,000	£552,500	£585,000	£617,500	£650,000	£682,500	£715,000	£747,500	£780,000	£845,000	£910,000

30% Discount												
Unit Type	Size of unit (m^2)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11
		£4,000	£4,250	£4,500	£4,750	£5,000	£5,250	£5,500	£5,750	£6,000	£6,500	£7,000
1BF	50	£140,000	£148,750	£157,500	£166,250	£175,000	£183,750	£192,500	£201,250	£210,000	£227,500	£245,000
2BF	61	£170,800	£181,475	£192,150	£202,825	£213,500	£224,175	£234,850	£245,525	£256,200	£277,550	£298,900
2BH	79	£221,200	£235,025	£248,850	£262,675	£276,500	£290,325	£304,150	£317,975	£331,800	£359,450	£387,100
3BH	93	£260,400	£276,675	£292,950	£309,225	£325,500	£341,775	£358,050	£374,325	£390,600	£423,150	£455,700
4BH	106	£364,000	£386,750	£409,500	£432,250	£455,000	£477,750	£500,500	£523,250	£546,000	£591,500	£637,000

40% Discount												
Unit Type	Size of unit (m^2)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11
		£4,000	£4,250	£4,500	£4,750	£5,000	£5,250	£5,500	£5,750	£6,000	£6,500	£7,000
1BF	50	£120,000	£127,500	£135,000	£142,500	£150,000	£157,500	£165,000	£172,500	£180,000	£195,000	£210,000
2BF	61	£146,400	£155,550	£164,700	£173,850	£183,000	£192,150	£201,300	£210,450	£219,600	£237,900	£256,200
2BH	79	£189,600	£201,450	£213,300	£225,150	£237,000	£248,850	£260,700	£272,550	£284,400	£308,100	£331,800
3BH	93	£223,200	£237,150	£251,100	£265,050	£279,000	£292,950	£306,900	£320,850	£334,800	£362,700	£390,600
4BH	106	£312,000	£331,500	£351,000	£370,500	£390,000	£409,500	£429,000	£448,500	£468,000	£507,000	£546,000

50% Discount												
Unit Type	Size of unit (m^2)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11
		£4,000	£4,250	£4,500	£4,750	£5,000	£5,250	£5,500	£5,750	£6,000	£6,500	£7,000
1BF	50	£100,000	£106,250	£112,500	£118,750	£125,000	£131,250	£137,500	£143,750	£150,000	£162,500	£175,000
2BF	61	£122,000	£129,625	£137,250	£144,875	£152,500	£160,125	£167,750	£175,375	£183,000	£198,250	£213,500
2BH	79	£158,000	£167,875	£177,750	£187,625	£197,500	£207,375	£217,250	£227,125	£237,000	£256,750	£276,500
3BH	93	£186,000	£197,625	£209,250	£220,875	£232,500	£244,125	£255,750	£267,375	£279,000	£302,250	£325,500
4BH	106	£260,000	£276,250	£292,500	£308,750	£325,000	£341,250	£357,500	£373,750	£390,000	£422,500	£455,000

Red denotes property value above the £250,000 FH cap.

Discount required to achieve £250,000 cap												
Unit Type	Size of unit (m^2)	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11
		£4,000	£4,250	£4,500	£4,750	£5,000	£5,250	£5,500	£5,750	£6,000	£6,500	£7,000
1BF	50	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
2BF	61	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	31.7%	36.9%	41.5%
2BH	79	30.0%	30.0%	30.0%	33.4%	36.7%	39.7%	42.5%	45.0%	47.3%	51.3%	54.8%
3BH	93	32.8%	36.7%	40.3%	43.4%	46.2%	48.8%	51.1%	53.2%	55.2%	58.6%	61.6%
4BH	106	51.9%	54.8%	57.3%	59.5%	61.5%	63.4%	65.0%	66.6%	67.9%	70.4%	72.5%

DSP(2024)

Key policy areas tested

3.22. Nationally Described Space Standard (NDSS) – Dwelling size assumptions are set out in Appendix 1 and reflect the application of NDSS.

