Viability Study assessing affordable housing, the Community Infrastructure Levy and the Development Strategy

Report to Central Bedfordshire Council

Three Dragons January 2013

This report is not a formal land valuation or scheme appraisal. It has been prepared using the Three Dragons toolkit and non-residential model and is based on district level data supplied by Central Bedfordshire Council, consultation and quoted published data sources. The toolkit provides a review of the development economics of a range of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

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EXECUTIVE SUMMARY

This Study

This study was commissioned by Central Bedfordshire Council (CBC) in 2012 in order to:

- Assess the impact on viability of the Council's policy requirements in the emerging Development Strategy, including the affordable housing targets and thresholds, the requirements in relation to Lifetime Homes, the Code for Sustainable Homes and BREEAM standards.
- Assess the impact of the proposed Community Infrastructure Levy (CIL) on development - Central Bedfordshire Council intends to adopt a CIL to help fund infrastructure and facilitate development across Central Bedfordshire over the period of the Development Strategy.

The Development Strategy plans for large-scale housing provision within the proposed urban extensions at North Houghton Regis, North Luton and East Leighton Linslade; plus an extension to the new settlement at Wixams. There will also be housing developed on smaller allocated sites and a modest proportion as windfall sites.

New employment premises will be delivered to serve the North Houghton Regis, North Luton and East Leighton Linslade urban extensions, as well as new provision at Sundon, Stratton, Flitwick and around Luton Airport. The area has seen considerable development of large warehouse premises in the past and it is anticipated that this type of provision will continue when the wider economic situation improves. In addition it is anticipated that there will be new retail in the urban extensions and, where necessary, on the edge of town centres and out of centre locations. It is also planned that there will be new visitor accommodation.

Benchmark Land Values

The study includes a set of residual value assessments for different types of development, which are then measured against benchmark local average land values. These have been researched using Valuation Office Agency's (VOA) Property Market Report data, other land prices sources and tested with the development industry.

The land value benchmarks for **residentia**l development which we have assumed in this report range from **£650,000-£950,000 per hectare (ha)**. £650,000[1] is the same value that was accepted by the Inspector who appraised the 2009 Mid Bedfordshire Core Strategy (now part of Central Bedfordshire)[2] and the higher benchmark is based upon an uplift on existing use values and an assessment of land values supported by current development plan policies.

Based on Land Registry data, Central Bedfordshire has been split into Area A (with higher house prices and land values) and Area B (with lower prices and values). Area B covers urban settlements in the North East and South of the Borough and includes Biggleswade, Sandy, Dunstable and Houghton Regis. Area A covers all other parts for the district. Both areas have been tested using the range of threshold land values.

[1] As recommended In the Harman Report this figure is based on an uplift % on land values for industrial land in the area. We have applied an uplift of 25-30% which allows for taxation and a modest increase in land value to the landowner).
[2] PINS/J0215/429/5 (LDF000980)

Land value benchmarks for non-residential development have also been derived using the VOA's Property Market data and then refined through discussion with the development industry and Central Bedfordshire's Estates Department. The benchmarks used were:

- Between £490,000 to £620,000/net developable hectare for industrial and office uses near major transport routes and lower values to the east of Central Bedfordshire
- Around £1,800,000/net developable hectare for town centre retail and large convenience retail. .
- Around £1,200,000/net developable hectare for out of centre retail.
- The threshold land value for out of centre leisure, care homes and hotels will be similar to industrial and out of centre office uses – i.e. between £490,000 to £620,000/net developable hectare.

The Residential Viability Findings

The viability assessments show that there are two house price areas in Central Bedfordshire (described in this report as Area A and Area B, as discussed above). House prices are approximately 10% higher in Area A than in Area B and affordable rents are also higher and it is therefore appropriate to consider setting a different CIL rate for each Area.

In addition to this there is evidence to suggest that the Council's proposed urban extensions are subject to substantially larger infrastructure requirements. This requirement and related site opening up costs are common to many large scale strategic sites and alter the viability of the development to such an extent that it would be appropriate to consider setting a distinct, third CIL charge for the urban extensions.

CBC has devised a comprehensive range of standards intended to provide attractive places in which to live. The financial implications of these standards have been explored through dialogue with the development industry and analysis by independent experts. After comprehensive analysis CBC has decided to seek improved water standards and a 10% improvement in carbon reduction in all new homes and provision of Lifetime Homes in 70% of new homes with flexibility about how these aims can be achieved. These standards have been included in the viability analysis carried out in this report.

CBC wishes all developments to provide 30% affordable housing[3] and this has been costed in our appraisals.

Our conclusions are that mainstream residential development is viable across the majority of house types and developments modeled and the Council should consider setting CIL charges as follows:

- Up to £175-225 per sqm in Area A.
- Up to £75-100 per sqm in Area B

If the CIL charge was to be based on the lower benchmark land value of £650,000 per ha a CIL charge of upto £150-175 per sqm could be considered in Area B

By way of comparison, the estimated theoretical cost to development of the current average S106 obligation at 35% affordable housing is £115/sqm for market housing (or £75/sqm for all housing).

