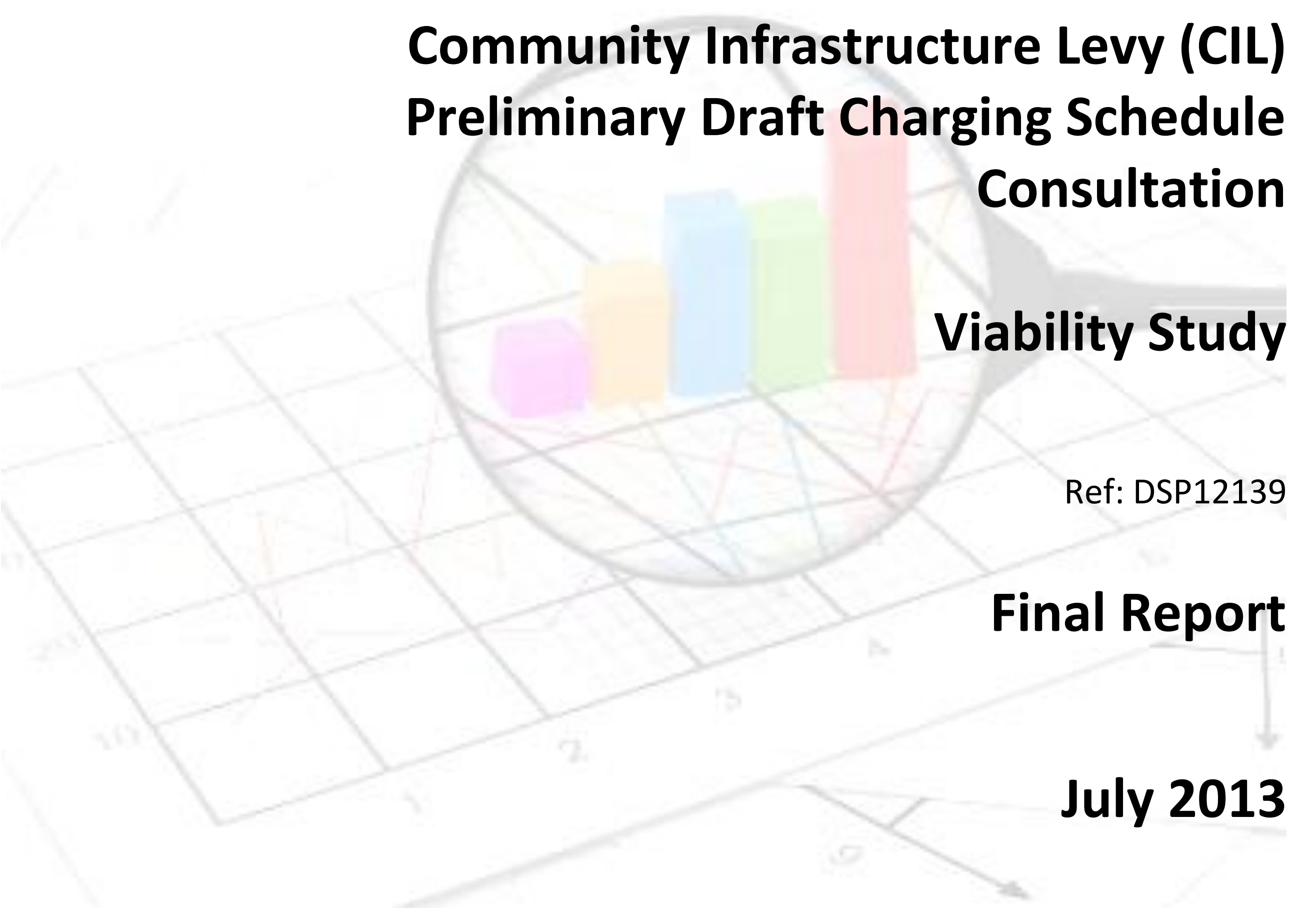
D|S|P Housing & Development Consultants

South Cambridgeshire District Council

Local Plan Submission & Community Infrastructure Levy (CIL) Preliminary Draft Charging Schedule Consultation



Viability Study

Ref: DSP12139

Final Report

July 2013

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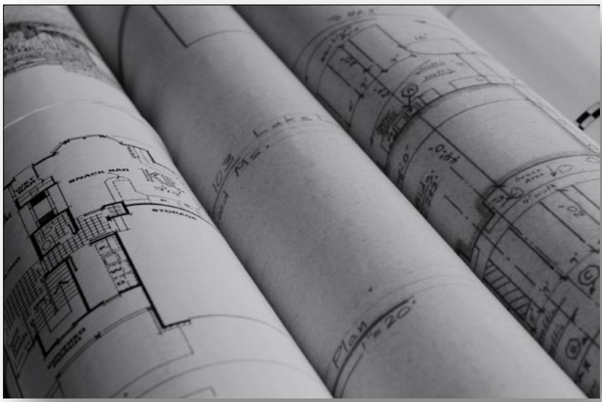

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Executive Summary

Context

1. This summary provides a very brief background introduction to the Local Plan and Community Infrastructure Levy (CIL) viability assessment undertaken for South Cambridgeshire District Council to support its development of both the South Cambridgeshire Local Plan (SCLP) and local CIL proposals.

2. The SCLP carries forward and adds to policies and proposals in the adopted South Cambridgeshire Local Development Framework with a target of 19,000 new homes and significant employment provision.

3. The CIL was introduced by the Government as a means of Local Authorities pooling development contributions to help fund the provision of the local infrastructure needed to support the planned growth (plan-led development) in their area. In essence, currently by April 2014 it will replace s.106 as a means of securing those wider area infrastructure contributions. However, during April - May 2013 the Government consulted on further proposed CIL reforms, which seem likely to see the April 2014 date extended by one year.

4. Therefore, in most cases, Councils that do not put a CIL in place will see their scope to secure those planning obligations (compared with existing mechanisms) severely reduced. S.106 will become a vehicle for securing only planning obligations relating to site-specific infrastructure and mitigation requirements. Based on the current CIL regulations, s.106 will continue to be used for securing affordable housing.

5. The CIL principles and charging structure are prescribed under the regulations. Those set out a framework which the local authority (the 'charging authority' for the CIL) has no flexibility over; CIL must be implemented and charged in the prescribed way. Charging authorities can however decide on the local charging rate(s), including whether to vary those by development use type and / or locality; as may be driven by varying development viability in their area.

6. Under the regulations, the CIL will be chargeable on a per square metre (sq. m) basis on all new development which adds more than 100 sq. m gross internal floor-space. This covers all types of property (residential and commercial / non-residential, including extensions). In addition, the development of all new dwellings will be chargeable, including new dwellings of less than 100 sq. m. Affordable housing and developments by charities will not be subject to CIL charging under the current regulations. Subject to certain criteria, CIL charging will not apply to any pre-existing accommodation on a development site. Therefore within the CIL payment calculation, the existing floor area may be deducted ("netted-off") from the chargeable development floor area. This will have a variable, usually positive, viability impact on developments where existing floorspace is allowed-for in this way.

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

Study and process

8. South Cambridgeshire District Council appointed Dixon Searle Partnership (DSP) to review the viability scope for a range of development use types (residential and commercial / non-residential) to support CIL funding in the District. Alongside supporting information on the local infrastructure requirements, the viability assessment is a key piece of evidence required to inform and support the CIL proposals. DSP is amongst the leading consultancies in this field, having taken Local Plan policies through Examination on numerous occasions and now taken its CIL viability work through Examination in Public (EIP) stage successfully for four other Authorities. We are working currently with a range of other authorities. The most recent outcomes to reach that stage were East Cambridgeshire District Council in November 2012 and Elmbridge Borough (January 2013).

9. As the study progressed the Council's Brief was developed further to include high level viability testing of the emerging SCLP. The study therefore investigates the

potential scope for CIL charging in South Cambridgeshire District alongside policies within the Local Plan with the aim of ensuring that the overall approach will not put at serious risk the delivery of the Plan as a whole. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the District; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy). The aim is to provide the Council with advice as to the likely viability of both the policies within the emerging SCLP and viability of seeking developer contributions towards infrastructure provision through the CIL. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of planning obligations alongside other usual development costs.

10. The study approach does this through exploring the collective effect of key development costs and obligations. The methodology explores a range of reasonably representative development scenarios and involves testing those for a variety of sensitivities, including the following factors varying:
    - Completed scheme (sales) values ('gross development value – GDV');
    - Sensitivity testing of South Cambridgeshire affordable housing policies (across a range of 20% - 40% affordable housing on sites of 2/3 or more);
    - Varying potential land value expectations;
    - Range of "trial" CIL charging rates;
    - Build and other development and policy costs varying by scheme type.

11. With CIL, the Council must seek to strike an appropriate balance between contributing to local infrastructure funding needs (meeting the infrastructure 'funding gap' that CIL aims to bridge) and development viability. In doing so, a range of other factors need to be considered, such as site supply and likely frequency and development plan relevance of various development types to the area. This question of balance has been confirmed through the latest, consolidated, guidance on CIL (published by DCLG April 2013). Similar principles apply to testing the Local Plan generally whereby the policies and proposals in the draft Local Plan can be brought together to consider their cumulative impact on development viability.

12. DSP aims to provide parameters and options, where possible, and this approach has been appropriate in informing client local authorities' work to date. The viability work need not be followed slavishly, but the Council should consider the options and parameters set out by DSP – the scope of our recommendations (see later). However, it should be emphasised that it is an essential requirement for the CIL Charging Schedule to be justified by evidence of viability. The key test at Examination will be whether the rates are set at reasonable levels in order not to unduly compromise development viability (in the context of the delivery of the plan as a whole rather than necessarily in respect of each individual site). This is a vital part of seeking the right balance in setting the local approach to the CIL. The Council will also need to show how its CIL proposals will contribute positively to the development of the area.

13. In summary, the study involved the key stages of research, assumptions setting (including inviting development industry stakeholders to submit information), running a wide range of development viability appraisals and finally, analysis and review. The appraisals used residual land valuation principles - an established approach to this type of study, used over a number of years to consider affordable housing and other aspects of viability review for planning policy development. The full study report (as follows this summary) comprehensively sets out the process and outcomes.

Findings – SCLP (High level)

14. In terms of overall SCLP viability, the study process found that there is the potential to create viable residential schemes associated with the Council's strategy. This is necessarily qualified though, owing to the early stages nature and high-level consideration of the values and normal costs relationships. Delivery is proposed for commencement many years ahead in some cases, and then potentially spanning a number of economic market cycles, governments and other significant changes that will influence the delivery details of the larger sites and strategic locations.

15. The key points in respect of this picture and made through report are, in our view, the need to:

- Build and keep under review the viability picture as more becomes known – a more settled understanding of Infrastructure Development Plan (IDP) costings, together with the development of master-planning processes and the like;

- Continue to operate development control policies and prepare development briefs / SPD / work up master-planning frameworks or similar in a responsive and adaptable way rather than having too rigid an approach to securing necessarily challenging affordable housing and sustainability / carbon reduction targets;

- Balancing key objectives with viability including compromise as may be necessary. This will most likely need to be dealt with and settled in a bespoke way according to site specific issues and how those will change over time – e.g. with the market and over various phases of development.

Findings - CIL

16. For residential development, suitable overall parameters for CIL charging in South Cambridgeshire District were found to be £0 to £125/sq. m, depending on circumstances (see below) and taking account of the need not to set rates at the margins of viability.

17. This scope is associated with the SCLP proposals based primarily around larger sites and greenfield land release, but also including a number of proposed smaller sites from the extension of settlements and re-use of commercial land. The selection of rates within these parameters is expected to be led by the approach needed in viability terms for the larger sites / strategic locations and then looking at the viability findings for the smaller sites.

18. We have found that beyond the larger sites / strategic locations proposed through the SCLP and the edge of Cambridge, differential charging by locality should not be necessary, so that a single charging rate applicable to the rest of the District would be an appropriate route for residential development.

19. On this basis, an appropriate single, District-wide CIL rate applicable other than to the excepted areas would be £100/sq. m, being within the viability parameters that have been set out for the smaller site scenarios.

20. The excepted areas that require differentiation would be the larger / strategic sites that are expected to be associated with significant particular infrastructure requirements / scheme mitigation (the Council will need to define these) and the edge of Cambridge scenario(s); at suggested CIL charging rates of £0/sq. m and £125/sq. m respectively. The areas will need to be mapped.

21. Whilst, as an alternative option, the Council could consider a more complex approach by applying differential residential CIL charging rates seeking to respond to varying viability related to the strength of property sales values in certain areas of the District, we anticipate that this could get very complex and is not warranted given the SCLP proposed delivery focus for growth.

22. The basis for our CIL recommendations do not change should the Council ultimately need to base CIL on the adopted plan instead of its preferred approach of alignment to the SCLP (currently emerging plan).

23. In all cases, (and applicable also to commercial / non-residential scenarios – see below) any rates considered below the levels and parameters that we set out are within the scope of our viability findings.

24. In avoiding setting rates too high, the wider characteristics and costs of development need to be considered. These include a range of factors such as potentially on-going uncertain market conditions, variable land value levels, the need to continue supporting other planning objectives (e.g. affordable housing and sustainable construction) to optimal possible levels in individual circumstances; and potential occurrence of variable abnormal costs, etc.

25. These are general characteristics based on an appropriate high level overview and not necessarily reflecting all local or scheme-specific variations that may become relevant at the delivery point, but nevertheless this type of approach fits the Local Plan and CIL principles while respecting the key variations seen.

26. The viability of a range of commercial / non-residential development types in the District was found to be highly variable overall – with only retail development in some circumstances, and the development of any purpose-built students' housing, considered capable of reliably supporting meaningful CIL contributions at the current time. The review for CIL viability also informs the Council's ongoing work in respect of wider SCLP delivery and economic objectives, acknowledging that it is important to work with partners to make the most of promoting choice and opportunities in the most appropriate locations. A proactive and creative approach will be needed, enabling the most to be made of opportunities as market activity goes through improved periods.

27. As with residential development, our findings show that there is viability scope to support various charging rate(s) options for retail development. These fall within the same suggested overall range (as residential) of £0 to 150/sq. m overall, with the approach to the right balance locally to be further informed by the plan relevance and incidence of the various types of retail development. The key finding on retail is that a significantly lower rate would be appropriate in viability terms for smaller shops development; at £50 – 75/sq. m if a differential approach were adopted. This is associated with our understanding that a range of retail provision will be sought in connection with the larger scale development proposals.

28. For student accommodation (if occurring at or near to the District / City border and whether promoted by Universities / Colleges or similar, or independently / speculatively), we consider that an appropriate charging rate would be within the overall parameters for residential (as above). On the basis of no-affordable housing requirement (i.e. to fit the current policy approach) we would recommend a rate of no more than £125 to 150/sq. m. Again, alignment to the suggested upper or single residential charging rate would be an appropriate approach.

29. The report (as follows) provides commentary relating to the potential approaches in dealing with retail development. It provides evidence should the Council consider it relevant to pursue differentiation for the different retail development use types that come with associated variable characteristics and viability results.

30. As with all charging rate levels, the results of this study could be kept under review for subsequent charging schedules with regard to economic circumstances, the

updated value / cost relationships and the on-going / potentially changing relevance over time of various scheme types in the District.

31. In testing other forms of commercial / non-residential development, it was found that any level of CIL charging could generally either exacerbate the viability issues associated with marginal schemes or unviable schemes by placing undue added risk to other forms of new development coming forward. This added risk needs to be balanced against the likely frequency of such schemes, their role in the development plan delivery overall and perhaps also the level of CIL "yield" (total monies collected) that they might provide. We see some authorities aiming to charge CIL on development uses such as hotels and care homes where those are shown clearly to be viable and of planned local relevance, but experience of such areas is highly variable and here the viability evidence does not support that at the current time.

32. Whichever approach to CIL is progressed, we reiterate that the Council will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). CIL will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances. Again this is not just a local factor, but is a widely applicable principle. Under the latest CIL guidance (likely to be strengthened through the CIL reforms) charging authorities will increasingly need to make clear how CIL and s.106 will operate together in their area. This will include being clear about infrastructure needs so that there is no actual or perceived "double dipping" – i.e. charging for infrastructure both through CIL and s.106.

33. The following table provides an outline of our recommendations summary (as included at section 3.12 (Figure 17) of the full study report that follows) – see the table below:

CIL Charging rates parameters & rates for consideration
A. <u>Residential</u>
Overall parameters - £0 to £150/sq. m **Suggested approach for consideration:** - **Overall rate of not more than £100/sq. m, applicable District-wide except in respect of:** - **Strategic development locations and larger sites - £0/sq. m, and;** - **Edge of Cambridge - £125/sq. m (or rate as per confirmed Cambridge City Council rate in due course)**
B. Retail
Overall parameters – rates scope as per residential - £0 – 150/sq. m with selection of rate(s) depending on circumstances considered most relevant to the local balance, including development plan relevance. **Scope / points to consider:** **Differential or single simple approaches both possible and appropriate in viability terms, depending on SCLP relevance of the various types of retail development;** **Small shops rate suggested at not more than £50-75/sq. m;** **Larger format retail rate could be considered up to full extent of parameters, but suggested at not more than £125/sq. m;** **Whether to treat retail development within large site / strategic development areas as per the residential recommendation for those; i.e. also nil-rated (£0/sq. m).**

DCLG consultation on proposed CIL reforms (April – May 2013) may result in other matters to consider / review of differentiating scope in terms of the regulations;
C. <u>Business Development - Office and Industrial of all forms</u>
At the current time, although subject to future review - £0/sq. m
D. <u>Hotels and Care Homes</u>
At the current time, although subject to future review - £0/sq. m
E. <u>Students' housing accommodation</u>
If to be within the Council's charging scope**, a rate of not more than the £125/sq. m upper residential / retail level.**
F. <u>Community (and all other) uses</u>
Nil rate (£0/sq. m), on balance, in preference to a low / nominal "default" rate

Final version Executive Summary ends.
July 2013.