3.23. Water efficiency (Policy CN4) – Consumption assumed to be restricted to not more than 100 litres per person per day (lpppd), on the basis the Council can appropriately demonstrate that the district is within an areas of water stress (as with all optional enhanced standards, the need has to be established as well as the viability impact reviewed as part of this assessment). The overall cost impact for this requirement (compared to the current Building Regulations baseline of 125lpppd) is nominal and reflected within the overall development cost allowances. In summary no additional explicit cost assumption is required at this level.

3.24. Parking standards – Electric vehicle charging points (EVCP) – now a base requirement as set out in Approved Document S of the Building Regulations. Although we assume provision of EVCPs will be included within the general build cost allowances within BICS, we have continued to apply an additional cost allowance of £865/dwelling (houses) and £1,961/dwelling (flats)[1], with 1x EVCP per dwelling assumed.

3.25. Biodiversity Net Gain (BNG) (Policy NE5) – We have assumed an explicit allowance for BNG – assumed at the 10% minimum national baseline requirement. The cost assumptions vary by type of site (PDL/greenfield) and geographic location, based on the data contained in the DEFRA/Natural England BNG Impact Assessment approach (specifically Tables 19 and 20) and assumes a 90% pass-through cost to the land.[2] On this basis, we have applied an additional percentage uplift to the base build cost to reflect the cost of achieving this requirement – at 2.4% greenfield and 0.5% PDL on base build. These figures are based on 'Scenario C' of the Impact Assessment, representing a worst-case scenario, assuming delivery via 100% off-site credits. BNG will typically be delivered on most schemes via a combination of credits and on-site solutions with a lower overall cost to development.

3.26. Solent Recreation Special Protection Area (SPA) (Policy NE16) – 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.

3.27. Nutrient Neutrality (Policy NE16) – 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. Following discussion with the Council and review of locally active mitigation

[1] Residential Charging infrastructure provision – Final Impact Assessment (2021) - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040255/residential-charging-infrastructure-provision-final-impact-assessment.pdf

[2] Biodiversity and net gain and local nature recovery strategies – Final Impact Assessment (2019) - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839610/net-gain-ia.pdf

(credit) schemes, we have assumed a cost of £11,250/dwelling (Itchen – total for nitrates and phosphates) and £5,365/dwelling (nitrates only). However, we understand the costs for mitigation measures in both catchment areas are expected to reduce over time and so the longer time viability impact will become less significant.

3.28. Accessible and adaptable homes (Building Regulations Part M) (Policy H5) – The Government has confirmed its intention to raise the minimum standard for all new homes to be built to M4(2) following consultation in July 2022, although this is yet to be implemented. The requirement for M4(3) Wheelchair user dwellings remains an optional standard through LPA policy according to need and viability. Policy H5 of the emerging Plan requires the following and has been applied fully within the appraisal testing:-

- 5% of all new market homes to be built to wheelchair adaptable standards M4(3)(2)(a), and
- 10% of all new affordable homes to be built to wheelchair accessible standards M4(3)(2)(b).

3.29. Climate change response (Policy CN1 – CN8) - The implementation of the Future Homes Standard (FHS) in 2025 states that new homes will be “zero carbon ready” (i.e. no further retrofitting for energy efficiency will be required to achieve ‘zero carbon’ status, as the electricity grid continues to decarbonize). The current Part L Building Regulations implemented the first phase of this, coming into effect in June 2022. Our assessment assumes a Part L 2021 baseline. We understand the climate emergency is a key priority for the Council and therefore it is seeking an enhanced standard beyond the FHS.

3.30. Policy CN3 sets out detailed requirements to achieve net zero operational energy compliance from plan adoption. The detailed specification requirements align with the Low Energy Transformation Institute (LETI) based on energy use intensity (EUI) targets, as follows:-

- Space heating demand target of <15kWh/M^2/year
- Operational energy use target of <35 kWh/M^2/year
- Maximising on-site renewable energy generation equivalent to at least the on-site energy demand ensuring the balance is met.

3.31. The costs to achieve this standard are evidenced within the 'Net Zero Carbon Targets – Evidence Base' report produced by Elementa, Currie & Brown and Etude in September 2022. Although Appendix 1 sets out the assumptions detail, the assumed extra-over costs are +5% on base build for mixed schemes (houses and flats) and +5.8% for housing only schemes.