[3] Previous policy was 35% affordable housing

Sheltered and ExtraCare housing is less viable than mainstream residential development and should pay a zero CIL.

The viability of Urban Extensions is considerably affected by site circumstances and the Council will need to appraise each scheme on its merits. It is unlikely that schemes will be able to bear full site specific S106 costs and a CIL comparable to smaller developments. There is a range of possible charging options. Our preferred option and recommendation to the Council is that it sets a CIL rate for its large scale urban extensions in the order of £30 to £45 per sqm. Care will need to be taken in compiling the Regulation 123 list to ensure that S106 and CIL contributions are not sought towards the same item and that CIL monies make a contribution to the costs of bringing forward the strategic sites which are key to the Council's future growth plans.

The Non-Residential Viability Findings

A set of notional non-residential BREEAM excellent developments have been tested and the viability assessments show that:

- Convenience retail is viable and is able to bear a CIL charge.
- Retail warehouses are viable and able to bear a CIL charge.
- Hotels are viable but not sufficiently to bear a CIL charge.
- Warehouse and town centre comparison retail are not sufficiently viable to support a CIL charge however they may be able to pay CIL if values change.
- The other non-residential uses are not viable and would require considerable changes in value before they are able to pay CIL.

The decision on what level to set the CIL for non-residential uses is one for the Council to take, and it needs to be informed by and consistent with the evidence. Within this there is some room for manoeuvre and the Council should take into account the suggested maximum rates set out in the body of the report. CBC might consider the following retail charges which are well within the suggested maximum rates:

- £0 for town centre *comparison* as defined by the town centre designations
- Up to £70 - £100 sqm for all other retail

CBC may wish to consider a simple extension to this, such as a variation for large convenience retail, where the evidence suggests that viability is improved. If this is pursued it is recommended that it is defined as 'superstores' of 2,500 sqm or more with at least 50% of the sales floorspace selling convenience goods. It is recommended that the Council might consider a rate between £150-£200 per sqm for superstores, which is well within the theoretical viability 'headroom'. If this option is pursued then it is recommended that attention is given to the examination outcomes of other draft charging schedules that propose a variation in CIL rates for different retail uses.

For clarification, it is recommended that the Council sets a CIL rate of £0 for all other non-residential uses.

Monitoring and evaluation

Viability of development is influenced by a range of factors including changes in costs, values, standards and land value expectations. Flow of sites being delivered is a key indicator. We recommend that the Council also monitors a range of factors including changes in house prices, build costs, regulatory development standards, finance costs and land values and takes this into account when deciding when and if to review policy.

1 INTRODUCTION

1.1 This report was commissioned by Central Bedfordshire Council in 2012 in order to:

- Assess the impact on viability of the Council's policy requirements in the emerging Development Strategy, including the affordable housing targets and thresholds, the requirements in relation to Lifetime Homes, the Code for Sustainable Homes and BREEAM standards.
- Assess the impact of the proposed Community Infrastructure Levy (CIL) on development - Central Bedfordshire Council intends to adopt a CIL to help facilitate development across the Borough over the period of the Development Strategy.

1.2 This report sets out findings of the viability assessment for residential and non-residential development using a set of policy proposals which take into account the Council's aspiration to set high development standards, continue to secure affordable housing to meet local need and maximize potential CIL funding to support delivery of necessary infrastructure in the district.

1.3 The research which underpins the viability assessment includes:

- An analysis of publicly available data to identify the range of values and costs needed for the viability assessment;
- Discussions with Council officers from planning, economic development, estates and housing departments;
- Analysis of information held by the authority, including the profile of land supply identified in the Strategic Housing Land Availability Assessment and a review of historic planning permissions;
- A workshop held with developers, land owners, their agents and representatives from a selection of registered providers in the area. Annex 1 provides a note of the workshop;
- Subsequent discussions with estate agents and developers who operate in Central Bedfordshire to verify the assumptions used in the analysis;
- A survey of local Registered Providers to seek their views on aspects of costs and revenue that affect affordable housing;
- Use of the Three Dragons Toolkit, adapted for Central Bedfordshire to analyse scheme viability for residential development and of Three Dragons bespoke model for the analysis of non-residential schemes.

2 CONTEXT FOR THE ANALYSIS

National Policy Context

2.1 The National Planning Policy Framework (NPPF) is adopted government policy. It recognises the need for planning authorities to consider what policies they require to deliver affordable housing in their area[4]. On site size thresholds for affordable housing, the NPPF leaves this to the discretion of local planning authorities.

2.2 The NPPF reiterates the importance of taking viability into account in developing policies for affordable housing and other standards in order to ensure plans are deliverable and overall development is not jeopardised[5]. The NPPF explicitly recognises the need to provide competitive returns to a willing land owner and willing developer, and local planning authorities are to assess the '*likely cumulative impact*' of their proposed development standards and policies[6].

2.3 Furthermore, the NPPF specifically notes that 'Where practical, Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan'[7].

The Community Infrastructure Levy (CIL)

2.4 The CIL regulations allow charging authorities to set different rates set out in £s per sq metre (or sq m) of net additional floorspace for different uses and for different zones – provided these can be clearly identified geographically[8]. CIL is set out as £s per sq metre for developments of 1 dwelling or more, or over 100 sq m additional non-residential floorspace. Exemptions include affordable housing and charities.