1 Introduction

1.1. Background to the Study

1.1.1. South Cambridgeshire District Council commissioned Dixon Searle LLP to carry out a viability assessment to support the introduction of a Community Infrastructure Levy (CIL) on new development across the Council area. Initially the basis for the viability assessment and the CIL Preliminary Draft Charging Schedule (PDCS) was to be the adopted Plan and associated policies[1] (from this point forward we refer to the adopted LDF Core Strategy and Development Control Policies DPDs as the "adopted Local Plan" or "adopted Plan"). As the study progressed it became apparent that the new emerging South Cambridgeshire Local Plan (SCLP)[2] and policies contained therein should also be taken into account in setting the CIL. Subsequently, the Council further developed its project brief to include a requirement by the Council for DSP to also make a broad assessment of the overall viability of the policies and proposals in the draft South Cambridgeshire Local Plan. This approach is suitable overall because in looking at CIL viability it is necessary in any event to align the review of the charging scope to an up to date development plan; and in doing so to have regard to the policies within that. This has lead, ultimately, to a three stage assessment process:

- Recommendations for CIL based on the adopted Local Plan;
- Recommendations for CIL based on the emerging Local Plan;
- Assessment of the policies and proposals within the emerging Local Plan.

1.1.2. As requested by the Council, recommendations with regard to CIL and appropriate charging levels are made allied to both the adopted and emerging Local Plan approaches. However, as a significant number of areas overlap in terms of the policies considered and assumptions built into this study, to avoid confusion, this report primarily details the methodology, assumptions, results and conclusions of our work with regard to the emerging SCLP; with references to the adopted Plan made and discussed where applicable.

[1] South Cambridgeshire District Council – Local Development Framework 'Core Strategy' & 'Development Control Policies' Development Plan Documents (July 2007)
[2] South Cambridgeshire District Council - South Cambridgeshire Local Plan Submission Document (July 2013)

1.1.3. This is consistent with the emerging SCLP being regarded as the up to date Plan, the growth associated with which drives the need for the CIL to be put in place to support the associated infrastructure requirements.

1.1.4. The parallel review process based on the Council's adopted Core Strategy therefore provides additional information for comparative purposes. This provides evidence in the event that the Council needs to consider a shorter term contingency-type approach to progressing CIL based on the adopted Strategy.

1.2. Background – Community Infrastructure Levy

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

1.2.2 CIL takes the form of a charge levied per square metre (sq. m) on the gross internal floorspace of 'net additional liable development'[3]. The levy is chargeable on most types of new development that involve an increase in floor space. The charge will be expressed as a rate in £s per sq. m (£/sq. m) of development; known as the charging rate.

1.2.3 The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.

1.2.4 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area, in accordance with its Development Plan. In this authority's case, the key documents are both the adopted[4] and emerging Local Plan[5]. The adopted Plan was formally adopted in July 2007; the emerging

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[3] DCLG – Community Infrastructure Levy Guidance (April 2013)
[4] South Cambridgeshire District Council – Local Development Framework 'Core Strategy' & 'Development Control Policies' Development Plan Documents (July 2007)
[5] South Cambridgeshire District Council - South Cambridgeshire Local Plan Submission Document (July 2013)

submission Local Plan will be shortly subject to consultation. The document, when adopted, will set out the key priorities and ambitions of the Council through strategic and locational policies that will cover the period to 2031.

1.2.5 Changes to the CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the Community Infrastructure Levy arising from the development that they have chosen to accept. Under the proposals the money would be paid directly to parish and town councils and could be used for community projects. The Government has said it will issue further guidance on exactly what the money can be spent on.

1.2.6 Neighbourhoods without a neighbourhood development plan but where the community infrastructure levy is still charged will receive a capped share of 15% of the levy revenue arising from development in their area. This announcement was formalised through the Community Infrastructure Levy 2013 amendment regulations on 25th April 2013. The Guidance was also updated to reflect these changes[6].

1.2.7 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.

1.2.8 The levy rate(s) will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the anticipated funding gap that exists; and secondly by evidence of development viability.

1.2.9 South Cambridgeshire District Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the emerging SCLP. The IDP identifies both the desirable, necessary and critical infrastructure required to support forecasted development identified in the SCLP with estimated costs, potential and known funding sources and

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

timescales for delivery. The IDP has been prepared in consultation with key infrastructure and service providers and forms a key part of the evidence base which will both support the emerging SCLP and assist in the development of the CIL charging schedule

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

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

1.2.12 An authority wishing to implement the CIL locally must produce a charging schedule setting out the levy's rates in its area. The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

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

"By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened".

"Charging authorities should be able to show and explain how their proposed Community Infrastructure Levy rate (or rates) will contribute towards the implementation of their relevant Plan8 and support development across their area. It is likely, for example, that charging authorities will need to summarise evidence as to economic viability in a document (separate from the charging schedule) as part of their background evidence that shows the potential effects of their proposed levy rate (or rates) on the economic viability of development across their area".

"As background evidence, the charging authority should also prepare and provide information about the amounts raised in recent years through section 106 agreements. This should include the extent to which affordable housing and other targets have been met"[7].

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

1.3 Background - South Cambridgeshire Local Plan (SCLP)

1.3.1 The draft Local Plan carries forward and adds to policies and proposals in the adopted South Cambridgeshire Local Development Framework (2007 – 2010). The draft Local Plan sets a target of 19,000 new homes between 2011 and 2031 of which 14,000 are carried forward as allocations/permissions and homes constructed since 2011 and adds sites for a further 5,000 new homes.

1.3.2 Having been reviewed during the preparation of the draft Local Plan, many of the policies from the adopted LDF are also carried forward either unaltered or with modifications as a result of changes in national policy or with the experience of implementation. Importantly for this study the policy for the delivery of 40% of all housing development as affordable housing (subject to viability assessment at the planning application stage) is carried forward. This policy has delivered schemes where 40% of the housing provided is affordable but has also been applied with flexibility where a lower level of affordable housing was necessary at a point within the economic cycle to render development viable; or given particular site-specific costs or characteristics.

1.3.3 The NPPF was published in final form in March 2012 and supersedes previous Planning Policy Statements. The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options which reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

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

'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development,

such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'[8].

1.3.5 Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF.

1.4 Purpose of this Report

1.4.1 This study has been produced with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance[9] applicable to studies of this nature. It also includes the consideration of Affordable Rented tenure as introduced by the Government and Homes and Communities Agency (HCA) for its Affordable Homes Programme (AHP) 2011 to 2015.

1.4.2 More information on the AHP can be viewed at the HCA's web-site: http://www.homesandcommunities.co.uk/affordable-homes. The Government's updated definition of affordable housing is to be found at Annex 2, the Glossary to the NPPF. As will be explained in this study document, affordable housing is a significant component of the assumptions set.

1.4.3 In order to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF, the Council appointed Dixon Searle

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

Partnership (DSP) to provide the viability evidence base to inform the development of the Council's draft CIL charging schedule and emerging SCLP.

1.4.4 This study investigates the potential scope for CIL charging in South Cambridgeshire District alongside policies within the Local Plan with the aim of ensuring that the overall approach will not put at serious risk the delivery of the Plan as a whole. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the District; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy). The aim is to provide the Council with advice as to the likely viability of both the policies within the emerging SCLP and viability of seeking developer contributions towards infrastructure provision through the CIL. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of planning obligations alongside other usual development costs.

1.4.5 This does not require a detailed viability appraisal of every site anticipated to come forward over the plan period rather the testing of a range of appropriate site typologies reflecting the mix of sites upon which the plan relies. Neither does it require an appraisal of every policy in the plan rather those policies which will have a close bearing on development costs.

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

1.4.7 One of the key areas is the Council's approach to affordable housing. The adopted Local Plan requires 40% of housing on sites of 2 dwellings or more to provide an agreed mix of affordable housing negotiated, taking into account the viability of development. This policy is proposed for carrying forward in to the SCLP, but operated instead from a threshold of 3 dwellings. This study takes into account not only the proposed policies but includes sensitivity testing on a range of alternatives –

for example lower affordable housing proportions – to provide additional information to inform the Council's approach, and wider review context.

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

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

1.4.10 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are relevant to the development plan and that are likely to come forward within the District.

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

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

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

1.4.14 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put a risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL payments.

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

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

1.4.17 This report then sets out findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of the CIL, the Council's Preliminary Draft Charging Schedule (PDCS) and SCLP.

1.5 South Cambridgeshire District Profile

1.5.1 South Cambridgeshire is located centrally in the East of England region. It is a largely rural district which entirely surrounds the City of Cambridge and comprises over 100 villages, none larger than 8,000 people. It is surrounded by a ring of market towns just beyond its borders, which are generally 10–15 miles from Cambridge. Together, Cambridge, South Cambridgeshire and the Market Towns form the Cambridge Sub-Region. South Cambridgeshire has long been a fast growing district and in 2011 had a population of 146,800 persons (bigger than Cambridge itself) and has become home to many of the clusters of high technology research and development in the Cambridge Sub-Region.

1.5.2 Over the new plan period (2011 – 2031), South Cambridgeshire will see growth of 19,000 new homes of which 14,000 are carried forward as allocations/permissions and homes constructed since 2011 and adds sites for a further 5,000 new homes. The emerging plan also allows for development to accommodate 22,000 new jobs.

1.5.3 The development strategy will meet the need for jobs and homes through development on the edge of Cambridge; at new settlements and in the rural area at Rural Centres and Minor Rural Centres[10]. In addition Major site allocations from the South Cambridgeshire Local Development Framework 2007-2010 together with the Area Action Plans for Northstowe, North West Cambridge, Cambridge Southern Fringe and Cambridge East (except as amended by Policy SS/3) are carried forward as part of the development plan to 2031 or until such time as the developments are complete. Three new strategic scale allocations are also proposed for housing led development with associated employment and supporting services and facilities[11]. Development in the rural area will be limited, with allocations for jobs and housing focused on Rural Centres and Minor Rural Centres, and rural settlement policies providing for windfall development for different categories of village consistent with the level of local service provision and quality of public transport access to Cambridge or a market town.

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[10] Rural Centres are identified as the following villages: Cambourne, Cottenham, Great Shelford & Stapleford, Histon & Impington and Sawston. Minor Rural Centres are identified as: Bar Hill, Bassingbourne, Comberton, Gamlingay, Girton, Fulbourne, Linton, Melbourne, Milton, Papworth Everard, Swavesey, Waterbeach and Willingham.

[11] Waterbeach – 8,000 – 9,000 new homes, 1,400 of which by 2031; Bourne Airfield, 3,500 new homes 1,500 of which by 2031; Cambourne West, 1,500 new homes of which all will be delivered by 2031.

1.5.4 The Council's emerging policy establishes a target of 22,000 new jobs to be provided in the District by 2031.

1.5.5 At March 2012 planning permission had been granted for 238,298 sq. m (80.3 hectares) of employment uses. In addition, there are opportunities for significant further provision at:

- Northstowe (20 hectares of employment land), and
- Cambridge University's North West Cambridge Development (for 100,000 sq. m of research facilities, including up to 40,000 sq. m for research institutes and private research facilities linked to the University).

1.5.6 The Council's Employment Land Review (2012) identified a particular need for office space in or on the edge of Cambridge. Opportunities have been identified on the northern fringe of Cambridge for additional employment development, taking advantage of the increased accessibility of the area as a result of by the Guided Bus and the planned Cambridge Science Park railway station. The area around the planned Cambridge Science Parks Station itself has been identified for a high density mixed employment led development, providing a new gateway to the northern part of Cambridge.

1.6 Notes and Limitations

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

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

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

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

2 Assessment Methodology

2.1 Residual valuation principles

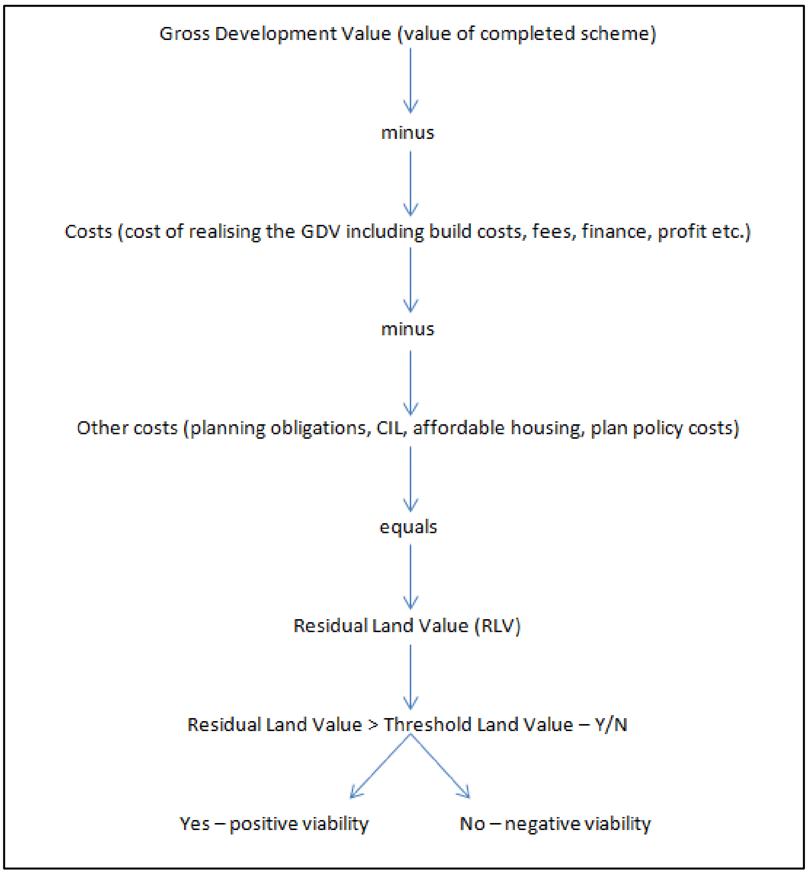
2.1.1 This study serves a dual purpose through both investigating the potential for a range of development types to contribute to infrastructure provision funding across South Cambridgeshire through the collection of financial contributions charged via a Community Infrastructure Levy and the reviewing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

2.1.2 A number of policies from the Council's emerging Local Plan that may have an impact on the viability of development have had to be considered and included within the modelling. These include affordable housing target (%) requirements and other planning policy / obligations as assumptions that will impact scheme viability alongside the trialled CIL charging rates. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

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

2.1.4 Residual valuation, as the term suggests, provides a "residual" value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



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

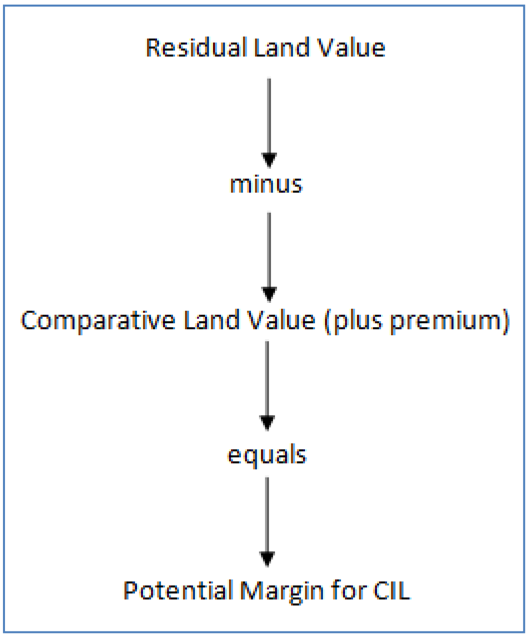
2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including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

2.1.7 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals and consequently there has been very little to use in terms of examples. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a South Cambridgeshire-specific factor, but one that we are experiencing on a consistent basis in carrying out these types of studies. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions.

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

2.1.9 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 2 below):

Figure 2: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



2.1.10 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices Ia, 1b, 1c and III. They reflect the local market (through research on local values, costs and types of provision, etc.) and locally relevant planning policies (taking into account the policies as are set out within both the emerging SCLP and the adopted plan). At key project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included carrying out a stakeholder workshop / seminar alongside issuing a questionnaire / pro-forma to key stakeholders locally (developers, house builders, landowners, agents, Registered Providers etc.) to get feedback on study assumptions and provide the opportunity for provision of information to inform the study. Approximately 40 parties were contacted and given an opportunity to respond either via the workshop or through receipt of our questionnaire / pro-forma.

2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the Council following a review of the information it provided. These included the adopted Local

Plan and emerging Local Plan, background and evidence base, Supplementary Planning Documents (SPD), Monitoring Reports, Strategic Housing Land Availability Assessment (SHLAA) and other information. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the District bearing in mind the probable life of a first CIL Charging Schedule. In addition the scale of development coming forward across the District also needed to be considered. The emerging SCLP details the sites coming forward across the plan period as follows:

Figure 3: Emerging SCLP Distribution of Sites

Strategic sites	
Waterbeach new town	Waterbeach
Cambourne West	Cambourne / Caxton
Bourn Airfield	Bourn / Cambourne
Village sites	
Dales Manor Business Park	Sawston
Land north of Babraham Road	Sawston
Land south of Babraham Road	Sawston
Land north of Impington Lane	Histon & Impington
Land off New Road and rear of Victoria Way	Melbourn
Green End Industrial Estate	Gamlingay
Land east of Rockmill End	Willingham
Land at Bennell Farm (in Toft Parish)	Comberton
Land at Teversham Drift	Cherry Hinton

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision:

Figure 4: Residential Scheme Types – Emerging SCLP Approach

Scheme Type	Overall Scheme Mix
1 House	1 x 4 BH
3 Houses	1 x 2 BH, 1 x 3 BH, 1 x 4 BH
10 Houses	6 x 2 BH, 2 x 3 BH, 2 x 4 BH
10 Mixed	4 x 2 BF, 2 x 2 BH, 2 x 3 BH, 2 x 4 BH
25 Mixed 1	2 x 1 BF, 10 x 2 BH, 8 x 3 BH, 5 x 4 BH
25 Mixed 2	2 x 1 BF, 4 x 2 BF, 6 x 2 BH, 8 x 3 BH, 5 x 4 BH
40 Flats (Sheltered Housing)	28 x 1BF; 12 x 2BF
50 Mixed	3 x 1 BF, 12 x 2 BF, 9 x 2 BH, 16 x 3 BH, 10 x 4 BH
100 Mixed	10 x 1 BF, 19 x 2 BF, 17 x 2 BH, 33 x 3 BH, 21 x 4 BH
250 Mixed	20 x 1 BF, 45 x 2 BF, 45 x 2 BH, 87 x 3 BH, 53 x 4 BH
500 Mixed	40 x 1 BF, 90 x 2 BF, 90 x 2 BH, 174 x 3 BH, 106 x 4 BH

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

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

2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in the District context. However they do reflect the policies set out by the Council in the emerging SCLP that require a wide choice, type and mix of housing. The mix used is different from that required by the adopted Local Plan. As with a number of policies, changes were required between the adopted and emerging Plan routes with regard to CIL viability testing.