3.32. We are aware of a number of LPAs seeking to implement similar policies and some already having implemented this approach following a successful examination process e.g. Central Lincolnshire Council, Cornwall Council, Bath & North East Somerset Council. In addition, there now appears to be a consensus between specialist consultancies (including in the above Elementa report) that the costs to achieve the above standards will reduce over time as construction teams become more experienced and as new build methods and offsite manufactured systems become more widespread.

3.33. On the 13th December 2023 a Written Ministerial Statement (WMS) was published indicating Government does not expect LPAs to set their own targets on energy efficiency in buildings and seeks the use of a specific metric if such targets are sought in the local plan. The background to this is purported to be concern over an increasing lack of consistency in how energy efficiency policies are applied to development, in as much as this might conceivably slow down the supply of new housing. The WMS therefore promotes the use of a specific metric from the national Building Regulations – a percentage uplift of a dwelling's Target Emission Rate (TER) calculated using a specified version of the Standard Assessment Procedure (SAP). This is based on a view that this would offer clarity and consistency for those investing and preparing to build net-zero ready homes.

3.34. Although it is not the role of a strategic-level viability assessment to debate the applicability of the WMS in the context of the relevant legislation on energy efficiency and climate mitigation duties (e.g. Planning & Energy Act 2008 and Planning & Compulsory Purchase Act), our assessment assumes the emerging policy position applied fully. Should the Council be required to align with the FHS 2025 the cost implication would be reduced to around +1-1.5% on base build. In our view, this would improve viability prospects but not significantly so to the point where additional policy requirements could be supported (e.g. additional affordable housing or CIL).

3.35. Self-build and custom-build housing (Policy H5) – this policy requires on schemes of 50+ units, 6% should be made available for sale as serviced self-build and custom-build plots. Our assessment assumes plot sales (receipts to the developer) of £150,000 per plot, based on DSP research data. Although we have seen plot sales in excess of the above, we consider this figure represents reasonable approach.

3.36. From DSP's experience of this type of development, we consider the provision of plots (serviced and ready for development) for self or custom-build has the potential to be sufficiently profitable so as not to provide a significant drag on the viability of a scheme in general. Broadly, we would expect this activity to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details, as with other aspects of the development process. In our view however, there may be some practical challenges to be overcome in integrating plots within general market housing schemes, and perhaps especially if such a policy is applied in a rigid way. In practice, many self-builders will look to satisfy their own specific aims through the market – finding either an individual plot, re-build opportunity, conversion or similar.

3.37. Community Infrastructure Levy (CIL) and residual s.106 contributions – CIL has been allowed for at the current indexed charging rates as follows below. Overall, CIL has a much lower impact on overall viability compared to other policy requirements e.g. affordable housing. Any variation (reduction) to the CIL level(s) would not be sufficient in isolation to support greater AH provision.

- Zone 1 (Strategic Allocations and South Hampshire Urban Areas) - £0sq. m. (indexed) / (Adopted Rate £0)
- Zone 2 (Winchester Town)- £192.91/sq. m. (indexed) / (Adopted Rate £120)
- Zone 3 (All other areas) - £128.61/sq. m. (indexed) / (Adopted Rate £80)

3.38. Following the Regulation 18 consultation, we understand the Council agreed a CIL strategy in July 2023 confirming 30% of CIL funds are ring-fenced to support highway projects that are delivered in partnership with Hampshire County Council. In addition, we understand the strategy states there will need to be agreement between HCC and WCC on the prioritisation of infrastructure schemes being brought forward by HCC.

3.39. The adopted CIL operates alongside s106 obligations. The Council publishes an Infrastructure Funding Statement (IFS) at the end of each year on the website which identifies what CIL funding has been spent on or allocated to along with details of s106 funding. For the purposes of our assessment, a residual allowance for s106 must be made alongside CIL. Following a review of the Council's monitoring data and discussion with officers, an assumption of an additional £5,000/dwelling for residual s106 contributions has been selected, covering other elements such as education, health, minor highways/transport requirements etc. in addition to the CIL. In our experience this would be a realistic and reasonable figure to include in a high-level viability assessment such as this. We note that some of these contributions will vary at a site-specific level and some would not be required in all circumstances/cases (e.g. education).

