CHILTERN District Council
SOUTH BUCKS District Council
Stronger in partnership

November 2018

Community Infrastructure Levy (CIL)

Chiltern and South Bucks District Councils

Viability Background Paper

Consultation Document

Preliminary Draft Charging Schedule

Introduction

1. This Background Paper has been produced to support the Consultation on the Preliminary Draft Charging Schedule for Community Infrastructure Levy for Chiltern & South Bucks District Councils.

2. The Community Infrastructure Levy (CIL) was introduced by the Planning Act 2008 and is a levy that local authorities can choose to charge on new development, which is then used to fund the infrastructure needed to support growth. It can replace, in part, the planning obligations regime commonly known as Section 106 and Section 278 developer contributions.

3. The requirements for setting and implementing a CIL are set out in the CIL Regulations 2010 (as amended). Further guidance in setting up and implementing CIL is set out in the National Planning Practice Guidance (NPPG): www.gov.uk/guidance/community-infrastructure-levy

4. Chiltern and South Bucks District Councils are in the process of producing a joint Local Plan to cover the period 2016-2036. It is therefore prudent to produce a schedule of levy fees for different types of development so that it can be demonstrated that CIL could support the infrastructure costs of delivering the new Local Plan. This schedule of levy fees, known as the Preliminary Draft Charging Schedule, being consulted upon from Friday 2 November 2018 to Friday 14 December 2018.

5. To support the consultation this document provides information to help determine the balance between gaining funding through CIL from developments and ensuring that the charges are not so high that the developments would be unviable. This document should be read alongside the Preliminary Draft Charging Schedule and the its supporting paper on the Infrastructure Funding Gap.

Viability Assessments

6. “Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.” *PPG July 2018*

7. In July 2018 the Government published a new National Planning Policy Framework (NPPF). Alongside the new NPPF the Government also updated the Planning Policy

Guidance (PPG) relating to Viability. The NPPF, supported by the NPP, sets out the Government's recommended approach to viability assessment for planning.

8. The approach supports transparency in the viability assessment process so that it is clear what policy requirements will inform planning decisions including the contributions that will be expected from developers. It will also support accountability for communities by enabling them to understand the outcomes of viability assessment and see what infrastructure and affordable housing has been delivered through developer contributions.

9. Local Plans should set out policy requirements for the contributions expected from different types of development and, where necessary, from different sites. In particular this should set out policy requirements for the level and types of affordable housing, and for supporting infrastructure including (but not limited to) education, transport, health, green infrastructure and digital infrastructure.

The NPPF

10. The NPPF specifies that plans should be prepared positively in a way that is aspirational but also deliverable. This means that policies should be realistic and the total cumulative cost of all relevant policies should not be of a scale that would make development unviable.

11. Policy requirements, particularly for affordable housing, should be set at a level that allows for sites allocated in the plan to be delivered without the use of further viability assessment at the decision-making stage. Where proposals for development accord with all the relevant policies in an up-to-date Local Plan no viability assessment should be required to accompany a Planning Application. Local Plans should, however, set out circumstances in which viability assessment at the decision-making stage may be required.

12. The principles for assessing viability apply to both Community Infrastructure Levy and Section 106 planning obligations. Above all, consistency between the approach to viability assessment for plan making, decision making, section 106 planning obligations and CIL is required.

13. Local Plans should be informed by evidence of infrastructure and affordable housing need and an assessment of viability that takes into account all relevant policies, local and national standards, including for developer contributions. Viability assessment should not compromise the quality of development but should ensure that policies

are realistic and the total cumulative cost of all relevant policies is not of a scale that will make development unviable.

14. The inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers. Reports and findings should clearly state what assumptions have been made about costs and values (including gross development value, benchmark land value, developer's return and costs). At the decision-making stage, any deviation from the figures used in the viability assessment of the Chiltern & South Bucks Local Plan 2036 would need to be explained and supported by evidence.

The PPG

15. The PPG advises that any viability assessment should follow the government's recommended approach to assessing viability and be proportionate, simple, transparent and publicly available.