2.2.5 The residential scenarios were chosen to reflect and further test the Council's emerging policies, including on affordable housing. In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The scheme typologies applied in this study reflect those policies and full details of the private and affordable housing numbers assumed within each scheme scenario can be seen in Appendices Ia and Ib – Assumptions Spreadsheet.

2.2.6 In developing the project brief as at 1.1.1 to include the wider SCLP review, at this stage based on the available information (including current stage emerging updated IDP work) it is not possible to undertake detailed review of the largest new towns and villages. These are proposed for delivery from 2023 / 2026 to well beyond the emerging plan period and are going to need ongoing and detailed review and monitoring of their capacity to deliver growth and associated infrastructure over such a long time span through varying market cycles etc. This is consistent with the acknowledgment in the Council's SHLAA in that: '*For strategic scale sites (new settlements and large urban extensions) much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. Such variables are currently unknown or unclear…*'. It is likely that further detailed work will be required in order for the Council to develop a fuller understanding of the potential delivery scenarios of these sites over time, however further commentary is provided within Chapter 3, so far as possible at this stage given the results trends indicated by the largest current stage appraisals.

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

Figure 5: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	50
2-bed flat	67	65
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

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

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

Commercial / Non-Residential Development Scenarios

2.2.10 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the District.

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

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

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
Large format Retail - supermarket	Supermarket – town centre – PDL / Greenfield	2,500	40%	0.63
Large format Retail – Retail Warehouse	Retail Warehouse - PDL / Greenfield	2,500	40%	0.63
Small format retail – convenience store	Various locations – PDL / Greenfield	300	80%	0.04
Business development - Offices	Business park – PDL / Greenfield	2,000	40%	0.50
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of town			
B1 , B2, B8 - Industrial / Warehousing	Move-on type industrial unit including offices	500	40%	0.13
Hotel	Budget Hotel – out of town	2,100	50%	0.42
Residential Institution - Care home	Nursing home	2,500	40%	0.63
Student Housing	100% en-suite / cluster type	1,700	135%	0.13

(‘PDL’ = previously developed land – i.e. ‘brownfield’ land).

2.2.12 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the District and are as agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based searching. We also received some additional indications through our process of seeking local soundings. Further information is provided within Appendix III to this report.

2.2.13 The site coverage and sizes indicated in Figure 5 above are as discussed and agreed with the Council's planning officers. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme.

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

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

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

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

2.2.18 Further information on this part of the review process is provided within the findings commentary in Chapter 3.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to the requirement for a range of potential CIL charging rates (potentially including geographical values variations and / or with changing values as may be seen with further market variations). In the case of South Cambridgeshire and given the values variations seen in different parts of the District through the initial research stages, the VLs covered typical residential market values over the range £2,000 to £3,750/sq. m (£186 to £348/sq. ft.) at £250/sq. m (£23/sq. ft.) intervals. These are set out within Appendix I - VLs 1 to 8. In addition, the range was further extended to £4,500/m² to accommodate the higher values associated with sheltered housing in the District.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £200/sq. m in £25/sq. m steps. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £200/sq. m potential charging rate level trial was not considered relevant in South Cambridgeshire District. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

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

2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the settlements (rather than parish or other areas) provided the best and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen linked to the likely provision of development across the District. On discussion with the Council it was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.

2.3.5 Our first stage desktop research considered the current marketing prices of properties across the District and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types being marketed as at January 2013. Together, this informed a District-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

2.3.6 Overall the research indicated, as expected, that values vary quite significantly within and between each area. This is as expected – a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc. Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between localities / settlements or other areas where significant development may be occurring in the adopted or emerging Local Plan delivery context. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to South Cambridgeshire District. Neither is the relatively small number of current new-build schemes from which to draw information. However these factors do not affect the scope to get a clear overview of how values vary typically between the larger settlements and given the varying characteristics of the District; as set out in these sections and as is suitable for the consideration of both the Local Plan and CIL.

2.3.7 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report. However, Figure 7 below indicates some key themes on values patterns across the District as observed through our research:

Figure 7: Indicative Settlement Relationship to Value Level (VL)[12]

<table>
<tr><th>VL</th><th>£/sq.m</th><th colspan="3">Indicative settlement relationship to Value Level (VL) - Notes</th></tr>
<tr><td>1</td><td>£2,000</td><td colspan="3">Lower Sensitivity Test</td></tr>
<tr><td>2</td><td>£2,250</td><td rowspan="2">Cambourne / Gamlingay / Willingham</td><td colspan="2"></td></tr>
<tr><td>3</td><td>£2,500</td><td rowspan="3">Waterbeach</td><td rowspan="2">Sawston</td></tr>
<tr><td>4</td><td>£2,750</td><td rowspan="2">Melbourn / Comberton</td></tr>
<tr><td>5</td><td>£3,000</td><td rowspan="3">Histon & Impington</td></tr>
<tr><td>6</td><td>£3,250</td><td colspan="2"></td></tr>
<tr><td>7</td><td>£3,500</td><td colspan="2"></td></tr>
<tr><td>8</td><td>£3,750</td><td colspan="3">Upper Sensitivity Test</td></tr>
</table>

2.3.8 The values assumed will affect the consideration of viability of plan policies across the District and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going

[12] Limited to emerging SCLP distribution of sites

discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the District - to inform potential options for an appropriate local approach to both CIL charging.

2.3.9 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. For the purposes of this study we have investigated a core set of affordable housing assumptions based on emerging policy and as agreed with the Council. Sensitivity testing has also been carried out as part of this study to test a potential for a lower proportion of affordable housing. The study also tests both the adopted 2 unit threshold from the Council's adopted Local Plan and the 3 dwelling threshold as set out in the Council's emerging Local Plan. For the affordable housing, we have assumed that approximately 50% is affordable rented tenure and 50% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario). This reflects the approach set out in the emerging Local Plan; a tenure mix of 70% rent / 30% intermediate was also tested as part of the consideration of CIL in relation to the adopted Local Plan.

2.3.10 For the sensitivity testing, affordable housing has been tested at 20%, 30% and 40% affordable housing.

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

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

2.3.13 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the ‘payment to developer’, ‘RP payment price’, ‘transfer payment’ or similar. These revenue assumptions were reviewed in the context of our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by a wide range of RP type financial appraisals carried out using the functionality present in the Homes and Communities Agency Development Appraisal Toolkit (HCA DAT). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge. Consultation with South Cambridgeshire District Council officers and key RP’s active locally was also undertaken to ascertain reasonable affordable rented and shared ownership values and financial appraisal input assumptions.

2.3.14 For affordable rented properties the assumption has been made that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set (i.e. that they represent 80% of MR including service charge). This is to ensure that the percentage of MV figure does not reach a point that in practice would be unaffordable or impractical. For the purposes of this study and as instructed by Council officers we have based the capitalisation based on up to 80% of net market rent across the District as an average with the LHA rate used as proxy for net rent including service charge. The Cambridge Broad Rental Market Area (BRMA) was used as this covers a majority of the District. We have not varied the rents by location.

2.3.15 In broad terms, the transfer price assumed in this study varies between 34% and 70% of market value (MV) dependent on tenure, unit type and value level. In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the RP’s own development strategies and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

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

2.4 **Gross Development Value** (completed Scheme ('capital') value) **– Commercial / Non-residential**

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

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

2.4.3 Figure 8 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the District. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or nil new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a South Cambridgeshire-only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

2.4.5 These varying rental levels were capitalised by applying yields of between 6.0% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the outcomes to such variations, given that in practice a wide variety of rental and yield expectations or requirements could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (6.5% for large retail formats and hotels) were appropriately cautious at the current time in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to such assumptions to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

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

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

Figure 8: Rental Value for Commercial Schemes

Development Type	**Value Level (Annual Rent Indication £/sq. m)**		
	Low	Medium	High
Large format Retail - supermarket	£210	£240	£270
Large format Retail - supermarket	£160	£190	£240
Small format retail – convenience store	£125	£150	£175
Business development - Offices	£150	£170	£190
Business development - Industrial / Warehousing - Large	£60	£70	£80
Business development - Industrial / Warehousing - Small	£70	£80	£90
Hotel	£5,000 per room per year		
Residential Institution - Care home	£160	£190	£220
Student Housing	£125 - £142 /week (assuming 38 weeks). Remainder assumed at 60% occupancy		

Economic and market conditions

2.4.8 We are making this viability assessment following a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we still have a relatively weak and uncertain economic backdrop still feeding through in to on-going property market uncertainty. Although there were a range of mixed signs in 2012, we are still seeing relatively low levels of development activity in many areas. This is caused by a cocktail of factors, e.g. as a result of low occupier demand, and related to poor availability of attractively priced and readily available finance for property development and purchasing. At the point of closing-off the study, there continues to be mixed messages with the

Eurozone still in difficulty and the British economy growing and receding on a quarterly basis although there are signs that the market is beginning to pick up with house price growth rising at the fastest rate for 3 years[13] boosted by the Government's Funding for Lending scheme.

2.4.9 The RICS Commercial Market Survey for Q1 of 2013 - stated that '*Tenant demand is broadly flat, although it continues to decline in the retail sector'*. It went on to say '*Rent expectations remain slightly negative at a headline level*; *London offices continue to buck the trend*' and that '*Investment enquiries pick up significantly, with sales expectations also positive'.* The survey went on to comment as follows:

'The Q1 2013 RICS UK Commercial Market Survey shows an uptick in sentiment on the investor side, although the occupier market remains generally subdued. Tenant demand edged up in the first three months of 2013 at the headline level, while availability increased at a slightly faster pace in the same period. Rental expectations for the second quarter were slightly negative but less so than the previous quarter and point to a broadly flat picture. Meanwhile, inducements being offered by landlords are still edging upwards.

Turning to the investment market, sentiment has risen significantly, with (the change in) investment enquiries recording its highest reading in three years. Indeed, respondents also expect investment transactions to rise in the second quarter. Alongside this, capital value expectations, although still slightly negative, are now at a level consistent with headline prices being little changed (the net balance reading is the least negative since 2010).

At the sector level, retail remains weak on the occupier side, with falling tenant demand, rising availability and rental expectations deeply negative. The industrial sector is the strongest performer with the most positive reading for tenant demand alongside broadly flat levels of availability. The combined effect is positive rental expectations, the first after three consecutive quarterly declines.

Alongside this, rent expectations in the office sector continue to stabilise. This part of the market is being helped by the prospect of reduced supply stemming from

[13] http://www.lloydsbankinggroup.com/media1/press_releases/2013_press_releases/halifax/040713_HPI.asp

government policy to relax the need for permission to change use from commercial to residential.

Meanwhile, at the regional level, all four blocks that we monitor recorded rising levels of tenant demand, with London the standout performer. That said, due to the continued rise in availability in all regions during the first three months of 2013, rental expectations remain negative at the headline level (albeit only modestly so) in most parts of the country away from London. As a result of firm occupier demand in the capital, rental expectations are strongly positive for the coming quarter. In addition, the industrial sector recorded positive rental expectation readings in most parts of the country'.

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

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

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

2.5 Development Costs – General

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

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

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

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the median figure, rebased to Q1 2013 and a South Cambridgeshire District location index is used. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 9: Build Cost Data (BCIS Median, Q1 2013, South Cambridgeshire Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential	Houses - mixed developments	£796
Residential	Flats - generally	£908
Residential	Sheltered Housing	£931
Large format Retail	Supermarket	£1,019
Large format Retail	Retail Warehouse	£530
Small format retail	Convenience stores	£706
Business development	Offices	£1,246
Business development	Larger industrial / warehousing units including office element	£838
Business development	Smaller industrial / warehousing units including office element	£838
Hotel	£1,250 - £1,400 (all in)	
Residential Institution	Nursing (care) Home	£1,365
Student Housing	Purpose-built – University / College-led, or speculative	£1,203

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

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

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

2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM). In the residential scenarios, this was applied to all dwellings assuming that construction standards met the requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4). Sensitivity testing on further changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to the energy requirements of CfSH L5 and CfSH L6 (zero carbon). In addition a notional cost of £575 per dwelling associated with Lifetime Homes has been included. In practice such cost allowances could in fact be directed towards other sources of cost increases over the base build cost assumptions should those become relevant.

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

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

2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL or the Local Plan. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we have seen build costs fall, but moving ahead they are expected to rise again, if only over the longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, tender prices have been at relatively consistent (flat) levels. This trend is forecast to continue through to the first half of 2013 after which, currently, very steady tender price increases are forecast through to early 2017 (rising from about a 1 – 2% per annum increase in 2013 to 4.5% at the end of 2016). Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (7th May 2013) stated on build cost trends:

'Tender prices rose by 6.4% in 4th quarter 2012, compared with the previous quarter, and by 4.0% compared with the same quarter in 2011.

The General Building Cost Index rose by 0.3% in 4th quarter 2012 compared with a year earlier.

Materials prices remained unchanged in the year to 4th quarter 2012 and nationally agreed wage rates rose by 0.7%. General inflation rose by 3.2% over this period.

Global demand, and in particular demand from the emerging economies, is not expected to put undue upward pressure on materials prices throughout the forecast period. Materials prices are now forecast to rise quite slowly over the first year of the forecast, rising by 1.5%, with less upward pressure from raw materials coming through. Thereafter, prices are forecast to rise a bit faster at between 2.5% - 3.0% per annum until a 3.5% rise over the final year of the forecast period.

Following a fairly subdued increase in the average of wage awards over the first year of the forecast, with new work output predicted to fall again in 2013, wage awards are expected to rise steadily upwards as construction demand and the economy as a whole strengthens going forward.

New orders for construction work rose by 3% in 4th quarter 2012 compared with 3rd quarter 2012, and by 11% compared with the same quarter in 2011.

BCIS are expecting a further smaller fall in new work output in 2013, following the deep recession in 2012. This is the result of the government's continued strong line on austerity measures, and the weakness of the economy as a whole. The public non-housing sector continues to take the brunt of the cuts. However, numerous government initiatives should slowly start to drag private sector housing out of a recession from 2013, and the private industrial sector should see steady growth over the forecast period. It should be noted that by the end of 2013, virtually all the growth in new work output gained in 2010 and 2011 will have been lost. A modest recovery in new work output of 2% is predicted for 2014, as the economy as a whole starts to grow stronger and consumer and business confidence improves. Growth in new work output is forecast to strengthen between 2015 and 2017 led by the private sector.

Public sector output (excluding infrastructure) is only expected to recover modestly from 2016. The private commercial sector is expected to remain in recession in 2013 and 2014, before a very modest recovery in 2015 is followed by stronger growth over the following two years. This sector is heavily dependent on business and consumer confidence. The infrastructure sector (which relies on both public and private sector funding), has a good pipeline of projects going forward, particularly in the rail and electricity sub-sectors, and is anticipated to have fairly strong growth over the forecast period.

Over the last year, volatility in the BCIS All-in Tender Price Index reflects a market caught between upward cost pressures, both current and future, and downward market pressures. This is compounded as a squeeze and has also impacted on the sample sizes of projects in each quarter. We have been looking at the trends over the last 30 projects and it would seem that the underlying level of the index is around 223. We have therefore used this for the basis of our forecast from 1st quarter 2013. With new work output expected to fall again in 2013, tender prices are only expected to rise a little ahead of input cost rises in the year to 1st quarter 2014. As demand begins to pick up in 2014, tender price rises will still remain a little ahead of input cost rises, moving gradually further ahead towards the end of the forecast period as demand strengthens. Tender prices at the end of the forecast period will only be in the order of 7% above the previous peak in 2007.[14]'

Annual % Change	**1Q11 to 1Q12**	**1Q12 to 1Q13**	**1Q13 to 1Q14**	**1Q14 to 1Q15**	**1Q15 to 1Q16**	**1Q16 to 1Q17**	**1Q17 to 1Q18**
Tender Prices	-0.5%	+2.3%	+2.2%	+3.5%	+3.8%	+4.5%	+5.1%
Building Costs	+2.6%	+1.3%	+1.6%	+2.8%	+3.0%	+3.6%	+3.7%
Nationally Agreed Wage Awards	+1.5%	+1.2%	+2.0%	+2.6%	+3.3%	+3.8%	+3.9%
Materials Prices	+2.4%	+0.4%	+1.5%	+2.6%	+2.6%	+3.2%	+3.5%
Retail Prices	+3.7%	+3.1%	+3.4%	+3.0%	+2.9%	+3.1%	+3.4%
Construction New Work output*	+2.4%	-11.2%	-2.8%	+1.6%	+3.7%	+5.4%	+6.0%
* Year on Year (1Q11 to 1Q12 = 2011 to 2012)							

[14] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (April 2013)

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

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

<u>Professional fees</u>:	*Total of 10% of build cost*
<u>Site Acquisition Fees</u>:	*1.0% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
<u>Finance</u>:	7% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
<u>Marketing costs</u>:	*3.0%-6.0% sales fees* *£750 per unit legal fees*
<u>Developer Profit</u>:	*Open Market Housing – 20% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

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

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

<u>Professional and other fees</u>:	*10% of build cost*
<u>Site Acquisition Fees</u>:	*1.0% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
<u>Finance</u>:	*7.0% p.a. interest rate (assumes scheme is debt funded)*

	Arrangement fee variable – 1% loan cost
Marketing / other costs:	*(Cost allowances – scheme circumstances will vary)* *1% promotion / other costs (% of annual income)* *10% letting / management / other fees (% of assumed annual rental income)* *5.75% purchasers costs – where applicable*
Developer Profit:	*20% of GDV*

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 10 below):

Figure 10: Build Period

Scheme Type	Build Period (months)
1 House	6
3 Houses	6
10 Houses	9
10 Mixed	9
25 Mixed 1	12
25 Mixed 2	12
40 Flats (Sheltered Housing)	12
50 Mixed	18
100 Mixed	24
250 Mixed	60
500 Mixed	60*
Large format Retail – supermarket	15
Large format Retail – retail warehouse	12
Small format retail – convenience store	6
Business development – offices	18
Business development – larger industrial / warehouse	8
Business development – small industrial / warehouse	6
Hotel	16
Residential Institution – care / nursing home	12

Scheme Type	Build Period (months)
Student Housing	18

***** Assumes multiple developers on-site concurrently.

Note: Larger scenario early high level tests added – initial SCDC SHLAA information basis c. 3,500 dwellings - bespoke assumptions, subject to ongoing review.