2.5 The Planning Act 2008 sets out how a charging authority should approach the use of evidence in setting a charging schedule:

"(b) that the charging authority has used appropriate available evidence to inform the draft charging schedule,"[9]

2.6 DCLG has provided Guidance for the Community Infrastructure Levy[10], with a new version of this published in December 2012 and replacing the publication of March 2010.

2.7 DCLG new guidance re-iterates that evidence is needed to inform the draft charging schedule but highlights that charging authorities should apply pragmatism:

"A charging authority's proposed levy rate (or rates) should be reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence, for example, if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism". (para 28)

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[4] Paragraph 50
[5] Paragraph 173
[6] Paragraph 174
[7] Paragraph 175
[8] Regulation 13
[9] Planning Act 2008 s212 (4)
[10] DCLG, Community Infrastructure Levy, Guidance December 2012

It is also worth highlighting that the guidance does not prescribe how this should be achieved (for example, by identifying a percentage 'buffer' between what the viability evidence suggests is possible and the levy set). However, the guidance warns that, "*Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, ……..that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle"* (para 30). 'Economic cycle' is not further defined.

2.8 The Guidance sets out how an authority should balance its need for CIL funding for infrastructure with viability considerations:

"Charging authorities will need to be able to show why they consider that the proposed levy rate(s) sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area. (para 23).

2.9 In terms of producing evidence to inform the draft charging schedule, DCLG highlights where the focus for testing should be:

"……a charging authority should sample directly an appropriate range of types of sites across its area in order to supplement existing data, subject to receiving the necessary support from local developers. The focus should be in particular on strategic sites on which the relevant Plan relies and those sites (such as brownfield sites) where the impact of the levy on economic viability is likely to be most significant." (para 27).

2.10 The Guidance explains that charging authorities should avoid 'undue complexity' in setting their rates but also notes that:

"…….resulting charging schedules should not impact disproportionately on particular sectors or specialist forms of development and charging authorities should consider views of developers at an early stage." (para 37)

2.11 While not directly relevant to the viability evidence set out in this study, the new DCLG guidance indicates the need for evidence about previous levels of planning obligations as part of the approach to setting CIL rates:

"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." (para 22)

There is also a requirement to provide information about the types of projects that will be funded through CIL:

"*The charging authority should set out at examination a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy*." (para 15).

A new approach in the Guidance is that charging authorities will need to consult before revising their Regulation 123 lists in the future (see para 90)

2.12 There will still be s106 contributions in order to make the development acceptable in planning terms. These will have to meet the three tests:

- Necessary to make the development acceptable in planning terms

- Directly related to the development
- Fairly and reasonably related in scale and kind to the development

2.13 The approach to planning obligations that a charging authority intends to follow will need to be transparent and, "*The charging authorities should also set out* (at examination) *those known site-specific matters where section 106 contributions may continue to be sought*". (para 15- DCLG guidance December 2012)

2.14 We have assumed that on our specimen residential site there will be a requirement for onsite S106 of £3,500 per dwelling. This is a reduction on the average £6,500-9,000 which is currently being achieved and assumes that some S106 obligations (such as a contribution to off-site education) which are currently sought through S106 will be picked up through the CIL route. We have also assumed that there will be S106 contributions from some of the notional commercial developments, which we have discussed with CBC.

2.15 Further guidance has been published to assist practitioners in undertaking viability studies for policy making purposes – "*Viability Testing Local Plans - Advice for planning practitioners*"[11]. The approach to viability testing follows the principles set out in the advice. The advice re-iterates that:

2.16 "The approach to assessing plan viability should recognise that it can only provide high level assurance."

2.17 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and states that:

"*The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values*". (page 26)

But that:

"*The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented………"(page 26)*

2.18 In the light of this advice on national regulatory changes we have taken into account an additional cost of £795 per dwelling and £20 per sqm additional non-residential build cost which anticipates changes to the Building Regulations in 2013.

Summary

2.19 CIL is set out as £s per sq metre for developments of 1 dwelling or more or over 100sq m additional non-residential floorspace and is not negotiable unlike S106. Justification for the levy rate(s) should include:

- There is a need (i.e. an infrastructure funding deficit)
- The setting of the levy rates is informed by viability assessments
- Charging authorities are not allowed to set rates for policy purposes

[11] The guide was published in June 2012 and is the work of the Local Housing Delivery Group, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation.

2.20 There can be different rates for different uses and different areas, and exemptions include affordable housing and charities.

2.21 Charging authorities will have to have a Regulation 123 list setting out how the money will be spent, and it is permissible to collect the levy in one area and spend in another. The liability for CIL is identified at planning permission and is paid at commencement

2.22 There will still be s106 contributions in order to make the development acceptable in planning terms – although this will be subject to tighter regime than has been allowable in the past.

3 DEVELOPMENT IN CENTRAL BEDFORDSHIRE

Introduction

3.1 We have briefly reviewed the planned housing and commercial development planned in Central Bedfordshire. This review is then used to develop a set of case study sites to be tested later in the document.