16. Assessing the viability of Local Plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage. Assessment of samples of sites may be helpful to support evidence. In some circumstances more, detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.

17. A typology approach is where sites are grouped by shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development. The characteristics used to group sites should reflect the nature of sites and type of development proposed for allocation in the plan.

18. Average costs and values can be used to make assumptions about how the viability of each type of site would be affected by all relevant policies. Comparing data from existing case study sites will help ensure assumptions of costs and values are realistic and broadly accurate. In using market evidence, it is important to disregard outliers. Information from other evidence informing the plan, such as the Councils' Strategic Housing Land Availability Assessment can help inform viability assessment.

Approach to Viability Assessment

19. Our preferred approach to assessing the financial viability of residential development is to undertake a residual appraisal to arrive at a land value. Where the residual land value (RLV) is sufficiently greater than the existing use value (EUV), it is assumed that residential development is financially viable. The financial model reflects an industry standard approach to appraising residential development schemes, in line with recommendations made by the RICS Financial Viability in Planning Guidance and in accordance with national guidance contained in the National Planning Policy Framework 2018 and the Viability Planning Practice Guidance 2018.

20. The appraisal calculates the residual land value (RLV) after all development costs have been deducted from the gross development value (GDV) generated by the hypothetical development of the site in question. As such, the residual land value produced is a direct function of the appraisal inputs regarding development costs and revenue/income. A level of developer's profit, appropriate for each type of development tested and reflecting the risk associated with the nature of that development, is incorporated within the financial modelling.

21. The financial appraisals are based on the residual valuation method which is recognised as being sensitive to variations in input and cost assumptions. As such, when considering appraisals, small changes to the inputs can result in a significant effect on the land value.

22. A diagrammatic illustration of the residual approach is presented below. This diagram illustrates that land value is established by deducting the total construction costs, CIL contributions, finance charges and developer profit margin from the total development value (referred to as the Gross Development Value). This approach assumes that the amount left over would be the figure that a developer would pay for the site in question.

Gross Development Value
Less
Total Construction Costs
Less
Planning Obligations & Community Infrastructure Levy
Less
Finance
Less
Developer's Profit
Equals
Residual Land Value

Chiltern & South Bucks Viability Assessment

23. The Councils have commissioned Dixon Searle Partnership to undertake an economic Viability Assessment to inform both the emerging joint Chiltern & South Bucks Local Plan 2036 and the Preliminary Draft Charging Schedule. The assessment has been undertaken in the context of the potential impacts of all relevant policies in the Local Plan.
24. The assessment considers the current and projected future markets within Chiltern & South Bucks districts for both residential and non-residential development, the application of CIL and the application of policies within the Local Plan 2036 to ensure achievement of the Councils' objectives, including delivery of affordable housing.

25. CIL and the policies within the emerging Local Plan must be effectively used to address sustainable development, including ensuring that there can be 'planning for the right homes in the right places. The Councils are conscious that CIL rates need to be at an appropriate level to support the identified infrastructure needs without unduly impacting on emerging policy or harming site delivery.

26. At this stage to accompany the Preliminary Draft Charging Schedule, the emerging Viability Assessment findings provide a measured and proportionate evidence base to inform this stage of consultation. The assessment provides the analysis of the emerging policies, including the affordable housing policies, and CIL charging rates as part of the Local Plan development. The Local Plan will set the development strategy for Chiltern & South Bucks until 2036, providing clear and justified policies on how the needs of the Districts can be met whilst supporting economic growth and creating sustainable communities

27. The results from the viability testing and analysis demonstrate that in the majority of the scenarios tested, the viability remains deliverable with the proposed CIL rates. This is predominantly due to both the current and projected strength of value growth across both the residential and commercial sectors in Chiltern & South Bucks.

28. The assessment is based upon the scenario that the affordable housing policies across the two districts remain at 40% on qualifying sites. In line with the new NPPF (July 2018), 10% of the homes are assumed be available for affordable home ownership. The remainder of the affordable homes are split between social rent and affordable rent homes. The assessment concludes with the recommendation of implementing an affordable housing percentage of 40% similar to the adopted

policies would allow for CIL to be introduced at the rates proposed in the Preliminary Draft Charging Schedule PDCS whilst still encouraging growth and development within the two Districts.