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

2.10.1 Current guidance encourages a charging authority to produce a list of infrastructure projects which are intended to be wholly or partly funded by the Community Infrastructure Levy ('Regulation 123 list'). The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance[15] states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.10.2 On discussion with the Council it was considered that a great majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. The appraisals therefore included a notional sum of £1,500 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements.

2.10.3 On larger, strategic scale development allowances have been made for increased levels of infrastructure (through s106) assuming the requirement for on-site provision in these cases. Through discussions with Council officers and based on their experience with large scale strategic development locally, it was agreed that a sum of £20,000 per unit would be used. We have also added a notional allowance alongside this for added site improvement works at between £125,000 and £500,000 per net

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

hectare (additional to build cost external works and other allowances) depending on the size of the scheme.

2.11 Indicative land value comparisons and related discussion

2.11.1 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the outturn results of the development appraisals (in terms of RLV) and some benchmark or known land value. As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the varied land supply picture that the Council expects to see, including the occurrence of greenfield sites and schemes coming forward on previously developed former commercial / employment land as well as reuse and intensification of existing residential sites and garden areas.

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

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

2.11.4 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. However, no firm evidence of such was available from the various soundings we took and sources we explored. Similarly, indications from local sources were very limited. We reviewed information sourced as far as possible from the VOA, previous research / studies / advice provided by the Council, seeking local soundings, EGi; and from a range of property and land marketing web-sites. Details of the research is provided in Appendix III with the land value benchmarks also tested with local agents responsible for land deals in Cambridgeshire.

2.11.5 Each of the RLV results is compared to a range of land value levels representing potential values for sites of varying types of PDL previously developed land – i.e. brownfield) and greenfield sites; envisaging a potential spectrum of sites from greenfield through lower and then upper value commercial land and sites with existing residential use. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will be variable in practice.

2.11.6 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report, with data provided only on a limited regional basis in the later reporting. However, the report does provide indicative values for agricultural land for Cambridgeshire and industrial and residential land for Cambridge. Other information has been sourced from existing data and research together with general indications and soundings all as far as were available.

2.11.7 As can be seen at Appendices IIa, IIb and IIc (residential (emerging SCLP), residential (adopted plan) and commercial scenarios results respectively), we have made indicative comparisons at land value levels in a range between £370,000/ha and £2,900,000/ha so that we can see whether our RLVs fall beneath or above each of these levels.

2.11.8 Where greenfield or other lower value land were to be relevant then the results can be used in exactly the same way; to get a feel for how the RLVs (expressed in per ha terms) compare with a lower land value levels of say £500,000/ha. The minimum land values likely to incentivise release for development under any circumstances is probably in the range £370,000 - £500,000/ha in the South Cambridgeshire District context. Land values at those levels are likely to be relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the District. This range could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at £15,000 - £20,000/Ha in existing use). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. Consultation with local agents confirmed that land values up to £500,000 per hectare (or less in less as) would be relevant as a minimum land value in option agreements. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances. We are also aware of garden land being valued indicatively at say £500,000 - £850,000/Ha in a similar local authority context, purely as a further indication of a potentially lower value scenario in certain circumstances and in general of the range of comparisons that could be relevant overall. Again, consultation suggested that £600,000 per hectare may well be more relevant locally.

2.11.9 As well as a level of value relating to an existing or alternative use driving a site's value ('EUV' or 'AUV'), there may be an element of premium (an over-bid or incentive) required to enable the release of land for development. The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that "*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development*". This benchmark is referred to as threshold land value in that example: "*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely*". Further it goes on to say that "*There is some practitioner convention on the required premium above*

EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied". RICS Guidance[16] refers to site value in the following "*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations".* These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.11.10 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

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

[16] Financial Viability in planning – RICS Guidance note (August 2012)

3 Findings

3.1 Introduction, values patterns and relationship with the emerging local plan (SCLP)

A guide to the results and appendices tables

3.1.1 Results summaries are included within the tables at the Appendices, as follows:

- Appendix IIa (SCLP based residential scenarios – tables 1a to 1o);
- Appendix IIb (adopted plan based residential scenarios – tables 2a to 2j);
- Appendix IIc (commercial / non-residential – unaltered between SCLP and adopted plan - tables 3 and 4).

3.1.2 In each case these reflect the scenarios explained in Chapter 2 and summarised at Appendices Ia (SCLP based), Ib (adopted plan based – residential) and Ic (commercial / non-residential scenarios outline; applicable to both SCLP and adopted plan views).

3.1.3 Within Appendices IIa and IIb there are different sections of each table according to the type of host site assumed for the scenarios. This information is set out taking into account the variable / dynamic nature of development. It includes consideration of the varying site types relevant to schemes on greenfield land and PDL of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such redevelopment of existing housing). Across this range of site types, a range of land values will be relevant. Most of the development scenarios considered (except the very largest) could occur on host sites with a variety of characteristics.

3.1.4 Each of the SCLP based residential results tables (within Appendix IIa) also show as the base position (upper table section) the inclusion of 40% affordable housing (except those that fall beneath the on-site affordable housing threshold). Reading down the tables, the outcomes of sensitivity tests at 30% and 20% affordable housing are also shown. The adopted plan results (tables at Appendix IIb) are shown with 40% affordable housing only as that is the adopted policy position.

3.1.5 Additional sensitivity testing information is also provided with regard to improved sustainable design and construction requirements over time using the costs of attaining the Code for Sustainable Homes (CfSH) Level 5 (L5) or equivalent of CfSH L6 as a proxy in each case. These are each combined with the base 40% affordable housing (Table 1l) and sensitivity trials at 30% AH (Table 1m) and 20% AH (Table 1o).

3.1.6 Tables 3 and 4 at Appendix IIc set out the equivalent results tables for commercial / non-residential scenarios – only where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel, residential institution (care home) and purpose-built students' housing accommodation). Table 3 summarises the results from the 6.5% yield tests. Table 4 follows the Table 3 basis, but shows the results of relevant scenarios using a 7.5% yield assumption instead (for the purposes of this report, this excludes scenarios considered more relevant to the 6.5% yield test only).

3.1.7 Only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because the early exploratory process quickly showed there to be no point developing the testing beyond initial stages where certain scenarios were seen to be clearly unviable as development uses based on the range of assumptions applied. We will pick up this area with further commentary later in this chapter.

3.1.8 In the case of the commercial results outline at Appendix IIc, the two sets covering alternative yield trials of 6.5% (Table 3) and 7.5% (Table 4) relate to exploring the sensitivity of the results to these factors. The 6.5% yield represents a more positive assumption for viability (results in a higher capitalisation rate applied to the rents). In practice this is a factor that will vary. In terms of making our overview, we consider that within this range the 6.5% yield results may be more representative for developments providing new retail, hotel and purpose-built students' housing accommodation (whereas B use scenarios – offices and industrial / warehousing – would typically be associated with a lower rental capitalisation rate (higher yield %)). We consider that the 7.5% yield trials, in the main, represent a sensitivity test layer for the schemes with positive overall viability outcomes. In contrast, it is likely in the current climate that the 7.5% yield trial may well represent too positive a scenario in some cases, and particularly for the B uses in the main. However, these trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios (including for hotels and similar uses) produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield (or other) assumptions that might be seen in practice.

3.1.9 In summary Appendix IIa and IIb results tables show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1o, the AH policy requirement (where relevant above the SCLP proposed 3 dwellings threshold). Tables 2a to 2j are all based on 40% AH, as adopted policy, and so represent no change from the SCLP based results in that respect . It can be seen that table 1b reflects the SCLP based AH policy threshold of 3 dwellings, whereas table 2b reflects the adopted 2 dwellings AH threshold.

- Across the top grey row: other assumptions headings and the increasing 'trial CIL charging rates' tested from £0/sq. m to £200/sq. m at £25/sq. m intervals applied across all scheme scenarios and variations;

- Within the section for each residential scenario type: Increasing market sales value level (VLs 1-8). Overall, this covers values from £2,000 to £3,750/sq. m (approximately £186 to £348/sq. ft.). This range enables us to consider viability as influenced by location and the market (e.g. including values falling or rising from current typical levels) and therefore on the potential for the varying levels supporting development viability with reference to delivery of the SCLP and CIL funding scope.

- VL1 represents the lowest market values sensitivity test, through a scale including the highest market values sensitivity test at VL8. VLs 1 and 8, however, are lower and upper end sensitivity tests for residential, outside the range of values currently seen in the District and therefore representing, respectively, falling values from the current lower end and rising values at the top end. The range of values currently considered relevant to the SCLP and the CIL that will support it, is represented by VLs 2 to 7

- Under each commercial / non-residential scheme type: Increasing value (again meaning sales value - GDV) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. 'L' and 'H' allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through further weakening of commercial property market conditions.

- Main areas of results Tables 1 and 2: RLV appraisal results for each set expressed in £s (top section) and £/ha (lower section) given the assumed scenario type, density / site coverage, etc. generated by each individual appraisal within the set.

- Within each of those sections, the coloured table cells (see below) act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the viability of SCLP policies as well as the CIL. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability combined with SCLP policies (or adopted plan based assumptions); with lower RLVs and therefore increased viability impact seen as those rates increase (moving from left to right). As discussed earlier, realistically this testing of trial CIL rates has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Provided that these trial rates span a sufficient range, and the steps between each trial level are not too large, an element of interpolation can be applied and considered. It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £200/sq. m for residential and commercial scenarios. In our experience and from a review of emerging results, this provided us with suitable parameters and context for review with the Council. The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the SCLP (or adopted plan) policies.

- It is important to note that the colour-coding shown on the tables at Appendices IIa, IIb and IIc provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs; all in the context of the SCLP policy proposals.

- The colours therefore indicate general trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative RLVs – i.e. clear non-viability) to the boldest green-coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types). The footnotes to the Appendix IIa, IIb and IIc tables describe these as a series of 'viability tests', referring to the various land value comparison levels considered:

    - Dark green cells - considered to provide very good viability prospects; the best results from the range produced.

    - Mid-green cells - considered to provide good viability prospects in a range of circumstances meeting a wide range of likely former commercial use and lower residential values expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for high-value commercial / non-residential (e.g. supermarket, students' housing) or some residential scenarios. Therefore whilst these results indicate workable schemes on a range of PDL site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above).

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

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

- Footnotes at the bottom – reminder of land value benchmarks (comparisons) applied in arriving at the colour-shading of the RLVs to provide a guide to the results trends; all bearing in mind the context and explanations provided within this report. With increasing land value comparison (covering the overall range £370,000 (lower end of potential greenfield enhancement land value range) to £2.9m/ha (upper PDL level), those are noted there as 'Viability Tests' 1 to 5. In practice we consider that the upper test here (test 5 at £2.9m/ha) will not need to be reached in many cases within South Cambridgeshire. However, since this level was used within our similar work carried out recently for Cambridge City Council, for the current stage high level review we decided to place it at that level here too, given the potential proximity of development to the City and the possibility of individual scheme circumstances warranting land values beyond the more typical range for the District.

3.1.10 In addition, each results Appendix contains sample appraisal summary information. Bearing in mind the study purpose and nature, these are not the full appraisals, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used here. The summaries included represent a selection of scheme / use types where, ultimately, positive CIL charging scope and recommendations have been made. Appraisal summaries are not included for the range of scenarios that were considered non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).

3.1.11 The results discussion within this section, and the recommendations that follow, are based on the review of SCLP viability as that relates to CIL. This is the focus because to consider CIL we also have to review the SCLP policies for the cumulative impact on viability. So unless stated otherwise, the commentary refers to SCLP and to the CIL viability implications, effectively as topics that cannot be separated.

3.1.12 Particular comments and findings that relate to the SCLP, but not directly to CIL or that are in some way beyond the CIL review and discussion scope will be covered in separate paragraphs and identified as such. Although the SCLP policy positions that have viability implications are in the main carried forward from the adopted plan, similarly we will also make any points separately that are associated with CIL if aligned to the adopted plan instead.

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

3.1.14 Costs will vary from these assumptions levels with site specifics and over time (build costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through site specific abnormals, increasing national level carbon reduction agenda requirements longer term, etc. When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to South Cambridgeshire where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the SCLP and the associated approach to CIL South Cambridgeshire District Council.

3.1.15 Land owners' requirements will vary. While, as stated, those will need to be realistic (and as part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from existing or alternative uses in the prevailing market), they could be outside the ranges we have explored in making our overview; including at higher levels.

3.1.16 The wider economic backdrop remains challenging and although at the point of writing-up this report there are some very recent signs of a potentially improved level of housing market stability / recovery; as noted through bank and government figures, some of the house prices indices and also through some performance reporting coming out from the house-building sector. In addition, the continued development activity and interest in the larger sites promotion by the market suggests a relative strength locally. Nevertheless, the uncertainties and experiences of the last few years could remain or could even increase to some extent; these are unknowns. We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that; the use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis. A return to greater market uncertainty could see reducing sales volumes and further impacts on prices – directly impacting the GDV assumptions; hence the range of residential value levels (VLs) explored for sensitivity review purposes – either up or down. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.17 Certainly a significant factor for the residential scenarios, as is always the case, the Council's operational and currently proposed affordable housing target of 40% provision (as has been assumed alongside the trial CIL rates) is relatively challenging but has enabled the Council to secure this level of provision, or approaching it, across a range of scenarios reasonably successfully. Significant compromise has been needed only where the level of other site-specific infrastructure / costs means that has been necessary (for example at the Northstowe development).

3.1.18 In all cases, these policy requirements have been allowed-for alongside the trial CIL rates and other wider planning objectives of the Council. HCA funding for affordable housing appears to be uncertain at best and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant. Where available added grant would improve the viability positions indicated, or help to restore affordable housing proprotions or tenure mixes to some extent, where those would otherwise need to be below target requirements in order to maintain viability.

3.1.19 Developer's profit level requirements (and in some cases related funders' stipulations) could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed; potentially significantly lower. However, we felt it appropriate in particularly depressed commercial market conditions overall to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks.

This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability or that the SCLP policies will be undeliverable. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.

3.1.20 The potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery.

3.1.21 Amongst these, the location and frequency of site and scheme types forming key parts of the local growth planning is key – i.e. considering where in the main development will be coming forward (in relation to the values patterns for example). More will be said below (see section 3.2) on values as we consider the SCLP policies and the CIL charging rate(s) scope supported by the varying viability outcomes at the range of value levels (VLs).

3.1.22 The types and frequency of schemes likely to be relevant under the SCLP proposals will also influence the selection of the Council's approach to implementing the CIL. In practice, the variation of schemes types could be very wide – particularly for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations thereof. However, it is necessary to consider the local relevance of those in terms of the SCLP delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council's proposals for growth across its administrative area as a whole are of greatest importance.

3.1.23 In summary, under the SCLP, development is expected to be directed to a small number of sustainable village locations (9 no. sites) together with locations for larger scale development – see Figure 3 at section 2.2 above.

3.1.24 This compares with a different pattern of development as the adopted plan runs its course. The planned development under that has essentially been permitted and largely delivered. We are not looking at the viability of the adopted plan, but its relevance for CIL (should that be necessary as an alternative CIL approach short term) is really that sites coming forward would be on more of an ad hoc / windfall basis and potentially continue to be spread across the District. On this basis, it might be argued that the delivery of the adopted plan cannot be prejudiced by CIL. Nevertheless, under those circumstances the Council might still need to demonstrate how its CIL proposals contribute positively to the development of the area.

3.1.25 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the SCLP delivery.

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

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

3.1.28 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL than the recommended levels (and / or greater levels of other obligations). This is again in the context of seeking an appropriate local balance in setting the charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and developments whilst collecting contributions towards meeting the infrastructure needs associated with growth. The latter points here tie in with the Government's latest CIL Guidance (April 2013 - as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area.

3.1.29 As above, the variety of site and scheme types that is expected to come forward is an important consideration – meaning reviewing the scale of results in the context of a range of potential locations and land value comparison levels. We do not consider it appropriate to rely on comparisons at a single land value level for each scenario as development will come forward in various forms and on a range of site types over time. In assessing results it has been necessary to consider viability outcomes across the results range and against various land value comparison levels. In some cases it can be seen that the land value comparisons are greatly exceeded, showing that higher levels of land value expectations could be met in those scenarios (assumptions sets) if needed under certain circumstances. Whilst the reducing boldness of the green colour-coding within the results tables indicates scenarios that are unlikely to be viable against the higher land value benchmarks, those outcomes meet or exceed requirements where lower land values could be sufficient.