High-level testing approach

3.40. As discussed in Section 1, the appraisal testing uses the residual valuation methodology which deducts the assumed scheme development cost from the revenue generated by the scheme (completed value). This produces a residual land value (RLV) as the amount indicatively available to purchase a site. The RLV output can then be compared against our assumed range of Benchmark Land Values (BLVs), based on our high-level assessment of existing-use value (EUV) plus a premium to incentivise release of the site for development (as appropriate) – consistent with the PPG principles.

3.41. The assumed BLVs are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. Schemes will obviously come forward based on very site-specific circumstances, including in some cases on sites with appropriately judged land values beneath the levels assumed for this purpose.

3.42. As part of the process of developing appropriately robust BLVs, we have reviewed other available evidence, including previous viability studies at a strategic level as well as site-specific assessments where available. In addition, we have also had regard to the consultation responses and published Government sources on land values for policy appraisal[3] providing industrial, office, residential and agricultural land value estimates for locations across the country.

3.43. As set out in the results appendices, we have made indicative comparisons with BLVs in a range between £250,000/ha and £4,000,000/ha plus overall, enabling us to view where the RLVs fall in relation to those levels and to the overall range between them.

[3] MHCLG: Land value estimates for policy appraisal – most recent version 2019 published August 2020

3.44. Reflecting smaller, non-strategic scale development, we would expect an EUV+ of up to £500,000/ha could be applicable for greenfield / amenity land use releases with larger scale/strategic development typically not exceeding the £250,000/ha base position. Typically, higher BLVs represent PDL sites as these are often more costly to development and come with a higher existing use value. We consider the key range to be between £2m - £3m/hectare. That is not to say PDL sites could not come forward at lower or higher levels, hence the wider range being considered fully.

3.45. The appraisal modelling has been carried out on a wide range of key development site typologies representative of emerging supply likely to come forward over the plan period – See Figure 2 below. In addition, the assessment will also test the viability scope for both retirement living/sheltered housing and extra care housing each with bespoke assumptions reflective of this particular type and form of development. Other forms of development such as Build to Rent (BtR), Purpose Built Student Accommodation (PBSA) and other non-residential typologies will also be reviewed as part of finalised report.

Figure 2 – Residential development typologies.

Scheme Size Appraised	Type	Site Type	Density (dph)	Net Land area (ha)	Gross Land Area (ha)*	Main Build Period (Months)
1	House	PDL / GF	35	0.03	0.03	6
5	Houses	PDL / GF	35	0.14	0.16	6
10	Houses	GF	35	0.29	0.33	12
10	Houses	PDL	35	0.29	0.33	12
15	Flats	PDL	125	0.12	0.14	18
15	Houses	GF	40	0.38	0.43	12
15	Houses	PDL	55	0.27	0.31	12
30	Houses	GF	40	0.75	0.86	18
30	Houses	PDL	55	0.55	0.63	18
50	Mixed (Houses/Flats)	GF	40	1.25	1.44	18
50	Mixed (Houses/Flats)	PDL	55	0.91	1.05	18
50	Flats	PDL	125	0.40	0.46	18
100	Mixed (Houses/Flats)	PDL	55	1.82	2.36	24
100	Mixed (Houses/Flats)	GF	40	2.50	3.25	24
500	Mixed (Houses/Flats)	GF	40	12.50	16.25	24*

3.46. Alongside the wider typology-based testing, we have also undertaken a further preliminary review of the Sir John Moore Barracks as a key specific site allocation on the northern side of Winchester City. This will be further finalised prior to WCC's consultation on the Regulation 19 Plan in Autumn 2024 following the current stage consultation with the site promoter.

4. Findings Review

4.1. The report findings focus on key residential development typologies representing a range of locally relevant development types, alongside considering specific testing of the proposed key site allocation at Sir John Moore Barracks – all using assumptions reflecting the Council's Regulation 19 Plan.

4.2. The residential typology testing results are set out in Appendix 2 of the report. The results are displayed on an RLV (£) and RLV (£/ha) basis for each tested typology, with 11 no. Value Levels and the applicable indexed CIL rates, across multiple affordable housing proportions (20% - 40%).