Conclusions

29. This Background Paper considers how Viability Assessment for the emerging Chiltern & South Bucks Local Plan 2036 policies, including the affordable housing policy requirements, impact on the viability of new development in the Districts in regard to CIL and S106 contributions. The aim is to enable the Council to have a consistent policy which provides clarity to developers on their requirements.

30. It has been demonstrated that 40% affordable housing provision remains achievable in most instances. Given the strength of value growth, for both residential and commercial sectors it is considered that a modest increase in the contribution of CIL charges, to £150 per m^2 and £35 per m^2 (as appropriate) would not adversely affect development activity within Chiltern and South Bucks.

31. In summary, Dixon Searle Partnership has undertaken a thorough assessment of housing and commercial development viability in Chiltern and South Bucks, which has informed the Preliminary Draft Charging Schedule for CIL and will inform the policies in the emerging joint Chiltern & South Bucks Local Plan 2036 including affordable housing policy.

Abbreviations and Glossary

Abbreviations

AONB	Area of Outstanding Natural Beauty
AUV	Alternative Use Value
BCIS	Building Cost Information Service
BLV	Benchmark Land Value
CIL	Community Infrastructure Levy
DCS	Draft Charging Schedule
EUV	Existing Use Value
EUV+	Existing Use Value Plus
GDC	Gross Development Cost
GDV	Gross Development Value
NPPF	National Planning Policy Framework
PDCS	Preliminary Draft Charging Schedule
PDL	Previously Developed Land
PPG	National Planning Policy Guidance
SPD	Supplementary Planning Document

Glossary

Alternative Use Value: AUV refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.

Affordable homes or housing: homes for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following types:

a) Affordable homes for rent
b) Starter homes
c) Discounted market sales housing
d) Other affordable routes to home ownership

Affordable homes for rent: meets all of the following conditions: (a) the rent is set in accordance with the Government's rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).

Benchmark Land Value: To define land value for any viability assessment, a Benchmark Land Value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'Existing Use Value Plus' (EUV+).

Building Cost Information Service: The RICS Building Cost Information Service ('BCIS') is an industry accepted cost index for the cost of building.

Build to Rent: Purpose built housing that is typically 100% rented out. It can form part of a wider multi-tenure development comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control.

Discounted market sales housing: is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.

Existing Use Value: EUV is the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. EUV is not the price paid and should disregard hope value. EUVs will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield.

Existing Use Value Plus: EUV+ see Benchmark Land Value

Gross Development Costs: GDC

Gross Development Value: GDV is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development broad assessment of value in line with industry practice may be necessary.

Local Plan: A plan for the future development of a local area, drawn up by the local planning authority in consultation with the community. In law this is described as the development plan documents adopted under the Planning and Compulsory Purchase Act 2004. A local plan can consist of either strategic or non-strategic policies, or a combination of the two.

Main town centre uses: Retail development (including warehouse clubs and factory outlet centres); leisure, entertainment and more intensive sport and recreation uses (including cinemas, restaurants, drive-through restaurants, bars and pubs, nightclubs, casinos, health and fitness centres, indoor bowling centres and bingo halls); offices; and arts, culture and tourism development (including theatres, museums, galleries and concert halls, hotels and conference facilities).

Major development: For housing, development where 10 or more homes (5 homes within the AONB) will be provided, or the site has an area of 0.25 hectares or more. For non-residential development it means additional floorspace of 1,000m^2 or more, or a site of 0.25 hectare or more. [Local definition]

National Space Standards:

Other affordable routes to home ownership: is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low-cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement

Out of centre: A location which is not in or on the edge of a centre but not necessarily outside the urban area.

Out of town: A location out of centre that is outside the existing urban area.

Planning obligation: A legal agreement entered into under section 106 of the Town and Country Planning Act 1990 to mitigate the impacts of a development proposal.

Premium to the landowner: The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.