3.1.30 The range of results should be viewed in this context. This is an important point because during our stakeholders contacting phase, we had some feedback from a locally based agency firm that suggested some of our land value comparison levels may be on the high side – particularly the upper £2.9m/ha in the South Cambridgeshire context. Our preference, however, has been to use the levels as stated but then be aware of these factors on reviewing the results. The reality is that site-specifics will involve a wide range of land value scenarios in the main within or well within this upper benchmark. That is retained however, in order to provide the full context for review of results and relating to the highest land value scenarios that could be seen – e.g. some circumstances on the Cambridge fringe, upper-end residential, together with, potentially, with any large scale retail, students' housing or other high value scenarios that are likely to show strong viability outcomes but also, therefore, link to higher land value expectations than associated with more typical schemes and levels for the District.

3.1.31 The scale of local infrastructure needs that require funding contributions and development viability amount to opposing tensions. The Council needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided. There is a substantial funding gap in the District; meaning that the Council does need to secure a meaningful but realistic level of funding through CIL as a key ingredient of the overall growth and funding packages, in support of its development strategies; focussed on the SCLP.

3.1.32 CIL charging calculations relate to net new development – added floor-space. In practice we understand that in line with the CIL regulations a number of developments in the District will entail some level of "netting-off" of existing floor-space within the charging calculations. This means that the selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will be a highly variable influence on scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set 'right at the margins of viability' [17] as part of this overall theme.

3.1.33 Local authorities (the charging authorities) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area.

3.1.34 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome.

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

- These are not factors that are only affect local plan and CIL considerations in South Cambridgeshire. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF and the CIL regime – regardless of location;

- These characteristics would apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly

[17] DCLG – Community Infrastructure Levy Guidance – April 2013

lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0/sq. m) CIL rate – as the results show for some commercial scheme types (Appendix IIc) and the lower value residential sensitivities (Appendices IIa and IIb).

3.2 Values - patterns and levels

3.2.1 The following sections first considers residential development and then commercial / non-residential.

3.2.2 Adjustments from asking price, as are usual to some extent, are often handled by way of bespoke incentives to particular purchasers, rather than by headline price adjustments. In whichever form, adjustments will vary by developer, by scheme and often by individual plot in practice. Nevertheless, we consider that a 5% deduction from asking prices in most cases is likely to represent a reasonable current approach to the sales value estimate, especially given the recent more positive market signals that we are seeing.

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

3.2.4 These blurring factors are seen in South Cambridgeshire on several levels – from the site / street or local area specific level to the higher level characteristics in terms of general values patterns (as seen through overall market research), as follows:

- an overall effect of increasing values moving north to south through the District;
- however, a irregular effect within this overall trend;
- typically highest values around the Cambridge fringe (especially around the south and west of the City), to the south / south-west of the City and in some southernmost areas of the District;

- a mix of lower and mid-range values in the northern areas of the District – lowest values typically in the some of the north-western areas together with isolated patches in the south.

3.2.5 Having looked at the overall values patterns, based on the research at Appendix III, we then considered the likely level of new build values attributable to SCLP proposed development locations in looking at the plan and CIL viability. The new-build housing values assumptions were informed by a range of sources including further analysis of the RightMove sourced data, review of our new-builds specific information, consideration of agents' views where available (again as at Appendix III) and also of previous research conducted by the Council for its earlier stages SHLAA work.

3.2.6 Comparing this picture with the SCLP proposed development distribution pattern (again as per Figure 3 at 2.2 above), gives us a picture of how, on current information, the sales values look likely to influence scheme viability and therefore also the CIL charging scope. Accepting that values will always vary with scheme specific details and timing, looking at the 9 village sites proposed in the SCLP and the strategic locations this produced the overview as follows (see Figure 11 below):

Figure 11: Reminder of residential value levels range and patterns

<table>
<tr><th></th><th colspan="8">VLs and indication of fits with locations relevant to SCLP</th></tr>
<tr><th rowspan="4"></th><th>VL1</th><th>VL2</th><th>VL3</th><th>VL4</th><th>VL5</th><th>VL6</th><th>VL7</th><th>VL8</th></tr>
<tr><th colspan="2"></th><th colspan="3">Waterbeach / Cherry Hinton</th><th colspan="3"></th></tr>
<tr><th></th><th colspan="2">Cambourne / Gamlingay / Willingham</th><th colspan="2">Melbourn / Comberton</th><th colspan="3"></th></tr>
<tr><th colspan="2"></th><th colspan="2">Sawston</th><th colspan="3">Histon & Impington</th><th></th></tr>
<tr><td>1-bed Flat</td><td>£100,000</td><td>£112,500</td><td>£125,000</td><td>£137,500</td><td>£150,000</td><td>£162,500</td><td>£175,000</td><td>£187,500</td></tr>
<tr><td>2-bed Flat</td><td>£130,000</td><td>£146,250</td><td>£162,500</td><td>£178,750</td><td>£195,000</td><td>£211,250</td><td>£227,500</td><td>£243,750</td></tr>
<tr><td>2-bed House</td><td>£150,000</td><td>£168,750</td><td>£187,500</td><td>£206,250</td><td>£225,000</td><td>£243,750</td><td>£262,500</td><td>£281,250</td></tr>
<tr><td>3-bed House</td><td>£190,000</td><td>£213,750</td><td>£237,500</td><td>£261,250</td><td>£285,000</td><td>£308,750</td><td>£332,500</td><td>£356,250</td></tr>
<tr><td>4-bed House</td><td>£250,000</td><td>£281,250</td><td>£312,500</td><td>£343,750</td><td>£375,000</td><td>£406,250</td><td>£437,500</td><td>£468,750</td></tr>
<tr><td>£/sq. m</td><td>£2,000</td><td>£2,250</td><td>£2,500</td><td>£2,750</td><td>£3,000</td><td>£3,250</td><td>£3,500</td><td>£3,750</td></tr>
<tr><td>£/sq. ft.</td><td>£186</td><td>£209</td><td>£232</td><td>£255</td><td>£288</td><td>£302</td><td>£325</td><td>£348</td></tr>
</table>

(Source: DSP 2013)

3.2.7 In terms of relationship with the SCLP proposals and also for CIL, we can see that the most relevant part of the overall values range is the mid area - VLs 3 to 5 - which aligns to each of the proposed housing locations to some degree. We consider that a narrower range of new-build values is likely to be relevant to SCLP and CIL than may be apparent from the overall values patterns.

3.2.8 This information moves us away from what could become an overly complex approach to residential CIL rates differentiation by location, especially bearing in mind that a multi-zoned approach would still not cover all variances. We consider it more appropriate to look at the SCLP relevant locations and scheme types; and align those to a simpler approach to CIL implementation based on:

- a suitable district-wide CIL charging rate applicable to the SCLP smaller sites and any ad hoc development – subject to also considering:
  - whether that District-wide rate would also be appropriate for development at Cherry Hinton ('Teversham Drift' site proposal) – a site at the eastern Cambridge City fringe, given the context of the City Council having consulted on its Preliminary Draft Charging Schedule with a residential CIL charging rate of £125/sq. m, and;
  - whether the strategic scale development scenarios that underpin the bulk of the housing supply and that are planned to be significantly underway by the end of the SCLP period, also require differential treatment for CIL purposes.

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

3.2.10 DSP considered that the main types of commercial / non-residential development would be likely to occur in a limited range of locations within the SCLP context, between which it would be difficult to distinguish values and costs for these uses with any real clarity. The locations would be associated with the Cambridge fringe and main radial road routes from the City together with the major development locations set out in the SCLP. Beyond those, development would most likely amount to smaller individual schemes coming forward on an ad hoc basis, with the Council considering any wider planning objectives that might be compromised by overly onerous policy proposals or CIL charge setting. In terms of SCLP relevance, our research supports a simple approach to non-residential / commercial CIL charging whereby any differentiation should be as needed based on viability associated with varying development use; and not by location as well.

3.3 Overview of results – residential scenarios – CIL (within SCLP context)

3.3.1 The viability review process for CIL means that it is necessary to allow for the SCLP policies. However, additional local plan points on viability will also be picked-up below.

3.3.2 The following commentary is provided by reference to the locations of the SCLP proposal sites in 9 villages and the proposed strategic locations (see the table below for ease of reference – Figure 12) Bourn Airfield new village (1,470 from a total of circa 3,500 overall) and West of Cambourne (1,500). We look at these by reference to the review scenarios undertaken to date based on the information available although necessarily acknowledging that detailed ongoing review of the proposals, and the strategic scale locations in particular, will need to take place. The Council has work underway on updating its Infrastructure Development Plan (IDP) understanding and this will need to be factored into the rolling review type process that we envisage, usually carried out through joint working with the site promoters.

Figure 12: Reminder of SCLP residential development proposals

Village	Address	Dwellings (approx.)
Sawston	Dales Manor Business Park	200
Sawston	Land South of Babraham Road	260
Sawston	Land North of Babraham Road	80
Impington	Land North of Impington Lane	25
Melbourn	Land West of New Road	65
Gamlingay	Green End Industrial Estate	90
Comberton	Land at Bennell Farm, West Street	90
Willingham	East of Rockmill End	50
Strategic Location		**Dwellings (approx.)**
NIAB 3		100
Waterbeach - New Town		8-9,000 total, of which 1,400 within SCLP period
Bourn Airfield		3,500, of which 1,470 within SCLP period
Edge of Cambridge – e.g. Teversham Drift (Cherry Hinton area)		Details tbc

3.3.3 The current stage involves reviewing the findings as best represented, based on assumptions rather than known factors, by the relevant areas of the scenarios range and value levels (VLs) over which the SCLP policies and DSP range of trial CIL charging rates have been tested.

3.3.4 It is not possible or necessary to cover all results variations, so this is an overview. Commentary with respect to wider affordable housing (AH) sensitivities and other aspects will follow, related more the overall SCLP context than to CIL considerations since the 40% AH policy has been in operation for some time under the adopted plan and its continuation as a target is also a well-established aim of the Council.

3.3.5 The study results from the scenarios representative of the proposal sites, so far as possible at this stage, will be discussed here in the order shown at Figure 12 above.

3.3.6 Taking our 250 unit scheme and looking at the proposals for the 2 larger sites at Sawston (200 to 260 dwellings approximately) at VL3 with 40% affordable housing (table 1j within Appendix IIa), we can see that the RLVs indicated look to be reasonably strong in respect of greenfield enhancement land value needing to be reached or exceeded (viability test 1), but do not reach upper end of viability test 2 / lower end of viability test 3 (representative of the lower comparison for commercial / industrial land).

3.3.7 At VL4, a more optimistic looking sales value assumption for Sawston at present, again the scenario looks clearly viable on greenfield site but may still be marginal in the PDL scenario depending on land value expectations and site conditions, etc.

3.3.8 In terms of CIL potential from a viability point of view, these same results indicate that at VL3 on greenfield land the CIL potential alongside 40% affordable housing is up to about £150/sq. m before the land value falls beneath the £500,000/ha test level (viability test 1). At VL3 the CIL potential would be nil for the PDL scenario (assuming higher land value expectations). However, at VL4 the lower end commercial land value comparison is met, again with CIL at no more than £150/sq. m with 40% affordable housing.

3.3.9 Only with currently unachievable looking values does a meaningful CIL with 40% AH look workable on the PDL basis (e.g. assumptions combinations at VL5 with 40% AH and nil CIL; or VL6 with 40% AH and CIL up to £200/sq. m) - subject to actual rather than high level review based land value and other assumptions.

3.3.10 Overall on Sawston, the indications are that the larger greenfield scenario would be workable with 40% AH and perhaps up to no more than £150/sq. m CIL or equivalent. However, the similar sized scenario on PDL may struggle for viability on the basis of 40% AH, even with limited CIL, unless there is perhaps some strengthening of values from the assumed levels. This means that on this basis we could have reasonable confidence of a Sawston site of this scale, with no significant on-site infrastructure, but 40% affordable housing, being deliverable on a greenfield site, but being potentially marginal on a PDL site (commercial / former commercial land use) with these ingredients, assuming that higher land values were needed. In terms of current stage costs assumptions, the 250 unit scenarios include a £500,000 per net hectare assumed additional works cost allowance combined with the £1,000/unit s.106 assumption (latter as per the smaller test scenarios).

3.3.11 Purely for comparison, with a reduction to 30% AH at VL3, the greenfield land values are more clearly bettered (at not more than about £200/sq. m CIL). At VL4 with 30% AH, there looks a much better prospect of competing with a range of commercial / industrial use land values again across most of the range of CIL trials. At VL3 with 20% AH viability test 2 is exceeded (lower end commercial / industrial land value) at not more than £125/sq. m CIL. At VL4, that sensitivity test indicates notably stronger results across the CIL trials range.

3.3.12 The above discussion also covers the scenario with respect to smaller scale greenfield development considered reasonably representative of Sawston values. Our 100 unit scenario provides more positive results, indicating that even with reduced values to VL2 there is a prospect of reaching or exceeding greenfield land value enhancement levels at not more than £125/sq. m CIL with 40% AH. At VL3, a lower end commercial / industrial land value comparison is reached – again with the same AH and CIL ingredients.

3.3.13 Turning to our 25 units mixed schemes scenarios, carried out at densities of both 30 dph (table 1e results) and 40 dph (table 1f) this may be considered representative of the Impington SCLP proposal site (or indeed similar others). Assuming 25 dwellings on greenfield land at values estimated at VL5, looking at the 30 dph scenario the RLVs significantly exceed greenfield enhancement values on the basis of 40% affordable housing and across the full range of CIL trial rates (to £200/sq. m, and it can be seen that a significantly higher trail rate could be applied). The RLVs also suggest a workable or potentially workable scenario if this scenario were moved to a PDL site with higher land value expectations. With the values assumption adjusted down to VL4, the RLV just exceeds the lower commercial / industrial comparison level with 40% AH and CIL not exceeding £150/sq. m. A further downward values adjustment to VL3 suggests reliance on a greenfield location but still with 40% AH and CIL potential of up to around £175/sq. m. The 40 dph results set shows the same trends, but is indicated at an increased level of viability – produces higher RLVs. All in all, this type of scenario is considered to have good viability prospects, with potential capacity to bear additional costs beyond the current stage assumptions to some degree, if relevant.

3.3.14 The 50 units scenario is considered broadly representative of slightly larger scale development, such as proposed at Melbourn; or similar. It is not necessary to discuss the results in detail as they follow the same pattern as at 3.3.13 above; the scenario looks to have very good viability prospects on greenfield land and also reasonably good prospects if relevant in a PDL situation – see table 1h.

3.3.15 There is a further SCLP proposal for approximately 50 dwellings at Willingham. This would be more likely to attract lower values at VL2 to 3. This places that scenario into a more sensitive area of the results, as can be seen with the toning down of the green colouring further up the same table section (table 1h). In this or a location with similar values, whether VL2 or 3 proves relevant could be critical either to the overall delivery prospects or, more likely the extent to which affordable housing might be provided in relation to the 40% target if CIL comes into effect. The results at VL2 suggest that greenfield enhancement land values should be attained either with 40% affordable housing and CIL of no more than say £25/sq. m; or CIL of £100/sq. m with 30% AH; or CIL of £50/sq. m with 20% AH. These are simply indications. However, with VL3 values, on a greenfield site it looks possible to achieve the 40% affordable housing with CIL at up to or potentially beyond the £200/sq. m highest trial level. So, whilst there are potential sensitivities here in respect of the impact of varying values, and this is a more mixed picture of viability, there appears to be scope to create viable development subject, as in all cases, to the specific details of provision at the delivery point.

3.3.16 Moving to the 100 unit scenarios, these could be relevant to consideration of the type of proposals at Gamlingay; with broadly similar general characteristics, looking at it now, we would expect a scheme to support generally equivalent sales values to those at Willingham, or a similar location. As with Willingham or similar lower value levels (VLs 2 to 3), the results are more indicative of a workable scheme on greenfield land than on PDL; certainly with 40% AH and CIL. However, with VL3 in place of VL2, a lower end commercial / industrial land value looks achievable at 40% AH with no more than £125/sq. m CIL.

3.3.17 Looking again the 100 units scenario but where higher sales values should be available to support viability more representative of the SCLP Comberton or a similar proposal, again we see a similar set of pointers to the potential for a clearly viable scenario assuming a greenfield basis, together with good prospects also for a range of potentially viable scenarios, if moved to a PDL situation at VL4 (with 40% AH and CIL up to at least the £200/sq. m trial); and some but more limited prospects for that at VL3 (with 40% AH and no more than approximately £125/sq. m CIL (table 1i). Balanced with some the more sensitive looking results discussed at 3.3.15 and 3.3.16, this again suggests overall that there are good prospects of creating a range of viable schemes capable of supporting the affordable housing and a meaningful CIL requirement that could be set at £100/sq. m or more and be appropriate to most of these circumstances; subject to the established practical approach to operating the development management policies as normally required.

3.3.18 In order to start developing a feel for the viability of larger scale housing site proposals based on information so far as it was available and evolving through the study period, we also considered high level 500 units scenarios; representative of a larger scheme or potentially a part of significantly larger scale multi-phased development such as proposed through the SCLP (as noted in Chapter 1 and at Figure 12 above). Any wholesale review of a significant new settlement, as proposed, is clearly a long term, on-going process that will need to be built up over a period of time as information becomes available and evolves. Once built up, based on a more settled picture (including with regard to master-planning, scheme make-up, infrastructure requirements etc.) the delivery scope and details will then need to be kept under review as costs, values and requirements change; for example in relation to market cycles, changing funding availability, the developing carbon reduction requirements / building regulations and so on.