4.3. The RLV/ha results are then compared against the above range of BLVs. This uses shading applied to the results to help highlight trends and relative differences in results reflecting the greenfield and PDL BLVs. It is important to note that the coloured shading is not intended to depict any strict cut-offs or limits – it merely guides on the strength of the outcomes indicated by the range of tested assumptions combinations.

4.4. It is important to keep in mind that the findings discussed below should be considered in the context of the cumulative impact of policy costs on development. There needs to be an element of judgement so that reliance is not placed on results that are at the margins of viability.

General commentary

4.5. The results presented in Appendix 2 can broadly be grouped into three scheme types – mixed (houses/flats), houses only and flats representing greenfield and PDL based sites. Greenfield test scenarios reflecting smaller scale (non-strategic) development sites typically indicate greater viability prospects in comparison to PDL development sites. Typically, this is due to higher existing use values on PDL representing existing industrial/commercial sites. Essentially the PDL-based typology results need to exceed a higher BLV threshold before indicating viability scope – in the Winchester context we have assumed key BLVs of £2m – £3m/ha in the wider district and in the region of £3m - £4m/ha+ in Winchester City (CIL Zone B).

4.6. Although housing-led typologies, particularly on greenfield sites present a more positive results set (largely due to a lower BLV of £500,000/ha), these are tempered somewhat due to the requirements for nutrient mitigation (nitrates and phosphates) – variable by catchment area in the district. This is particularly evident in the Itchen catchment area where the mitigation costs are significantly higher than the East Hampshire catchment. However, as mitigation credit schemes become more established, the associated cost to development will reduce over time and will therefore have a positive viability impact (i.e. the results will improve).

4.7. Flatted development in isolation is typically PDL-based which we understand to be most likely to come forward within the inner and outer urban areas of Winchester. The results indicate a broadly challenging viability scenario unless relatively high sales values are available to support the higher associated development costs. This is a common theme across all viability studies and is not a finding isolated to Winchester. Given this form of development is anticipated to come forward in and around Winchester, the flatted results are supported by higher values in the region of £5,500 - £6,500/sq. m. Although viability will likely remain challenging, the prospects of this type of development coming forward viably should not be ruled out.

Affordable Housing

4.8. Reviewing the results set out in Appendix 2, to strike an appropriate viability balance, a differential approach to affordable housing should be considered varied by both site type (PDL/greenfield) and by catchment area. This approach also reflects the district’s varying characteristics and site supply context.

4.9. Reflecting the Council’s key strategic priorities, we consider the baseline, starting point expectation is a continuation of 40% affordable housing can be met in some circumstances. As discussed at various stages of the assessment including as part of the Interim Findings report, the results indicate a need for a 10% differential for PDL development relative to greenfield, and a further 5% differential (reduction) to balance the full effect of the likely maximum nutrient mitigation scenario (Itchen catchment area).

4.10. However, we consider development coming forward within Winchester City (specifically the defined CIL Zone 2) can overall support greater viability prospects. Therefore, although this Winchester zone is impacted by the maximum level of nutrient mitigation, we consider the baseline differential for affordable housing should apply.

4.11. Overall, our assessment indicates the Council should consider the following approach to affordable housing headlines:-

- **Baseline position** – rest of plan area (including Winchester Town CIL Zone 2)
    - 40% affordable housing (Greenfield)
    - 30% affordable housing (PDL)

- **Itchen catchment area -** except for Winchester Town CIL Zone 2 where the baseline position should apply (remaining plan area).
    - 35% affordable housing (Greenfield)
    - 25% affordable housing (PDL)

4.12. This approach seeks to respond to the more positive viability scenario for smaller-scale greenfield sites (non-strategic sites without large on-site infrastructure requirements) with the ability to support an improved and more consistent level of affordable housing provision. Although PDL schemes remain an important part of overall site supply, we understand the majority will be coming forward on greenfield sites. In the wider context of severe housing need in Winchester district, it is therefore important for affordable housing provision to be maximised so far as possible on these types of sites.

4.13. As a general point, typically in any area there are some sites that are likely to have inherent viability issues, regardless of the level of affordable housing or other policy. However, it is usually the affordable housing policy expectations that are the most significant in influencing viability, when looking at Local Plan policy impact. They tend to be key in considering viability prospects, because they are the most expensive to support. These are not factors isolated to Winchester district, rather they are common threads throughout our wide experience of both strategic and also experienced through site-specific (decision taking stage) viability assessments.