Previously developed land: Land which is or was occupied by a permanent structure, including the curtilage of the developed land (although it should not be assumed that the whole of the curtilage should be developed) and any associated fixed surface infrastructure. This excludes: land that is or was last occupied by agricultural or forestry buildings; land that has been developed for minerals extraction or waste disposal by landfill, where provision for restoration has been made through development management procedures; land in built-up areas such as residential gardens, parks, recreation grounds and allotments; and land that was previously developed but where the remains of the permanent structure or fixed surface structure have blended into the landscape.

Primary shopping area: Defined area where retail development is concentrated.

Renewable and low carbon energy: Includes energy for heating and cooling as well as generating electricity. Renewable energy covers those energy flows that occur naturally and repeatedly in the environment – from the wind, the fall of water, the movement of the oceans, from the sun and also from biomass and deep geothermal heat. Low carbon technologies are those that can help reduce emissions (compared to conventional use of fossil fuels).

Rural exception sites: Small sites used for affordable housing in perpetuity where sites would not normally be used for housing. Rural exception sites seek to address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection. A proportion of market homes may be allowed on the site at the local planning authority's discretion, for example where essential to enable the delivery of affordable units without grant funding.

Self-build and custom-build housing: Housing built by an individual, a group of individuals, or persons working with or for them, to be occupied by that individual. Such housing can be either market or affordable housing. A legal definition, for the purpose of applying the Self-build and Custom Housebuilding Act 2015 (as amended), is contained in section 1(A1) and (A2) of that Act.

Shared ownership housing: A form of intermediate affordable housing which is partly sold and partly rented to the occupiers, with a Registered Provider (normally a housing association) being the landlord. Shared ownership housing should normally offer a maximum initial share of 25% of the open market value of the dwelling. The annual rental charges on the unsold equity (share) should be no more than 2.75% of this share.

Starter homes: is as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.

Social rented housing: Homes that are let at a level of rent generally set much lower than those charged on the open market, available to those recognised by the Councils as being in housing need, and offering long term security of tenure (through Secure or Assured tenancies). The rent should currently be calculated using the formula set out in Appendices C and D of Housing Corporation Circular 27/01 – Rent Influencing Regime – Implementing the Rent Restructuring Framework. Should this circular be revoked at any time, the Councils would use a weekly rent figure equivalent to 30% of the lower quartile net income (after deductions) for full-time employees, pending any revised formula adopted or supported by the Councils.

Supplementary planning document: Document which adds further detail to the policies in the development plan. They can be used to provide further guidance for development on specific sites, or on particular issues, such as design. Supplementary planning documents are capable of being a material consideration in planning decisions but are not part of the development plan.

Town centre: Area defined on the local authority's policies map, including the primary shopping area and areas predominantly occupied by main town centre uses within or adjacent to the primary shopping area. References to town centres or centres apply to centres, town centres, district centres and local centres but exclude small parades of shops of purely neighbourhood significance. Unless they are identified as centres in the development plan, existing out-of-centre developments, comprising or including main town centre uses, do not constitute town centres.

Viability assessment: is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.

Windfall sites: Sites not specifically identified in the development plan.

Appendix – Key Assumptions

The following assumptions were considered as part of the viability appraisal process.

Size of homes

The National Space Standards are summarised in the following table:

Number of bedrooms	Range (Sq.m)		Mid-point (Sq. m)
1b	39	58	49
2b	61	79	70
3b	74	108	128
4b	90	130	110
5b	103	134	119
6b	116	130	123

In the viability assessment the following homes sizes were used:

Unit Sizes	Affordable (sq. m)	Private (sq. m)
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130
Retirement/sheltered 1-beds		55
Retirement/sheltered 2-beds		75

Market homes value assumptions

In the viability assessment the following values (as a £ per sq. m calculated on the gross floor area) for the market homes were used:

Residential sales values	£ per sq. m	£ per sq. ft
Range	£4,000	£372
	£6,250	£581

Affordable homes value assumptions

The weekly rents paid for affordable homes are summarised in the following table:

Dwelling size (bedroom numbers)	Weekly Rent	
Unit	Social Rent	Affordable Rent
1BF	£96.38	£145.43
2BF	£113.03	£187.92
2BH	£113.03	£187.82
3BH	£124.44	£236.34
4BH	£139.10	£344.05

In the viability assessment the following values for the affordable homes were used:

Unit	Size (sq.m)	Value: Social Rent	Value: Affordable Rent
1BF	50	£75,748	£105,925
2BF	70	£77,205	£136,871
2BH	79	£77,205	£136,871
3BH	100	£89,587	£172,134
4BH	130	£97,598	£250,586

Build costs

The following building cost were used using he RICS Building Cost Information Service (BCIS) as an industry accepted cost index for the cost of building.

Build cost taken as "Median" figure from BCIS for that build type unless otherwise stated - e.g. flats, house storey heights etc. and then rounded. Median figure gives a better figure than the Mean as it is not so influenced by rogue figures that can distort the mean on small sample sizes. The BCIS figure for both Chiltern and South Bucks has been used and averaged across both areas. Includes allowance for uplift to build costs based on BCIS / FSB research for sites of 10 or fewer dwellings. Externals added at 15%. Site works added separately.

Type	£/sq. m
Build Costs Mixed Developments - generally	£1,499
Build Costs Estate Housing - generally	£1,538
Build Costs Estate Housing - generally	£1,398
Build Costs Flats - generally	£1,629
Build Costs Flats - generally	£1,551
Build Costs (Sheltered Housing - generally)	£1,740

Land value

MHCLG 'Land Value Estimates for Policy Appraisal' document (2017; published May 2018)

Land values	£ per ha	£ per acre
Range	£100,000	£40,470
	£4,487,400	£1,816,026

Ratio: 2.471 acres in a hectare

Developer profit

The developer profit on cost is calculated at a reduced rate on costs relating to affordable housing. This is on the basis that the developer is not taking any risk with the delivery of the affordable housing as the model assumes that the developer has pre-sold the stock, at an agreed price, on transfer. As such it is not appropriate to include higher profit, as this reflects the risk associated with achieving market sales. The build costs from BCIS include builders profit in the construction costs. There is no difference in the build costs applied to either the market or affordable residential development and the model makes an implicit allowance for contractor's margin on build costs.

Summary of the key assumptions for the residential viability assessment to inform CIL

Name	Amount	Metric
Build Costs	See above	BCIS
External works	10% flats 15% houses	Added to build costs
Site works	£300,000	Per net developable hectare
Contingencies	5%	On of build costs
Professional and other fees (to include usual professional fees including architects, project management etc.)	8%	On build costs
Sustainable Design / Construction Standards	2%	On of build costs
Building Regulations M4 (2)	£1,646 flats £2,447 houses	Per unit
Building Regulations M4 (3)	£15,691 flats £26,816 houses	Per unit

Electric vehicle charging points	0	Per unit
National Space Standards	0%	As the build costs (BCIS) and sales value are both calculated on a per m2 basis, there is no additional impacts
Residual s.106 /non-CIL costs small scale PDL / Greenfield sites	£3,000	Per unit
Residual s.106 /non-CIL costs large scale strategic greenfield sites	0	s106 scope explored through running appraisals as s106 surplus residual
Marketing & sales costs (private sales only)	Private Residential 1% [in extreme cases rising to 3% max]	On Gross Development Value
Sales Legal Fees	£500 [in extreme cases rising to £750 max]	Per unit
Developer Profit (residential v1)	20% on market residential units 7% on affordable residential units	On Gross Development Costs
Developer Profit (residential v2)	17% on market residential units 6% on affordable residential units	On Gross Development Value
Developer Profit (other residential)	15% on elderly, care and nursing homes	On Gross Development Costs
Agents fees (site acquisition)	1% [in extreme cases rising to 1.5% max]	% of site value
Legal fees (site acquisition)	0.75%	% of site value
Stamp Duty Land Tax (% of site value)	HMRC rate	% of site value
Interest / finance rate	Residential 6.5%	Applied to development costs in accordance with development programme