3.3.19 However, it is necessary to form initial views on how the values / costs relationships, and therefore the viability outcomes, start to look as we spread development over a longer cashflow period and add costs assumptions potentially representative of a greatly increased s.106 burden envisaged for on-site infrastructure (such as potential new schooling etc.) compared with that likely on a smaller site. The 500 units is not intended to be representative of any kind of threshold; we took the view that it was a reasonable approximate level at which to assume that the on-site / site specific mitigation measures needed under s.106 would be likely to grow significantly. The s.106 assumption made, alongside the £500,000/net ha added site works cost, was £20,000 per dwelling.

3.3.20 Looking at the outcomes from this collection of assumptions, applied consistent with the SCLP policies basis as in all other scenarios (including base 40% AH), the results at table 1k within Appendix IIa show the clear deterioration effect compared with the 100 or 250 units scenarios. Visually, the paler green colouring and significant element of red seen at 40% AH with values up to around VL5 shows the impact of these collective assumptions.

3.3.21 At up to and including VL3, we are not reaching suitable greenfield enhancement land values – with 40% AH and nil CIL. Bourn / Cambourne values could be expected to be lower however; currently estimated at VLs 2 to 3.

3.3.22 The indications are that a VL3 assumption would be needed for the Bourn proposals for example, in order to support 20 to 30% AH with CIL in the range £0 to £75 (maximum)/sq. m alongside the £20,000 per dwelling average s.106 assumption. The nil CIL (£0/sq. m) results are needed at VL3 with 30% AH, which could still be a very marginal outcome and suggests that the AH outcome might be more realistically at nearer to 20% looking at this now (nil CIL basis, but with circa £20,000 per dwelling s.106). At a high level of review, the findings here appear consistent with our understanding that the first phase of the Northstowe development looks set to deliver circa £20,000 per dwelling s.106 alongside approximately 20% affordable housing (pre-CIL scenario).

3.3.23 Looking at it now, i.e. with no projected growth, this scenario located to Waterbeach or a similar value area could be expected to attract sales values at or above those levels discussed at 3.3.21 to 3.3.22 above; within the VL3 to 5 range and so potentially up to VL5. At VL4 with 40% AH and £20,000/unit s.106 the outcome just exceeds the upper £500,000/ha greenfield land enhancement value level and still only clearly does so at £0/sq. m (nil) CIL. A VL5 values assumption, potentially envisaging some growth from current. All in all, this again suggests potentially viable development but with the parties' consideration of the optimum works and planning obligations packages achievable in response to the actual delivery circumstances. In terms of CIL, however, this all points to a nil (£0/sq. m) charging rate approach being necessary for larger scale development assuming that significant s.106 obligations are going to be required.

3.3.24 To further develop this stage of high level review with regard to strategic scale development, so far as practical given the current updating and evolving of the IDP and other information, we also prepared an initial version 3,500 dwellings scenario – in order to develop the iterative review process. The base appraisal was run at VL3 values £2,500/sq. m with no assumed growth either in values or costs. In outline, this assumed typical inputs and was based on the timescales within the Council's SHLAA together with very recently updated draft IDP information.

3.3.25 Using the land residual approach consistent with the wider scenarios testing for CIL and SCLP development management policies, this also included 40% affordable housing an assumption on a total of £45m on-site infrastructure (s.106) spread by phase in accordance with the Council's emerging IDP picture (related to the Bourn Airfield SCLP proposal); equivalent to approximately £21,500/unit based on the market homes only; approximately £12,900/unit across the scheme average. The £500,000/ha site works / infrastructure allowance was made again, adding a further £45m across the scheme. Nil (£0/sq. m) CIL was assumed. The assumed site area was 140ha overall (gross) with 90ha developable (net); assumptions in general accordance with the Council's SHLAA information that we were supplied with at this stage.

3.3.26 The base appraisal indicated:

- Development revenue (residential) – approx. £686m;
- Construction costs before fees and contingencies etc. – approx. £291m;
- Infrastructure, fees and finance etc., taking total development costs to approx. £542m;
- Profit of approx. £143m (subject to review for affordable housing profit scenario) after also allowing for land and associated costs;
- Land residual approx. £41m – equates to approx. £293,000/ha across the gross land area; approx. £456,000 applied to the assumed net area.

3.3.27 We consider that this represents a potentially viable scenario given the potential to support land values at this level, as we look at all of this today. From this basis we then explored sensitivity analysis to review the potential effect of key variables on this initial high level outcome. The sensitivities considered were:

- Construction costs increases from current base BCIS to:
  - +5.85% (CfSH 4 / equivalent - building regulations compliance);
  - +15% (CfSH 5 energy / ditto);
  - +35% (CfSH 6 / ditto);
  - +45% (CfSH 6 / equivalent - full)
- Projected sales values increasing from current base assumption (VL3 - £2,500/sq. m) to:
  - VL4 (£2,750/sq. m);
  - VL5 (£3,000/sq. m);
  - VL6 (£3,250/sq. m);
  - VL7 (£3,500/sq. m)

3.3.28 This produced indications as follows:

Figure 13: Strategic site initial appraisal sensitivities

Sales value sensitivity indications – by VL	Construction cost variance - indications				
	RLV indication as a result of sensitivity test combination – including negatives (-) i.e. deficits where shown (£m approx.)				
	Base	+5.85%	+15%	+35%	+45%
VL3 (+£0) Base	£41m	£24m	-£4m	-£68m	-£100m
VL4 (+£250/sq. m)	£92m	£75m	£48m	-£13m	-£45m
VL5 (+£500/sq. m)	£144m	£126m	£99m	£39m	£9m
VL6 (+£750/sq. m)	£195m	£177m	£150m	£90m	£60m
VL7 (+£1,000/sq. m)	£246m	£228m	£201m	£141m	£111m

(Source: DSP 2013) Key: Land Value (Indicative RLV - £m) in green (likely / potentially viable) and white (unviable) table cells.

3.3.29 Based on the points at 3.3.25 and study assumption land value comparisons / viability tests for greenfield land, at Figure 13 above we have indicated with green shading the sensitivity scenarios that produce clearly or (in the case of base values and increased build cost) potentially viable scenarios. Looking at this today on this high level basis, we can start to gauge the points at which / degree to which a viability may be available to provides funds for infrastructure provision; by deducting on a purely assumed basis, say at least £25m and possibly up to £50m for the land from each of the indications within the green shaded areas of Figure 13 (informed at this stage only by the base appraisal outcome RLV of approximately £41m as at 3.3.26 above, and the land value comparisons considered for greenfield enhancement). We must stress that these figures are all simply indications based on the nature of the work to date, and in all aspects this type of work will need to be built-on and reviewed periodically.

3.3.30 Overall this points to the potential to create viable development of this nature, but bearing in mind that all of the scenarios here include 40% AH and subject to a responsive approach to development control given the scheme / phase viability and other circumstances at the time of setting up the delivery framework and then managing the progression of the various phases.

3.3.31 Looking at the indicative Waterbeach (new town of 8,000 – 9,000 homes) SCLP proposals (based on current high level information from the Council, including the IDP being updated at the time of writing this), it appears again that whilst there is the potential to have a suitable relationship between the values and normal costs, that proposal will also need on-going review. The emerging draft IDP information indicates that major infrastructure currently estimated at a high level to cost in the order of £348m could be required in order to support the development; and could need to be provided in the first 5 years of its overall timeframe – prior to significant scale development being completed.

3.3.32 From the very early stages indications above, it appears highly likely that a combination of significant external funding (beyond that likely to be available for securing from the landowners / developers including via s.106) and an adaptable master planning, phasing and delivery approach will be needed. Prioritisation of planning obligations and infrastructure elements may well need to take place; for example looking at the balance between the two, including on areas like affordable housing and its tenure mix, the degree to which additional sustainability measures (e.g. beyond building regulations requirements prevailing at any point) and / or other matters, etc., might be accommodated given detailed review at appropriate points.

3.3.33 Returning also to the CIL aspect, in summary it is clear that with significant site-specific costs to be borne (secured through s.106), under the current CIL regime at least, a nil CIL charging rate (£0/sq. m) is clearly necessary and appropriate in viability terms as we look at this now.

Adopted Local Plan – potential alternative CIL basis

3.3.34 Under the existing (adopted) plan there are essentially 4 sites remaining to be delivered, together with any ad hoc (windfall) developments that come forward:

- Cambridge East (part of);
- Northstowe (remainder);
- Darwin Green (NIAB2);
- Fulbourn (Ida Darwin)

3.3.35 Although it is very possible that some or most / all of these sites may come forward through the existing s.106 process, should these sites basically form the remaining, undelivered capacity then any CIL charging schedule prepared in support of the adopted plan would need to be based on these if following this route.

3.3.36 One option would be to set CIL rates at up to the levels based on the results discussed above in respect of the smaller sites above (charging rate up to say £125/sq. m) across the District with the probable exception of Northstowe. This is on the basis that any other site coming forward for development would effectively not be relevant to the plan (on a proportion of overall delivery or similar basis) and as such could potentially be made unviable by a higher CIL rate without prejudicing the whole.

3.3.37 In any event, under this alternative adopted plan route for CIL Northstowe and any other large sites remaining to be delivered are likely to need to be treated differently from other forms of development given the scale of development and the on-site infrastructure required. In this regard, again the Northstowe picture to date also provides some potentially relevant context.

3.3.38 Again, in all of our CIL viability and similar work, we consider that it is not simply a case of looking for a single cut-off. Considering appropriate charging rates is about making judgments informed by review of the viability results sets and then through further weighing-up of the Council's wider information; and setting this all in the local context so as to seek an appropriate balance between infrastructure provision and development viability.

3.3.39 In terms of assumptions and viability tests, there were few key differences between the adopted plan (Appendices Ib and IIb) CIL viability review appraisals and process and that for the SCLP / CIL work (Appendices Ia and IIa). The principal difference would involve the Council considering the different site supply / distribution and infrastructure requirement scenarios in applying the viability findings alongside other information. The viability findings also point to the same recommended charging rates scope – at not more than £125/sq. m generally and £0/sq. m for any larger scale development that would be relevant to CIL, as considered above. As a third ingredient in common with the preferred SCLP based CIL approach, consideration could be given to the matching of the Cambridge City Council CIL charging rate (at £125/sq. m or other rate to be confirmed following examination) in respect of edge of Cambridge sites.

Affordable housing sensitivity tests

3.3.40 The Appendix IIa results provide a guide to the effect of the trial adjustments away from the 40% target (assumed to be fully applied as under the SCLP proposals and adopted policy in operation) to 30% and 20%.

3.3.41 These results sets can also be used for an indication of varying scenarios (combinations of values, AH %s and trial CIL rates for example) that might give similar outcomes to each other.

3.3.42 The overriding assumption, as allowed-for within all base and larger sites appraisal to date, is a continuation of the adopted 40% target; albeit intended as a target and subject to practical application where viability circumstances mean that it has to be discussed and weighed-up alongside other requirements. We are able to support the carrying-over of the target to the SCLP, subject to continued operation in this mode as should be confirmed through the policy and supporting wording. The results from some scenarios indicate that an alternative approach could be to consider lowering the target but, if operated appropriately, the current approach (40%) should continue to secure high levels of affordable housing – bearing in mind that the high levels of need are the opposing tension to viability (as with infrastructure need and CIL viability). The Council is able to demonstrate that, overall, its approach has worked and merits continuation – carrying forward to the SCLP.

3.3.43 In our experience, lowering of targets could never ensure the viability of all schemes in any event. We have commented previously that some schemes are inherently only marginally viable or unviable - prior to planning obligations requirements.

3.3.44 In all cases, interpolation between results is also possible.

3.3.45 While the thresholds in South Cambridgeshire are low (2 under adopted policy; proposed at 3 under SCLP), we consider that an equitable approach to affordable housing should include consideration of the small sites contributing, as is the case here; rather than maintain a historic approach of an arbitrary threshold at a high level (commonly at 10-15+ units). In our experience, a sliding scale type approach to affordable housing for the smaller sites (of less than say 5 to 10 units), usually including a role for financial contributions in some way, often provides a practical approach to securing appropriate contributions.

3.3.46 However, in this District there is no "first time impact" effect from SCLP in this respect; the low threshold policy approach has an established basis. At this stage, we would simply reiterate our advice that, as a key point, the policy approach needs to be applied in an adaptable way.

3.3.47 Viability aside, but not-unrelated, there are a variety of potential issues around overall design / unit selection and numbers rounding, etc., associated with the 40% target at 2/3 dwellings. Although any approach to seek affordable housing from the smallest sites (including a financial contributions / part financial contributions route) does come with added resourcing requirements, there may be situations where options other than on-site provision, at least at the full level envisaged, could be considered.

3.3.48 The policy approach could be set up accordingly, if so. In our experience, an approach leaving open the alternatives for discussion according to the circumstances has the capacity to provide valuable additional housing enabling / enabling funds across a range of schemes. This may also be considered as a way of reducing any local issues with the management and allocation of highly dispersed provision of individual, or pairs of, affordable homes; together with providing an alternative to the design / integration and affordability issues that can arise with on-site provision in such scenarios. These are wider considerations for the Council's review, the detail being beyond the scope of this report. Local and scheme-type circumstances vary, and will need to be considered.

3.3.49 In respect of schemes currently beneath the policy threshold (schemes of 1 new dwelling currently; 2 as proposed under SCLP), the Government's recent consultation on CIL reform proposals has not been considered here in terms of how any confirmed scope to differentiate by scale of development could affect the potential approach to residential CIL charging. Whilst currently there is clear scope to differentiate by development use, there is no explicit scope (in the regulations and guidance) to differentiate purely by scale of development (including as could affect residential) at present. Potentially, further consideration could be given to any confirmed scope to set CIL at differential levels on the basis of scale of development owing to the "on/off" effect of the affordable housing policy threshold (albeit very low in this instance) and the different viability scenarios typically created either side of that.

Sustainable construction sensitivities

3.3.50 Similarly, the Appendix IIa results can be used to review the impact, viewed at a high level appropriate to this review, of the current progression towards further carbon reduction measures and then zero carbon based requirements; assuming a continuation of the current timelines for these.

3.3.51 Tables 1l, 1m and 1o summarise the range of results from scenarios tested. These represent schemes at 40% (base), 30% and 20% affordable housing respectively – scenarios of 25 and 50 mixed dwellings tested at Code for Sustainable Homes (CfSH) levels 5 and 6 or equivalent building regulations standards.

3.3.52 As at 3.3.40 and similar to the affordable housing sensitivities discussion in general, these trials may be used to help consider requirements combinations that are, or more or less, workable than others; or varying assumptions combinations that produce similar overall results (similar RLVs and therefore viability outcomes).

3.3.53 The indications are that with 40% AH CfSH5 / equivalent looks likely to require either mid to higher end values (at VL4 plus, at least; more likely VL5+) to support development based on PDL land values, even at lower levels. However, values at VL3+ should support or begin to support development based on greenfield enhancement.

3.3.54 There is a "trade-off" seen when adjusting downwards the AH%, as expected – see tables 1m and 1o in comparison with 1l.

3.3.55 As regards larger scale development, the sensitivity indications at Figure 13 above (and associated text) may be reviewed.

3.3.56 For wider context in reviewing these results sensitivities, it is worth noting that this clear deterioration of results with increasing requirements is not unusual by any means. There is a national level issue building around the viability impact of the CfSH or equivalent building regulations improvement requirements; even though the approach to using currently known / estimated costs with current / projected trial level values may well not be reflecting how this will move with developing technologies and a greater market place for those.

3.3.57 These same principles apply to other areas that increase scheme costs.

3.3.58 At the current time, we can only advise that the Council should consider any aspect of its policy (and the practical operation of it) that develops beyond the scope of building regulations or other requirements, and should monitor and keep under review such areas. This means review in the context of other collective requirements on development (affordable housing %s or make-up, just for example), as have been reflected in this study; not just single policy effects in isolation.

3.4 Residential CIL approach - overview

3.4.1 Given this range of local characteristics and circumstances, the CIL rates setting process in South Cambridgeshire is likely to be based around the considerations associated with the need to:

- Consider the overall parameters for CIL charging rate(s) of £0/sq. to £125/sq. m (these rates allowing for not setting at the margins);

- Create as much delivery flexibility as possible for the strategic sites;

- Although based on early stages very high level current review, the results indicate, in any event, that from a viability point of view those strategic sites / locations should be linked to a nil rate (£0/sq. m CIL) (note: applied to all development uses within such areas) based on the current CIL regulations and approach (potentially subject to review if the CIL regime is altered by the Government);

- Avoid setting CIL rate(s) otherwise applicable at too high a level given that such an approach would mean that higher-end values would need to be relied upon too often. £125/sq. m represents an appropriate upper level given the review of results at section 3.3 above and allowing for not setting this at the margins;

- Keep in mind the affordable housing approach, which whilst relatively challenging in the local values context when viewed overall, has been operated successfully and is likely to continue amongst the Council's priorities; it will need to be operated in a practical way;

- The selection of a rate or rates within this will be guided also by plan relevance (of different delivery areas and development types), potential CIL yields vs. administrative burdens, appropriate level of clarity / simplicity, etc., as well as by the primary driver of viability;

- Overall, DSP puts forward for the Council's consideration suggested CIL charging rates for residential as follows:

    - District-wide / prevailing rate £100/sq. m (but in any event not exceeding £125/sq. m); with differential rates for:

        - Strategic sites / locations – at £0/sq. m (also applies to other development uses;

        - Edge of Cambridge ("Cambridge fringe" – e.g. as may be relevant to the Teversham Drift site, Cherry Hinton) – at Cambridge City rate; i.e. £125/sq. m or as confirmed following examination.

3.4.30 The following paragraphs offer additional observations relating to our findings and CIL viability assessment experience.

3.4.31 The CIL principles are such that ideally Charging Schedules should be as simple as possible; i.e. as simple as the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the District (as the more detailed picture of values is blurred away from the general trends), such variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. This need to look at high level value and viability patterns, rather than seeking to reflect highly localised effects, is consistent with CIL principles.