Residential Development

3.2 The draft development strategy for Central Bedfordshire (23rd October 2012) states that 28,700 new homes will be delivered between 2011 and 2031. Of the 28,700 new dwellings, 14,392 are committed.

Table 3.1: New Housing Development in Central Bedfordshire – Committed Development and Housing Delivery

Area	"Committed" new homes*
Wixams	3250
Biggleswade	2213
Leighton Linslade	1545
Dunstable	981
Arlesey	1,086
Stotfold	642
Ampthill	630
Marston Moretaine	592
Flitwick	574
Cranfield	556
Houghton Regis	100
Other sites (north)	1925
Other sites (south)	298
Total commitments	14392
Housing Delivery	
Net Completions 2011/2012	1,310
Committed* sites in the north	11,468
Committed* sites in the south	2,924
Neighbourhood Plans and Windfall	1,500
New sites – North Houghton Regis**	5,600
New sites – North Luton**	2,900
New sites – East Leighton Linslade	2,500
New sites – Wixams extension	500
Total planned housing delivery 2011-31	28,702

Source Draft Central Bedfordshire Development Strategy October 2012 * = Committed sites are those either with planning permission, or that have been allocated in previous plans, or that have been identified as likely to come forward during the plan period. ** = The housing delivery for these sites is that which is estimated to be delivered by 2031. Additional capacity is expected to come forward beyond 2031.

3.3 Large-scale housing provision will be delivered through the proposed urban extensions at North Houghton Regis, North Luton and East Leighton Linslade; plus the new settlement at Wixams. There will also be housing developed as windfall sites. Historically windfall sites have represented a considerable proportion of overall housing delivery in both north and south Central Bedfordshire. There are two main sources of likely windfall: firstly sites within settlement boundaries that have historically come forward and are likely to continue; and secondly small-scale development will also be brought forward through Neighbourhood Plans.

3.4 It is clear that recent years have seen the market for flats fall away, partly because of the mortgage difficulties faced by first time buyers and partly because of market changes. This has resulted in a greater proportion of family housing and less dense schemes.

3.5 The Development Strategy notes that that there will be particular growth amongst the population over 65 years of age and that the elderly population increasingly have specific care needs which often require well thought-out housing solutions and specialist care. CBC will therefore expect an element of accommodation for older people as part of all larger developments, to include lifetime homes, sheltered housing and extra care housing.

3.6 In response to housing affordability issues CBC expects that good mix of tenures including Social Rent, Affordable Rent, Shared Ownership and other forms of low cost home ownership should all be provided as part of a good housing mix. The Development Strategy sets the target of 30% affordable housing for developments of 4 dwellings or more.

Non-residential development

Overview

3.7 The draft development strategy for central Bedfordshire notes that Central Bedfordshire has a number of employment specialisms which reflect Central Bedfordshire's strengths in the engineering/manufacturing and logistics sectors as well as indicating the importance of the rural economy, particularly through leisure, tourism and veterinary based activities. There is however an underrepresentation in business services, finance and insurance. Tourism is a rapidly growing sector and includes the new Center Parcs holiday village near Millbrook (currently under construction) and the proposals for an aquatic conservation and visitor centre and associated science park in the Marston Vale.

3.8 The Development Strategy will deliver 27,000 new jobs between 2011 and 2031 within Central Bedfordshire, which fits within the historic annual delivery of 1,200 jobs. It is recognised that the jobs delivery rate will be lower in the early part of the plan as a result of the economic cycle.

3.9 Central Bedfordshire will need to make provision in order to accommodate some of Luton's jobs growth which cannot be accommodated within their own administrative area. This particularly relates to the provision of B-Uses which are more land intensive and includes the expansion proposals of London-Luton Airport, with a significant number of jobs related to the expansion itself, but also in offices, hotels, restaurants and leisure activities.

3.10 Within Central Bedfordshire it is anticipated that 12,150 (45%) of new jobs will be from B-Uses with the remaining 14,850 (55%) being delivered through non B-Uses. The Development Strategy will allocate up to 139ha of additional employment land within the plan period (in addition to the existing allocations from the North Site Allocations DPD).

Table 3.2: New Employment Land Allocations

Location	Area
New sites – North Houghton Regis*	30ha
New sites – North Luton*	13ha
New sites – East Leighton Linslade	16ha
New sites – Sundon RFI	40ha
New sites – North east of Flitwick	Up to 18ha
Stratton Farm Biggleswade	22ha
Total employment land delivery 2011-31	Up to 139ha

* Additional employment land to be delivered beyond 2031. Source Draft Central Bedfordshire Development Strategy June 2012

3.11 In terms of additional tourism premises the Development Strategy notes that the types of development that might come forward are self-catering accommodation and low-cost accommodation (campsites, lodges, rural pubs) as well as more budget hotels (because of the transport links) as well as higher end conversion of large character properties.