Larger-scale / strategic site allocations – Sir John Moore Barracks

4.14. As part of the assessment, typically strategic-scale development should be considered for bespoke testing based on the emerging policy positions. At the point of reporting, we have conducted some preliminary testing of the Sir John Moore Barracks site so far as possible noting consultation with the site promoter is ongoing.

4.15. Subject to detailed modelling, we consider the above recommended parameters for the Itchen catchment affordable housing headlines appear potentially viable.

Retirement/sheltered / extra care

4.16. These scheme types include a number of bespoke assumptions on development values and costs but most notably variable increased communal areas (at 25% to 35%), larger apartments, slower overall sales rates and an additional allowance for empty property costs. Retirement and extra care developments do however typically support premium sales values levels, which tend to go some way to counteracting the often higher than standard development costs.

4.17. Our assumed typologies at 30 and 60 flats reflect development at around the minimum scale that might typically be pursued commercial in our experience. Although both scheme types could come forward on PDL or greenfield sites, we tend to see these schemes coming forward on a range of former commercial or existing residential sites.

4.18. Typically, these schemes often come with variable levels of associated care depending on where each individual scheme sites between or combining care services and housing. For example, retirement living /sheltered schemes tend to exclude direct care provision whereas extra care schemes tend to include an element of care, albeit not the type of full care provision expected from care or nursing homes.

4.19. In our experience, these schemes can come forward in a variety of circumstances with variable characteristics. Generally, retirement/sheltered schemes with no or limited care related elements tend to be able to support affordable housing provision in line with typical market housing. Although highly site-specific, on-site affordable housing provision is not always suitable and commuted sums are often secured in lieu, in our experience. Extra care schemes tend to produce more mixed viability results, owing largely to potential enhanced levels of associated care provision.

4.20. Overall, we consider due to the highly variable and site-specific nature of these schemes, it would not be appropriate for the Council to differentiate for affordable housing. Our understanding is the Council's policy approach would be able to accommodate any necessary site-specific discussions in any event.

Other policy requirements

4.21. Although affordable housing has the greatest impact, other policies play a key part by contributing in varying measures to the cumulative viability impact.

4.22. We understand responding to the climate emergency is one of the Council's key strategic priorities and therefore emerging policy seeks to go beyond the Future Homes Standard due to come into effect in 2025. In our experience the relative cost difference in isolation is not likely to be sufficient to move a scheme from a negative to positive viability scenario or vica versa. In addition, it is now well documented that the cost to achieve net zero operational carbon standards will reduce over time and the same is expected to be true of other extra over costs relating to recently increased standards. The above affordable housing indications assume this approach as a baseline.

4.23. There is also another emerging dimension to zero carbon construction in relation to a potential positive impact on sales values. Anecdotal indications suggest there may be some potential values uplift or premium attached to zero carbon homes, certainty in the context of desirability owing to lower running costs. However, this is difficult to weigh up in the broader viability context with confidence.

CIL / s106

4.24. At this stage, the findings of this assessment indicate there is likely to be no scope to increase CIL beyond the current indexed rates alongside the assumed residual s106 contributions. This will necessarily be subject to further review as the assessment is finalized and more detail is available from the Government on the Infrastructure Levy.

Summary

4.25. Overall, our assessment has considered viability of the Local Plan from earlier stages through to present, supported by ongoing discussion and liaison with the WCC team. We consider the plan approach and policy directions to be viable on the whole on the basis of the above findings particularly in relation to affordable housing.

4.26. Although we have acknowledged there will be a limited number of sites that will face some viability challenges regardless of the emerging policy requirement, it is considered sites will be able to come forward viably with the plan policies in place. In all of this, it is important to reiterate the purpose of viability in planning is to inform and not constrain sustainable development; and in doing so enable the optimising of planning obligations – a balance must be struck.

4.27. This has been a relatively challenging time over which to consider development viability. Although generally conditions appear to be stabilising, uncertainty continues in regard to the economic situation and planning system. However, it is important to note while the assessment has been undertaken at a point in time, it is appropriate to look across the overall plan period.

Local Plan Viability Report
(July 2024)