3.4.32 For clarity, these residential findings are considered to also apply to sheltered / retirement housing development, as were included within our range of residential scenarios (40 apartments) – Appendix IIa, table 1g. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites. By sheltered housing we are referring to the generally high density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses). They are distinct in our view from care / nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this study purpose.

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

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

3.4.35 The results of the residential appraisals are typically most sensitive to the value levels assumed for the market housing that will drive scheme viability (as those may vary according to locations and / or varying market conditions). However, other factors that typically have a significant effect on viability outcomes are:

- Affordable housing – although this has been fixed at the proposed compliant level within all appraisals (and further tested for sensitivity);

- Scheme density – linked to land take (site area occupied) and the land value requirement / expectation;

- Build costs – generally, but including related to sustainable design and construction;

- Land value expectation / requirement;

- Other costs side influences – profit levels, finance, fees, etc.;

- The incidence, alongside usual development costs and obligations, of costs that are considered abnormal.

3.4.36 Given the incidence of some larger new-build property types, especially within some smaller rural settlement schemes in South Cambridgeshire, in our exploratory stages we carried out additional background appraisals on the single unit residential scenarios. These are not included within the final reporting owing to the need to produce a realistically scoped scale of work and documentation; as with many other angles where in theory this type of work could be expanded to even greater levels of detail, beyond the 'appropriate available evidence' expectations of the CIL guidance on considering viability.

3.4.37 On this point, however, we found that, for lower value scenarios, increasing the dwelling size reduced the RLV and viability outcome further; and for higher viability scenarios (scenarios starting with more positive outcomes) the opposite was seen – viability indications were improved. As seen through those appraisals, with other aspects fixed, this is basically a case of increasing the direction of an existing outcome – either way (depending on whether as a starting point it is a viable scenario given the typical relationship between costs and values seen at the particular point on the values scale). The indications are that larger dwelling sizes, as may be seen more on the smallest / lower density schemes, will tend to show better viability outcomes providing they are in situations and locations that support values at the mid to upper range values typical for the District; and providing that the development costs are not too high. We think that usually this will be the case; the values will support the costs. Larger dwelling types assumed at higher specifications might well be associated with higher costs levels. Higher build and other development costs associated with the property type will of course have a balancing effect on viability. In general, as above, varying costs is a factor which needs to be kept in mind.

3.4.38 In reviewing the findings and putting forward the above, although not part of the viability testing, in the background we have also had some regard to the proportional cost of the potential (trial) CIL rates relative to scheme value (GDV). These aspects are considered further where some guide information and comparisons are provided – see section 3.11 below.

3.5 Values and other characteristics – Findings: Commercial

3.5.1 A similar review process was considered with respect to commercial and non-residential scenarios – i.e. looking first at whether or not there were any particular values patterns or distinct scenarios that might influence the implementation of a CIL charging schedule for South Cambridgeshire District (non-residential aspects).

3.5.2 As with residential, the starting point aim should be a simple approach to the charging regime as far as development viability, and the relationship of that to plan relevance, permits. In essence, after considering the forms of development most relevant and the research we decided that the focus for differentiation should be on varying development use types. Variance also by locality was considered not to be justified, otherwise the local CIL charging approach could become unnecessarily complex.

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

3.5.4 **Here we summarise key high-level commercial / non-residential points and findings** (more detail then follows in later report sections):

- <u>Retail</u>: On discussion with the Council, our understanding is that the focus for new retail development is likely to be that associated with new local shopping provision as part of larger sites / strategic scale development (small shop units). Any other forms of new retail development (as opposed to the usual “churn” of existing units) are likely to occur, in the main, on a more ad hoc basis – i.e. they not central to the development plan delivery as we understand it. These circumstances, viewed alongside our development viability findings, present CIL charging rate(s) options for the Council’s consideration. However, amongst the options it appears that the viability of such retail development, viewed at a high level rather than site-specifically, may need to be catered-for in any event.

- In viability terms, larger format retail unit development, again envisaged here mostly in a large site / strategic location context, can generally support CIL charging rates at or above the higher end residential levels (potentially up to approximately £125 – 150/sq. m in this case). The Council will need to consider the viability findings alongside the recurring themes that we have noted – around the local relevance; frequency and nature of development. Other forms of retail development would not reliably support this level of CIL charging locally, and the Council's selected approach may need to be responsive above all to potential smaller shops development. Based on the assumptions used, smaller scale convenience retailing / local parades development or similar is likely to support only a lower CIL charging rate set at not more than say £50 – 75/sq. m.

- Business development (offices and industrial / warehousing – of all types): Experience from elsewhere along with emerging findings for South Cambridgeshire suggested that viability outcomes here would not be sufficient to support CIL charging from this range of ('B' class) uses; in common with all of our viability studies to date. This theme has been confirmed and further information is provided below, but it showed that if realistic assumptions were used then those and the resulting viability outcomes would be unlikely to improve sufficiently to enable clear evidencing CIL charging scope, regardless of any area based variation. Therefore, we formed the view that any area based differentiation would not be relevant for these uses. Even in the better locations / scenarios our findings were that the collective assumptions need to be too optimistic at the current time to support clear CIL charging scope without adding further risk to schemes. This is the case given the level of uncertainty and risk present in the market, prior to considering fixed (non-negotiable) CIL levels being added to scheme costs.

- Hotel and care home development scenarios were considered, overall with a similar tone of findings from each of these. As noted at the Appendix Ic scenarios / assumptions summary, hotel appraisals were run to allow us to consider the sensitivity of outcomes to the relationship between their value and build costs, following the review of web based, BCIS and any other available information. With assumptions considered relevant at the current time, these scenarios were considered either non-viable or at best marginal. None of the hotel scenarios based on 'M' values assumptions with a nil (£0/sq. m) supported even the lower end viability tests (see table 3 at Appendix IIc). To create potentially workable scenarios in terms of land values applicable to a range of sites, the 'H' value assumptions were needed with a CIL trial of maximum of about £150/sq. m but we do not consider these results sufficient to support positive CIL charging outcomes given the assumptions needed to underpin them. The 'L' and 'M' value hotel assumptions produced all negative or nominal RLVs; as per the tone of results seen for the care home tests, based on the assumptions used and a lack of readily available information to support an alternative view on those.

- So, again, we felt that the assumptions needed to be moved too optimistically to provide results that might still be regarded as marginal in some instances so that, overall, sufficiently clear viability could not be evidenced to the point of supporting clear CIL charging scope. Improvements to appraisal inputs would need to be relied on. Although some particular development models could work, so long as land value expectations are not too high, others appear not to be workable unless assumptions are stretched in favour of viability. It appears that some hotel development types are able to compete for sites in the market during cycles when the residential development market is struggling but, as the residential market picks up, in general many more sites are likely to go out of reach for hotel development. Although firm information is scarce, this pointed to circumstances where, overall, we consider that it would be inappropriate to place additional burden on, therefore risk to developments that viewed currently may be at best marginal, and given a non-viable starting point in many cases based on current assumptions. In any event, differentiation between particular (for example potentially more viable) types would be very difficult to define and could produce inequity.

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

  - Purpose-built students' housing accommodation (halls of residence or similar): Given the size of the student population associated with the City of Cambridge, DSP considered the viability of student's housing in the form of purpose-built halls of residence style development (whether university / college-led or independent / speculative. This was found to be amongst the more viable forms of development, with a similar or better range of outcomes than those seen for the mid to higher value residential scenarios and the more viable retail scenarios. Students' housing has been considered without affordable housing requirements. On that basis and, if it is considered relevant for inclusion within the Charging Schedule, this development use appears to be able to support CIL charging at approximately £125 - 150/sq. min line with the upper residential and (if applicable) larger scale retail charging parameters. It appears that CIL charging at a higher level might be justified purely in viability grounds – see table 3 within Appendix IIc.

3.5.5 In summary, the meaningful CIL charging potential from commercial / non-residential development in South Cambridgeshire is likely to be restricted to considering any relevance of and scope around larger format retail development and students' housing, together with a more modest rate for small scale retail (small shops); in each case if considered relevant for the first charging schedule.

3.5.6 Looking at each of these uses and the differential potential, if carrying forward to the CIL charging schedule the Council will need to consider whether, like residential, these should also be nil-rated (set at £0/sq. m at the current stage) where they occur within the large sites / strategic locations proposed under the SCLP (or indeed under the remainder of the adopted plan, if relevant to CIL).

3.5.7 Consistent with most other viability studies that we have dealt with, our viability findings seek to provide wider information enabling the Council to consider various approaches – including differentiation for varying retail formats (as those provide different offers and effectively are different development uses), if relevant. Further information is set out at 3.6 below.

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

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

3.5.10 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; the equivalent of residential scheme density. This can affect results considerably, combined with the assumed land buy-in cost for the scheme. We saw the effect of these factors in looking at the residential scenarios too.

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

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

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

3.5.14 We will now provide further detail on the assessment findings for the commercial development scenarios considered, bearing in mind that in practice scheme types and viability outcomes will be highly variable. In all cases, it is not necessary for the Council to link its approach to particular Use Classes – descriptions and added clarity to the CIL Charging Schedule may be better made by referring to locally relevant development types.

Further detail on commercial / non-residential – potential CIL charging scope

3.6 Retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.)

3.6.1 Particularly at the more likely relevant for the use type 7.5% yield trials (Appendix IIc table 4), the 'small retail' appraisal results showed a significantly weaker viability picture compared with the indications from the larger format retail scenarios (especially to the outcomes likely to be most relevant for those – i.e. the 6.5% yield trials – table 3).

3.6.2 Our understanding is that, where relevant, new retail provision in the District is most likely to be associated with significant new housing or mixed-use development on larger sites or at strategic scale growth locations (e.g. as existing under the adopted plan, later phases, or as proposed via the SCLP). Given the nature of strategic infrastructure needed for those and the viability findings, it appears appropriate to consider applying the same treatment across the range of individual development uses within those large scale scenarios; as components of the whole picture rather than as individual schemes.

3.6.3 More generally speaking, whilst the retail scenarios overall showed amongst the best viability outcomes from the wide range seen, if the smaller scenarios are considered relevant to the SCLP delivery then this factor should be included in the consideration of the CIL charging rates. Looking outside the strategic site areas (assuming that those are to be considered for differential CIL treatment in any event), this would be reflected either through differentiation or a low overall charging rate set with small format retail viability in mind – applied to the rest of the District.

3.6.4 As a high level outcome this general viability distinction between larger and smaller retail formats is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases. This tone of results is shown by the range of red shaded 'small retail' results areas at table 4, compared with the larger format retail results and particularly those at table 3.

3.6.5 The 'M' level rental value tests at 7.5% yield for small retail can be seen at table 4 to support CIL of up to approximately £100/sq. m. based on the upper end greenfield land value enhancement comparison (see 3.6.2 above for likely scheme context – new shopping parades / neighbourhood centres or similar within such schemes). At table 4, but also at table 3, the higher RLV levels supported by the large format retail scenarios can be seen.

3.6.6 DSP has experience of single and differential CIL charging rates approaches for retail development. We consider that a CIL charging rate for the larger retail types tested and most often associated with edge of town / out of town development (supermarket and retail warehousing formats) could certainly be taken up to around the higher of the residential charging rate findings, or higher (i.e. could be considered at up to approximately £125 to £150/sq. m).

3.6.7 Although a supermarkets / superstores and retail warehousing / similar based charging rate might be taken higher than this in theory, the prospect that relatively high land values may be associated with this form of development needs to be kept in mind, together with the significant overall development costs. There are a range of factors which, together, suggest that setting retail up to the higher CIL trial rate levels explored (i.e. up to £200/sq. m) may not be appropriate in the local context at this stage. We can see, for example, that at the lower rent level sensitivity trial with 7.5% yield in place of 6.5%, the supermarket scenario results were significantly lower, indicating care needed in finding the right balance given that outcomes are sensitive to the assumptions being adjusted, both up and down, and circumstances could vary.

3.6.8 While the smaller format convenience retail scenarios also produced some results that were significantly better than others from the commercial / low VLs non-residential sets, as noted above those point to the Council considering a low charging rate and, if to be non-prejudicial to new smaller shopping units, a rate probably not exceeding £50 - 75/sq. m in any event. Alongside this, the Council will need to consider whether to treat all uses, including retail (of all types), within major sites / strategic locations considered similarly – i.e. as above, suitable for nil-rate CIL charging consistent with the residential findings given the overall approach to and costs associated with those scenarios.

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

- The Council will need to consider the extent to which retail of any form outside new provision on large scale sites is plan-relevant. If other forms are likely to be coming forward on an ad hoc basis only (i.e. outside the development plan scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;

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

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

3.6.9 We also aim to provide wider information, having taken the exploration of this area of the study further (for any charging rates options based on differentiation by type) in the event that consideration of a differential rates approach is taken forward as a result of the Council's work on this. If there is to be differentiation, then (to reinforce the points made previously) the viability evidence is such that consideration should be given to a lower charging rate for smaller shops developments than might be applied to the larger stores (e.g. supermarkets, superstores and retail warehousing).

3.6.10 We noted previously that, at the point of putting together the first full draft report for this study (June - July 2013) building on previous work on this from late 2012, the Government (DCLG) had recently completed its consultation on further potential reforms to CIL. One aspect of the consultation proposals concerned explicit scope for charging authorities to be able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been discussed above in relation to residential development). Whilst DSP's experience is that differentiation has been possible for scale where that relates to varying development use (i.e. retail offer, site and unit type associated with that), it appears possible that this element of the reforms could expand and cement the scope to consider differentiation on CIL charging rates for retail development. Overall, as with the residential findings, the Council may well be able to consider options for its approach to CIL charging.

3.6.11 In order to provide the Council with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area). These outcomes are not included in detail in this report, but further information can be supplied to the Council by DSP if ultimately a differential charging rates approach is preferred for retail development.

3.6.12 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not produce a different nature of use and value / cost relationship. In our view, any differentiation is more about the distinct development use, the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of the charging schedule in due course.

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

3.6.14 It is considered that, where these schemes may come forward in the District (currently assumed to be on an ad hoc basis only), they could be seen in a variety of circumstances; none of those being fundamental to overall plan delivery. They would be promoted on greenfield / relatively low existing use value land in the South Cambridgeshire, primarily as part of large scale housing or mixed-use development. Where associated with mixed uses where they will need to provide as positive a contribution to overall viability as possible.

3.6.15 **Overall for retail, therefore, we consider that these findings viewed alongside our wider work on this development use point to the Council considering:**

- Differential rates for larger format retail (at not more than £125 - 150/sq. m) and smaller format retail (at not more than £50 – 125/sq. m), or;

- A single retail rate necessarily set with the smaller shops units viability in mind, assuming relevance to the large scale sites / strategic developments – i.e. at not more than £50 – 125/sq. m across all retail scenarios, and in both of these cases;

- Whether all uses (including retail) within those large scale proposals should be treated the same – i.e. with a nil rate given the overall scheme nature and viability scenario.

3.6.16 A single retail rate considered at the higher level (up to £125 - 150/sq. m) would be likely to place additional development risk on the smaller scale shops development whether on large sites or provided through ad hoc schemes, and so is unlikely to be appropriate South Cambridgeshire based on our understanding that smaller shops development, alongside other provision, is considered relevant.

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

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

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

3.7 Business Development – Office / Industrial / Warehousing scenarios (including uses within Use Classes B1, B1a, B2, B8)

3.7.1 In terms of likely scheme viability, these findings are much simpler to discuss than those for retail.

3.7.2 Again, actual proposals could be highly variable in nature (through from more "standard" industrial, warehousing and office developments to developments for high-tech / research and development or similar uses).

3.7.3 However, consistent with our other recent and work in progress, the overview results convincingly show that there is no foreseeable scope for any meaningful level of CIL charge to be applied to such schemes in South Cambridgeshire (at least not without adding further delivery risk to schemes in what is already a very challenging market scenario). This is seen through the largely red colour-coded results range at Appendix IIb tables 3 and 4. Those scenarios are assumed with 6.5% and 7.5% yields, which we consider provide a rental capitalisation that could be represent quite an optimistic view at least in some cases. In that sense, the 6.5% yield tests provide a very positive view that in practice may be relevant in few circumstances for B use development in the current market. There it can be seen that even with the highest rentals trialed and assuming greenfield land relevance with nil CIL, from our assumptions range we see poor results that do not clearly indicate with confidence any real level of development viability. The anticipated values are not sufficient to out-weigh the development costs. The range of poor viability results does not support CIL charging scope in our opinion.

3.7.4 All in all, we consider that, in order to create any meaningful CIL scope, the collective assumptions need to be moved to points that are too optimistic overall to be seen regularly at the current time - and we feel that this is likely to be the case for these development types for the foreseeable short-term future; so that it could be reviewed again in a few years' time for a subsequent Charging Schedule update.

3.7.5 In practice, as noted at 3.7.3, we could very likely see less favourable yield and rental combinations than those we have reviewed, especially after allowing for any incentives to new occupiers, etc. We would not consider it appropriate to assume more favourable rental capitalisation than from a 6.5% to 7.5% yield for these scheme types in the current on-going climate of economic uncertainty.

3.7.6 **In summary, with regard to CIL, we recommend that a zero (£0/sq. m) charging rate be considered for these (Business) development types at the current time. This applies whether in or out of major development areas.**

3.7.7 Clearly this tone of viability findings for business development uses, which is similar to that we have found in all other locations that we have studied to date, has implications for all Councils to consider as far as they are able in terms of wider local plan implications, seeking to encourage investment and secure delivery.

3.7.8 In this regard we are able to make only general comments about wider considerations as the Council moves forward with the private sector and other agencies to promote and deliver growth associated with new housing; and to support jobs and the local economy. The same types of principles may well also be relevant in considering any necessary promotion strategies for other forms of needed development. These points will be considered further in rounding on commercial / non-residential schemes viability.