3.12 The 2010 employment land review[12] (ELR) notes that the area has a particularly low level of office space and that in terms of sqm/capita, the southern part of the district has a concentration of warehouse space (reflecting the good transport links) and compared to much of the surrounding area the district overall has relatively high levels of factory floorspace. In terms of the change of B class floor space between 1998 and 2008, the greatest gains were in warehousing (+42%), followed by factories (+19%) and then offices (+13%). Compared to neighbouring authorities, the growth in warehouses is comparable, the growth in factory space is above average and the growth in offices is below average. Vacancy levels of commercial property have been broadly similar to regional and national averages. In terms of demand the ELR noted that demand was mainly for factory/warehouse units and was stronger in the west (near the transport links) than the east. The factory demand has mainly been for small scale uses. Office demand is mainly from local businesses with no large relocations of office firms from elsewhere, other than to Cranfield.

Retail

3.13 Wixams is a new planned settlement which straddles the boundary of Central Bedfordshire and Bedford Borough, and this will include a new town centre. Wixams will include residential, employment, retail (A1, A2 A3), Leisure and community uses, open space and associated uses.

3.14 The Draft Development Strategy states that apart from Wixams new retail floorspace will be concentrated in existing town centres; where this is not feasible, sites on the edge of town centres should be considered followed by out of centre locations. New retail facilities will be needed to support major areas of growth, such as the large urban extensions to the north of Houghton Regis and Luton and to the east of Leighton Linslade (which will all include local centres as well as other retail).

[12] Employment Land Review for Central Bedfordshire North Stage 3, 2010, NLP. As well as the discussion about types of development, the ELR included information about rents which we have considered as part of the analysis of values later in this report.

3.15 Specific Proposals:

- Dunstable – expansions of town centre comparison retail primarily through the redevelopment and expansion of the Quadrant Shopping Centre. This will include new convenience and comparison space as well as a new cinema.
- Leighton Buzzard - two key sites for retail plus new community, leisure and cultural facilities[13]: Land South of High Street used to extend the retail offer of the town centre and Bridge Meadow, an important site close to the town centre.
- Houghton Regis - mixed use redevelopment of the town centre which will deliver a significantly improved retail and commercial offer. This will include new convenience retail space.
- Biggleswade - significant additional floorspace for town centre uses.
- Flitwick – retail led redevelopment of key sites around Flitwick railway station.

3.16 The review of the proposals within the 2012 retail study[14] indicates that much of the new town centre retail will be through redevelopment of existing premises, although there will also be some greenfield development. The retail study also referred to new supermarket development including a new Morrisons at Houghton Regis, a new Tesco at Sandy and the proposed new large superstore as part of Wixams. In terms of the need for new provision the study noted that convenience stores in Central Bedfordshire are overtrading and this indicates a need for new provision; and that in addition, new convenience provision may be appropriate in the three urban extensions (North Luton, North Houghton Regis and East Leighton Linslade).

Implications for Viability Testing

3.17 Based on the development planned to come forward, the types of development to be tested will be as follows:

- **Housing** - A variety of different housing developments will need to be tested. The strategic urban extensions are clearly a large part of the overall delivery and appropriate scenarios need to be tested, but there is also a need to test different windfall schemes and provision for the elderly.
- **Offices** – Even though the office market is not particularly strong in Central Bedfordshire, further offices are planned in out of centre locations (e.g. Luton Airport expansion). In addition it is apparent that offices have been developed in town centres in the past. Therefore we will test both town centre and out of centre office development.
- **Industrial** – There has been demand for smaller industrial premises across the area and we have included factory units in the viability testing.
- **Warehouse** – There has been a clear pattern of growth and likely future demand for warehouses for logistics businesses, particularly in the west of Central Bedfordshire. We have also included warehouses in the viability testing.

[13] The Development Strategy suggests that development elsewhere in the area should make a financial contribution to development on these sites

[14] Central Bedfordshire Retail Study, 2012, RTP

- **Retail** – The proposed retail development includes town centre and out of centre comparison retail and a number of different scale convenience retail developments to meet overtrading and to support the new strategic urban extensions and Wixams new settle. We have tested a range of different retail uses.
- **Leisure** – The proposals for the town centres in Central Bedfordshire include a new cinema so this has been included in the viability testing.
- **Tourism** – Likely development includes new budget hotels so this will form part of the testing. It is likely that the new self-catering accommodation will either be met through the Centre Parcs already planned or through use of existing cottages in rural locations, so these have not been included in the testing.

Development Typologies

3.18 Based on the discussion above the notional developments to be tested are set out below. These are not intended to be actual sites but judged to be representative of the development likely to come forward in Central Bedfordshire.

Residential

3.19 The residential notional developments which were tested at varying percentages of affordable housing were:

I A 25 dwellings per hectare (dph) scheme based on a 1ha site
IIa A 40 dph scheme at most viable density assuming smaller market units same size as affordable units
IIb A 30 dph scheme at most viable density assuming smaller market units same size as affordable units
III A 55 unit urban infill – at 55 dph
IV 200 units on the edge of a market town (at 30 dph)
V A 10 unit scheme in a market town
VI A 10 unit rural exceptions, scheme outside the village envelope
VIIa Single unit within the village envelope
VIIb 2 units within the village envelope
VIII A 50-60 dwelling ExtraCare Scheme
IX a sustainable Urban Extension (SUE) at 3,000 dwellings,
IXb SUE at 6,000 dwellings

Non-residential

3.20 The non-residential notional developments to be tested are:

1. Office development of 1,500 sqm, out of centre.
2. Office development of 2,000 sqm, town centre.
3. Block of industrial units totalling 1,600 sqm.
4. 5,000 sqm warehouse in an accessible location.
5. Town centre comparison retail of 800 sqm.
6. Out of centre comparison retail multiple units totalling 6,000 sqm.
7. Small Convenience Store 300 sqm

8. Supermarket of 1,100 sqm.
9. Superstore of 2,500 sqm.
10. Large superstore of 6,000 sqm.
11. 70 bedroom budget hotel out of town.
12. Edge of centre 7 screen leisure development.
13. Care home of 60 bedrooms.