3.8 Hotels

3.8.1 The hotel scenarios reviewed represent a range of outcomes that show a great degree of sensitivity to the development values and costs assumed for driving the appraisals.

3.8.2 We consider that the 6.5% yield test scenarios could well be more relevant to this development type than those run at a 7.5% yield trial. Given this and the mainly poor viability outcomes at 6.5%, the 7.5% set are not included in Appendix IIc table 4. However, at table 3 there it can be seen that even the more positive assumptions from the tested range (at 6.5% yield) are still producing a range of mainly poor looking viability results (red and marginally pale coloured table cells); only just creating positive RLVs at the 'M' values with no more than £25/sq. m CIL; but at insufficient levels to meet the lower viability test (test 1) – greenfield enhancement land values.

3.8.3 This indicates that even with a more favourable value / costs relationship used for the potentially viable scenarios, such schemes would probably rely on relatively low value land or other cross-subsidy of some form. This might involve public land, land available in low market cycles, some other joint venture or mixed use type scenario where land was not being pursued against other uses in the market; or perhaps where other uses including residential and / or retail supported overall viability as part of a mixed use scheme.

3.8.4 **We recommend that at the current point a zero (£0/sq. m) charging rate be considered for this use type.** In looking for the right balance, it appears that the likely limited CIL yield (contribution to funding gap) potential that might be evidenced by more optimistic assumptions would not outweigh the added risk to the viability of any new build / extension proposals for hotel use. Again, this could be revisited in future and the recommendation applies to this use both in and out of major development areas.

3.8.5 The Council should keep this under review, however, so as to see how experience in practice may influence any future review. Readily available information sources are limited on this development use, and local experience of how the market operates over time may prove useful in this respect.

Residential Institutions – Care Homes and similar

3.8.6 We have focused our appraisal basis on a notional Care Homes scenario at this stage. Proposals falling under this category (envisaged within Use Class C2 as opposed to C3 – see 3.4.32 above) could again be highly variable in nature, as well as in terms of the values and other assumptions potentially applicable to varying scheme specifics. As in many areas it is a form of provision considered relevant as part of the overall accommodation and care offer that may be made available based either on the re-use of existing premises or in the form of new-builds.

3.8.7 We have not been able to identify nor been provided with any recent development examples or other comparables / guides as to likely financial assumptions associated with this form of development in the District. In the absence of such information, it has been necessary to make high level assumptions; nevertheless, as fits this level of study. In a similar way to the reviews carried out for other development types, it was possible to consider what would need to change within the assumptions to create scenarios with reasonable viability prospects on a regular basis.

3.8.8 On the assumptions applied, we have found a very similar tone of viability indications to those associated with hotels. Therefore, similarly, our findings suggest poor viability prospects as a form of development (rather than necessarily as part of a wider business model) unless assumptions are moved significantly in favour of viability by increasing values and / or reducing costs from the levels assumed in early stages appraisals. Therefore, this theme was not developed further. Again, experience in practice could show that such development will occur with more regularity, but at the present time we are not able to evidence a sufficient level of viability to support CIL charging that would not add risk to its delivery.

3.8.9 Based on very similar thinking to that above in relation to hotels, therefore, currently we are not able to support through detailed evidence any meaningful level of CIL scope in respect of such developments. Within the general monitoring scenario, however, the Council should keep this under review so as to see how experience in practice may influence any future review – as for hotel developments. **A zero (£0/sq. m) CIL charging rate is recommended at this stage.** This, again, applies whether within or outside strategic sites / locations.

3.9 Students' housing accommodation

3.9.1 As noted above, this is capable of supporting very positive viability outcomes.

3.9.2 The 'L' value scenarios produced RLVs that bettered the greenfield enhancement land value comparison range with CIL trialed at £175/sq. m. The other scenarios provided very much higher results and, therefore, viability indications.

3.9.3 **If relevant for the Council's charging schedule** (e.g. with respect to edge of Cambridge development under the SCLP or, potentially also applicable to CIL, under the adopted plan), we recommend, therefore, that **consideration be given to a CIL charging rate aligned to the upper residential parameters (not exceeding £125 – 150/sq. m).**

3.10 Other development types – including Community Uses

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

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

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

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

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

3.10.6 **In any event, from our viability perspective, a zero (£0/sq. m) CIL rate is recommended in these instances.**

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

3.10.8 Figure 14 below provides examples of the review of relationship between values and costs in a range of these other scenarios. This is not an exhaustive list by any mean, but it enables us the gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and complication in the local CIL regime. These types of value / cost relationships are not unique to South Cambridgeshire - very similar information is applicable in a wide range of locations in our experience (see Figure 14 below).

Figure 14: Other uses – example guide value / cost ranges and relationships

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications – BCIS**	Viability prospects and Notes
Halls – community halls, etc.	£10 - 30	£200 - 300	Approx. £1,366 (General purpose halls)	Clear lack of Development viability
Community centres, clubs and similar	£20 - 40	£200 - 400	Approx. £1,315 (Community centres)	Clear lack of Development viability
Garages & depots	£25 – 55	£250 – 550	£700 (Builders yards, highways depots and similar)	Similar to low grade industrial (B uses) – costs generally exceed values
Storage - general	Up to £22 - 55	Up to £220 - 550	Approx. £460 (mixed storage types to purpose built warehouse)	As above – assumed (B type uses). Costs generally exceed values. No evidence in support of regular viability.
Surgeries / similar	£120 generally (max. 200)	£1,200 – £2,000	Approx. £1,250 (Health centres, clinics, group practice surgeries).	Insufficient viability to clearly out-weigh costs on a reliable basis.
Day nurseries	£45 - £175	£450 - 1750	Approx. £1,450	Insufficient viability to clearly out-weigh costs on a reliable basis.
Leisure – other Bowling / cinema	£115 - £125	£1533 (@7.5% yield)	Approx. £1,050	Likely marginal Development viability at best – probable need to be supported within mixed uses; or to

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m)	Base build cost indications – BCIS**	Viability prospects and Notes
				occupy existing premises.
Leisure – private health / fitness	£100 - 120	£1600 (@7.5%yield)	Approx. £1,200 (Gymnasia, fitness centres etc.)	Likely marginal Development viability at best – probable need to be supported within mixed uses; or to occupy existing premises.

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

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

3.10.9 With the exception, potentially, of retail linked types such as mentioned at 3.6.17 to 3.6.19 above (should the Council consider those sufficiently relevant to the plan delivery and include those with the CIL charging scope), our recommendation is for the Council to consider a zero (£0/sq. m) CIL rate in respect of a range of other uses such as these. As in other cases, this could be reviewed in future - in response to monitoring information. Our over-riding view is that the frequency of these other new build scenarios that could support meaningful CIL scope is likely to be very limited.

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

3.11 Charge Setting and CIL Rate Review

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

3.11.3 The following figures (contained with the tables at Figures 15 and 16 below) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations at a selection of the potential CIL (trial) rates that were tested for viability. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the study (see chapter 2 and Appendices Ia/b and c).

3.11.4 Percentage of GDV figures are only provided here for the residential and example commercial / non-residential uses (viability study scenarios) that are capable of supporting CIL charging in accordance with our findings (CIL rate as % of GDV figures for other non-viable uses are not provided). See Figures 15 and 16 below.

Figure 15: Trial CIL charging rates as % of GDV – Residential

CIL trial rate (£/sq. m)	**Value Level (VL) (intermediate VLs provided as an indication)**			
	VL 1	**VL 3**	**VL 5**	**VL 7**
	£2,000	**£2,500**	**£3,000**	**£3,500**
25	1.25%	1.00%	0.83%	0.71%
50	2.5%	2.00%	1.66%	1.42%
75	3.75%	3.00%	2.50%	2.14%
100	5.00%	4.00%	3.33%	2.85%
125	6.25%	5.00%	4.16%	3.57%
150	7.50%	6.00%	5.00%	4.28%
175	8.75%	7.00%	5.83%	5.00%
200	10.00%	8.00%	6.66%	5.71%

(Source: DSP 2013)

Figure 16: CIL charging trial rates as % of GDV – Commercial (for development uses where CIL charging is viable only)

Scheme Type	CIL Rate (£/sq. m)	7.5% Yield			6.5% Yield		
		L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		**£2,793**	**£3,192**	**£3,591**	**£3,230**	**£3,691**	**£4,153**
Supermarket	**£25**	0.90%	0.78%	0.70%	0.77%	0.68%	0.60%
	£50	1.79%	1.57%	1.39%	1.55%	1.35%	1.20%
	£75	2.69%	2.35%	2.09%	2.32%	2.03%	1.81%
	£100	3.58%	3.13%	2.78%	3.10%	2.71%	2.41%
	£125	4.48%	3.92%	3.48%	3.87%	3.39%	3.01%
	£150	5.37%	4.70%	4.18%	4.64%	4.06%	3.61%
	£175	6.27%	5.48%	4.87%	5.42%	4.74%	4.21%
	£200	7.16%	6.27%	5.57%	6.19%	5.42%	4.82%
Capital Value (GDV - £/sq. m)		**£2,128**	**£2,527**	**£3,192**	**£2,461**	**£2,922**	**£3,691**
Retail Warehouse	**£25**	1.17%	0.99%	0.78%	1.02%	0.86%	0.68%
	£50	2.35%	1.98%	1.57%	2.03%	1.71%	1.35%
	£75	3.52%	2.97%	2.35%	3.05%	2.57%	2.03%
	£100	4.70%	3.96%	3.13%	4.06%	3.42%	2.71%
	£125	5.87%	4.95%	3.92%	5.08%	4.28%	3.39%
	£150	7.05%	5.94%	4.70%	6.10%	5.13%	4.06%
	£175	8.22%	6.93%	5.48%	7.11%	5.99%	4.74%
	£200	9.40%	7.91%	6.27%	8.13%	6.84%	5.42%
Capital Value (GDV - £/sq. m)		**£1,663**	**£1,995**	**£2,328**	**£1,923**	**£2,307**	**£2,692**
Convenience Store	**£25**	1.50%	1.25%	1.07%	1.30%	1.08%	0.93%
	£50	3.01%	2.51%	2.15%	2.60%	2.17%	1.86%
	£75	4.51%	3.76%	3.22%	3.90%	3.25%	2.79%
	£100	6.02%	5.01%	4.30%	5.20%	4.33%	3.72%
	£125	7.52%	6.27%	5.37%	6.50%	5.42%	4.64%
	£150	9.02%	7.52%	6.44%	7.80%	6.50%	5.57%
	£175	10.53%	8.77%	7.52%	9.10%	7.59%	6.50%
	£200	12.03%	10.03%	8.59%	10.40%	8.67%	7.43%
Capital Value (GDV - £/sq. m)		**£3,911**	**£4,455**	**£4,989**	**£4,523**	**£5,152**	**£5,769**
Students' Accommodation	**£25**	0.64%	0.56%	0.50%	0.55%	0.49%	0.43%
	£50	1.28%	1.12%	1.00%	1.11%	0.97%	0.87%
	£75	1.92%	1.68%	1.50%	1.66%	1.46%	1.30%
	£100	2.56%	2.24%	2.00%	2.21%	1.94%	1.73%
	£125	3.20%	2.81%	2.51%	2.76%	2.43%	2.17%
	£150	3.84%	3.37%	3.01%	3.32%	2.91%	2.60%
	£175	4.47%	3.93%	3.51%	3.87%	3.40%	3.03%
	£200	5.11%	4.49%	4.01%	4.42%	3.88%	3.47%

Capital Value (GDV - £/sq. m)		N/A	**£3,911**	N/A	N/A	**£4,523**	N/A
Hotel	**£20**	N/A	0.51%	N/A	N/A	0.44%	N/A
	£40	N/A	1.02%	N/A	N/A	0.88%	N/A
	£60	N/A	1.53%	N/A	N/A	1.33%	N/A
	£80	N/A	2.05%	N/A	N/A	1.77%	N/A
	£100	N/A	2.56%	N/A	N/A	2.21%	N/A
	£120	N/A	3.07%	N/A	N/A	2.65%	N/A
	£140	N/A	3.58%	N/A	N/A	3.10%	N/A
	£160	N/A	4.09%	N/A	N/A	3.54%	N/A
	£180	N/A	4.60%	N/A	N/A	3.98%	N/A
	£200	N/A	5.11%	N/A	N/A	4.42%	N/A

(Source: DSP 2013)

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

3.12 Summary – SCLP viability and CIL Charging Rate and Recommendations

3.12.1 Above all, in terms of the SCLP proposals, DSP recommends that the Council builds and keeps under review this type of information and its Infrastructure Development Plan (IDP) work – especially in respect of the strategic scale development - in order to keep the proposals moving forward with the site promoters and developers, based on up to date information as far as practically possible.

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

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

3.12.4 There is a great deal of detail to be built-up and worked-through, all of which will be likely occur over a number of market cycles, several Governments and changing sets of planning and environmental requirements, etc. In this context we consider that it is not possible to give unqualified support to the proposals. The engagement between the Council and the developers, land owners and their advisers in respect of the various proposals provides the most positive signs of the delivery scope, and this should be a key indicator of the potential and a vital aspect of the planning and delivery processes.

3.12.5 In the meantime, particularly in respect of commercial / employment development creation, in addition to seeking to ensure that the CIL approach does not further impede investment, the Council could consider the following types of areas and initiatives (outside the scope of this report, but as practical indications):

- Consideration of market cycles – SCLP delivery is about longer term growth as well as short term promotion and management of growth opportunities;

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

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

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

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

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

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

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

3.12.6 On CIL, in summary, from a viability point of view we recommend the following for consideration by South Cambridgeshire District Council in taking forward the setting of rates within a preliminary draft charging schedule (see Figure 17 below):

Figure 17: Recommendations Summary - CIL charging rates

CIL Charging rates parameters & rates for consideration
C. <u>Residential</u>
Overall parameters - £0 to £150/sq. m **Suggested approach for consideration:** - **Overall rate of not more than £100/sq. m, applicable District-wide except for in respect of:** - **Strategic development locations and larger sites - £0/sq. m, and;** - **Edge of Cambridge - £125/sq. m (or rate as per confirmed Cambridge City Council rate in due course)**
D. Retail
Overall parameters – rates scope as per residential - £0 – 150/sq. m with selection of rate(s) depending on circumstances considered most relevant to the local balance, including development plan relevance. **Scope / points to consider:** **Differential or single simple approaches both possible and appropriate in viability terms, depending on SCLP relevance of the various types;** **Small shops rate suggested at not more than £50-75/sq. m;** **Larger format retail rate could be considered up to full extent of parameters, but suggested at not more than £125/sq. m;**

Whether to treat retail development within large site / strategic development areas as per the residential recommendation for those; i.e. also nil-rated (£0/sq. m). **DCLG consultation on proposed CIL reforms (April – May 2013) may result in other matters to consider / review of differentiating scope in terms of the regulations;**
C. Business Development - Office and Industrial of all forms
At the current time, although subject to future review - £0/sq. m
G. Hotels and Care Homes
At the current time, although subject to future review - £0/sq. m
H. Students' housing accommodation
If to be within the Council's charging scope**, a rate of not more than the £125/sq. m upper residential / retail level.** Also consider whether to treat differently if occurring within a large / strategic site scenario where, in accordance with our recommendations, residential development would be nil-rated.
I. Community (and all other) uses
Nil rate (£0/sq. m), on balance, in preference to a low / nominal "default" rate

3.13.2 Provisional version residential charging zones maps should be considered in response to this reporting and should be made available as part of the consultation stages if the Council decides to move forward with a differential rates charging set-up (by geographical zones) for residential development as put forward in respect of the strategic locations and larger sites approach put forward here. The extent of the differential zones (to which the £100/sq. m "prevailing rate" recommendation does not apply) including for the edge of Cambridge scenario, would need to be clarified through mapping.

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

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

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

3.13.6 Allied to this, the Council may wish to consider the extent to which pooled funds might be used to forward-fund or part fund key early infrastructure elements that may be required to facilitate schemes progressing, or proceeding more smoothly. This is not a new principle. Discussions with developers on the timing of affordable housing provision and / or financial contribution obligations, for example, could also continue to be important in this regard. In some cases, an affordable housing element provides valuable and relatively secure cash flow; in others there may be overall scheme benefits from phasing its provision differently.

3.13.7 ***Additional recommendation:*** Given that CIL takes the form of a fixed, non-negotiable charge once implemented, the Council will need to continue to operate its wider planning objectives and policies sufficiently flexibly – approach to be carried in to the SCLP. This should enable it to adapt where necessary to viability and other scheme constraints where developers can share their appraisals to demonstrate the need for flexibility on the overall planning obligations package. Abnormal development costs and other factors could also influence this process in particular instances. Prioritisation of objectives may be necessary, and such outcomes would be highly scheme specific – tailored to particular needs where proven to be necessary.

3.13.8 ***Additional recommendation:*** The Government's CIL guidance (consolidated latest version April 2013) outlines the linkages between the relevant plan (development plan – i.e. Core Strategy), CIL, s.106 obligations and spending of the CIL on infrastructure. One key aspect, as has been the subject of discussion at previous CIL examinations in our experience, is that the Council will need to develop its strategy to clarify the relationship between CIL and s.106. It will need to be able to reassure developers that there will be no double-counting ("double-dipping", as it has been referred to) between the operation of the two regimes in terms of the infrastructure projects that each set of funds (or works provided in-lieu) contributes to. This includes the content of the Regulation 123 list for CIL (confirming the projects or types of infrastructure that CIL funds will be spent on, and therefore precluding the use of s.106 for those same items). At the point of writing our full report for this study, it is worth noting again that the Government has been consulting on further proposed reforms to CIL; consultation ended 28th May 2013. Seeking to improve clarity on the intended uses of CIL and s.106 has again come through as a key theme of these proposals.

Main text of study final report ends.

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