3.21 The viability of these notional developments is tested later in this report. The residential notional development testing is preceded by tests on a notional 1 hectare tile in order to explore optimal dwelling mix, density and affordable housing tenure implications.

4 DEVELOPMENT STRATEGY POLICY VIABILITY IMPLICATIONS

Introduction

4.1 The Development Strategy (currently in draft form) will be the main planning document for Central Bedfordshire. It will set out the overarching spatial strategy and development principles for the area together with more detailed policies to help determine planning applications. The main elements of the Development Strategy are:

- Strategic objectives for the area
- Overarching strategy for the location of new development
- Scale of new employment, housing and retail provision
- Identification of new strategic scale development sites
- Extent of new infrastructure required
- Key environmental constraints and opportunities
- Set of detailed policies to guide consideration of new development proposals

4.2 It is anticipated that the Development Strategy will be formally adopted in early 2014.

4.3 The National Planning Policy Framework (NPPF) includes a range of guidance to ensure that development is of a good standard and that a range of issues from economic development, vibrant town centres and prosperous rural areas, sustainable transport, quality, design, healthy communities etc. are all considered.

4.4 However it also states that "*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*." (paragraph 173).

4.5 It then goes on to state that (paragraph 174) "*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. Evidence supporting the assessment should be proportionate, using only appropriate available evidence*."

4.6 The following process has been used to ensure that the 'cumulative impact' of the emerging policies and standards has been taken into account:

- An initial review of the draft Development Strategy was undertaken to identify a long list of policies with potential viability implications.
- This long list of policies was circulated within Central Bedfordshire Council and amongst the development industry attendees at the workshop held on 31st July 2012. Comments on the selection of policies and the viability implications were sought.
- An Assessment Group meeting was held at CBC offices on 6th September 2012, made up of CBC affordable housing, sustainability and planning policy officers, along with Three Dragons, David Lock Associates (in relation to viability issues for strategic urban extensions) and Cutland Consulting Ltd (for environmental sustainability issues). The Group undertook a systematic review of the long list of policies in the Draft Development Strategy – each policy was discussed and any available evidence considered. The Assessment Group then took a view on whether the policy obligation would be a normal part of a quality development or whether it involved an extra cost over and above what might normally be required under the NPPF. This took into account the changing circumstances affecting the development industry, including the successive revisions to Building Regulations.

4.7 Detailed analysis of the policies is shown in Annex 2. This section of the report summarises the outcome of this process and the implications for the viability testing.

Policies and Viability Implications

4.8 The assessment of the Draft Development Plan policies indicates that the key impacts on development viability relate to:

- Affordable Housing proportion and tenure
- Lifetime homes
- Environmental standards (CfSH and BREEAM)

4.9 In addition there are a set of policies that have an impact on viability for some developments only:

- Accommodation for older people as part of appropriate developments
- High quality development and 70% Lifetime Homes
- SUDS for SUEs
- Flood risk mitigation

4.10 The viability assessments discussed later in this report will take account of the cost and value implications as appropriate.

4.11 Lastly, there are potential viability implications for developments on SUEs for the provision of infrastructure such as education, green infrastructure and strategic transport infrastructure. While the provision of this kind of infrastructure is a normal part of such development, it could be provided by the development through S106/278 agreements or it could be on the CIL Regulation 123 list.

5 RESIDENTIAL DEVELOPMENT: KEY ASSUMPTIONS

5.1 The viability analysis in this report, for both residential and non-residential development types, uses a residual development land appraisal, which involves the assessment of the value of the completed development (known as the Gross Development Value or GDV) from which is deducted the development costs to calculate a residual land value.

5.2 Development costs assume a return to the developer as well as build costs and other development costs such as professional fees, finance costs and marketing fees. Details of the assumptions used are set out in Annex 5.

Land Value Benchmarks

5.3 The residual value identified are measured against benchmark local average comparable land values, which have been researched using Property Market Report data, other land prices sources and tested with the development industry.

5.4 The benchmark values reflect the level of value at which a landowner could reasonably be expected to bring forward their land for development. If the residual land value found is higher than the benchmark, development can be reasonably considered as being financially viable at the input values used for the assessment (subject to there being enough margin to provide an incentive for development). However, if a resulting residual land value is significantly lower than the established benchmark, then development at the respective input values can be considered to be 'unviable' and that type of development to be less likely to be brought forward.

5.5 The land value benchmarks for residential development which we have assumed in this report range from **£650,000-£950,000 per ha**. £650,000 is the same value that was used in the previous viability appraisals carried out by Fordhams and Savills in 2009 and 2010 respectively. The figure of £650,000 per ha was accepted by the Inspector who appraised the 2009 Mid Bedfordshire Core Strategy (now part of Central Bedfordshire)[15] and Land Registry average price data indicates that there has been little change in house prices since this value was established[16]. The £650,000 figure sets the lower boundary of our threshold land value.

5.6 However it is clear that some parts of Central Bedfordshire support higher house prices and therefore higher land values. The Harman Report recommends an uplift on current or alternative use values to estimate threshold land values. A 30% uplift, (allowing for taxation, transaction costs and a modest increase in land value) on the VOA Property Market[17] data for the East of England provides a benchmark of £950,000 per ha. This broadly fits with an uplift on the industrial and commercial land values used in the non-residential viability analysis discussed later in this report. This is also supported by viability appraisal analysis that shows that the Council's present policies which seek 35% affordable housing and S106 contributions averaging £6,500 per dwelling but regularly achieving closer to £9,000 per dwelling (£270-360,000 per ha)

[15] PINS/J0215/429/5 (LDF000980)

[16] http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index, accessed 08/01/13

[17] http://www.voa.gov.uk/dvs/_downloads/pmr_2011.pdf

will have enabled residential land to deliver values at or above £1m per ha. We have therefore adopted an upper residential land value benchmark of £950,000.

5.7 In the case of agricultural land and Sustainable Urban Extensions a land value of £330,000 per ha has been used based on a multiplier of 15 x agricultural value[18]. This figure is based on guidance issued by the HCA in "Transparent Assumptions: Guidance for the Area Wide Viability Model" which states that *For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value.*

5.8 Further discussion on land values is included in Annex 3.

Development standards

5.9 The Council wishes to introduce higher development standards, particularly with regard to water conservation, energy usage and Lifetime Homes. There is no recent published evidence of the impact on revenue of higher development standards. A study undertaken for NHBC in 2008[19] found "considerable resistance to consumers meeting the increased construction costs of the higher levels of the Code, principally because of a lack of demonstrable payback on investment". The cost of higher development standards will therefore be borne by reduced land values and impact on potential funding available for CIL and affordable housing.

5.10 A range of possible development standards were modeled. Full Code for Sustainable Homes Level 5, at an estimated cost of £19,998 to £21,326 per dwelling over 2010 build costs[20] was ruled out as prohibitively expensive. We assessed the cost of adopting Code Level 4 plus the water element of Code Level 5 (a combined cost of £9,345 over 2010 Building Regulations). The cost of moving to Code Level 4 on its own was also modeled at a cost of £4,595 per dwelling over 2010 Building Regulations.

5.11 To reduce the financial impact on developers and increase viability and also allow for greater emphasis to be put on energy efficiency/carbon reduction, the Council proposed a 10% reduction in carbon emissions compared with Building Regulations and a flexible approach to the delivery of water efficiency. Developers would be expected to deliver water saving equivalent to Code Level 5 (80l/per person/day) but this could be delivered through measures installed not only in new dwellings but also in existing dwellings, following a concept of allowable solutions

5.12 As a basis for this viability study a cost of 10% carbon reduction was estimated by CBC and Cutland Consulting by slightly different routes at £2,000 per dwelling and the flexible approach to the delivery of water standard was tested on the assumption that: each new home to achieve WAT1 (indoor Water Use) up to Code Level 4 and through offsetting solutions to bring an existing home up to WAT1 Level 4. A total cost of £1,000 per dwelling was identified to do this. (The report prepared by Cutland Consulting is provided within Annex 4). There is an additional cost of £795 per dwelling to move from 2010 Building Regulations to anticipated 2013 Building Regulations. We model a combined cost of £3,795 for these aspirations which have been included in the Development Strategy. A requirement for Lifetime Homes is applied

[18] Based on recent research by Smiths Gore showing that agricultural land values in the Eastern Region average £9,000 per acre or £22,000 per ha.
[19] Zero Carbon: what does it mean to home owners"
[20] See Annex 3 table 5 for details

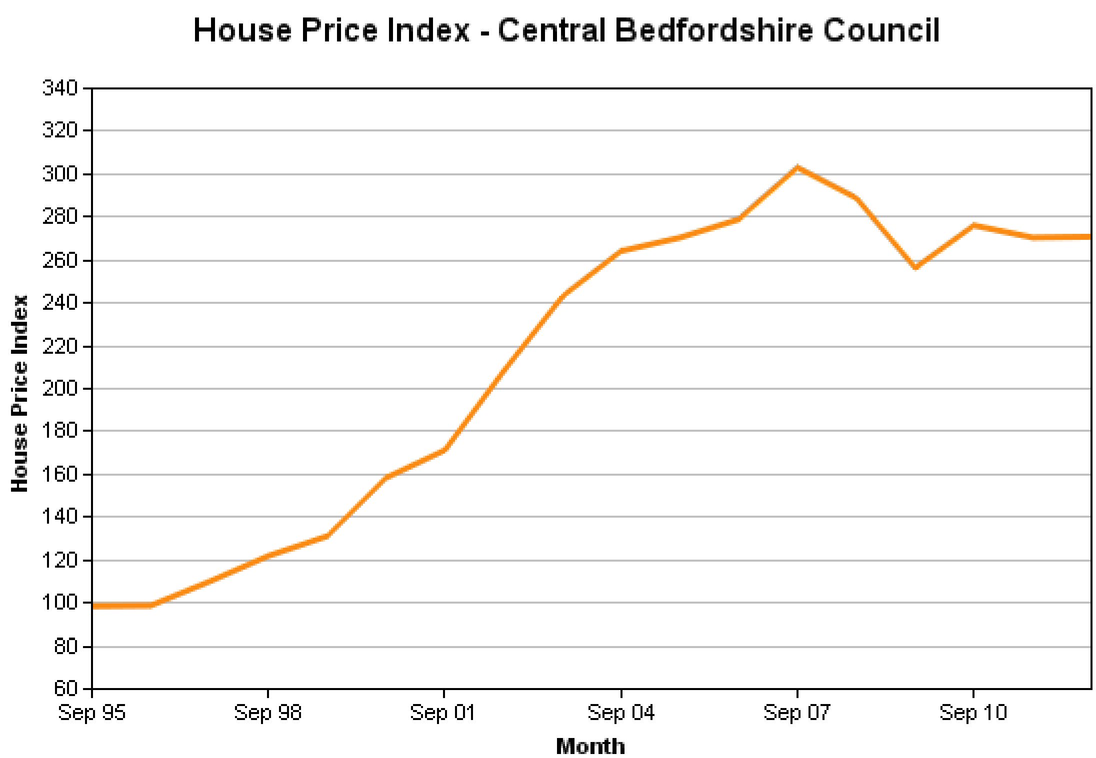
to 70% of the housing in the development at a cost of £735 per dwelling[21] giving a total cost of £4,530 per dwelling.

5.13 The Government has advised that Building Regulations are likely to be revised in 2013 and 2016. No firm information is available on the likely standards sought or the cost of those standards. Development post 2013 has been modeled assuming that it will be provided to the standards proposed in the DCLG consultation paper on changes to the Building Regulations (February 2012) i.e. a cost of £795 per dwelling (applied to both market and affordable housing). If and when further changes to the Building Regulations are introduced the Council will need to consider whether or not to undertake a review of either affordable housing standards and/or CIL. The impact of any change in the Building Regulations will vary depending on what has happened to house prices, interest rates, wider build costs and the general state of the market. The Council will need to keep this situation under review.

House prices and house price areas

5.14 Nationally house prices outside London and the South East are still lower than they were at the peak of the market in 2007/08. In 2011 house prices in the Eastern region as a whole are 2.6% below their 20078/08 peak. House prices in Central Bedfordshire have not moved significantly in the last three years. In August 2012 the average house price in Central Bedfordshire was unchanged compared with 2011 (see Chart 5.1 below).

Chart 5.1: House price index Central Bedfordshire



[21] Assessing the cost of Lifetime Homes standards" BCIS research for DCLG published 2012 which showed cost per dwelling of £1050 applied to 70% of dwellings.

5.15 Discussion at the stakeholder workshop suggested that the residential housing market in Central Bedfordshire remains fragile (though less so than the commercial sector) and that the nature of housing provided had moved away from higher density development to lower density houses with gardens and space for car parking.

5.16 We drew on an analysis of recent sales in the area (in 2011 and 2012) based in Land Registry data on actual sales of all homes. This was carried out by Opinion Research Services and also used as part of the evidence base for the 2012 update to the SHMA. This was used to derive estimates of house prices by type and size of unit (e.g. 3 bed terrace) which were then tested through the stakeholder workshop. Further visits were undertaken to a range of estate agents across the district from whom information was collected about the spread of house prices between urban and rural areas and this was cross checked with Land Registry data. Full details of the methodology used can be found in Annex 11. The SHMA analysis identified two house price areas (shown in Chart 5.2 below):

- Area A including the major towns of Flitwick, Ampthill, Leighton Buzzard
- Area B including the major towns of Biggleswade, Sandy, Dunstable, Houghton Regis

5.17 More detailed analysis of house prices in the rural parts of Area A and Area B, suggests that house prices in villages across Central Bedfordshire are broadly comparable with average values achieved in Area A. We have therefore included all the rural parts of the district[22] in Area A. (see map below).

5.18 We believe that Area A and Area B provide the most robust approach to value zones. We therefore explore the potential for setting two different CIL targets whilst keeping standards of development and affordable housing provision constant across the two areas.

5.19 As shown in table 5.1 below house prices are higher in Area A than in Area B. Development costs and standards are the same in both areas so the increase in house prices feeds through into a higher residual land value in Area A. When taken in conjunction with higher affordable rents the viability modeling shows that at current policy of 35% affordable housing this translates into an uplift in residual land value of approximately £500,000 per ha or £14,000 per dwelling. (i.e. the residual land value calculation shows that at current policy land values in Area B are of the order of £1m and in Area A they are of the order of £1.2-1.5m depending on the mix and density of housing provided).

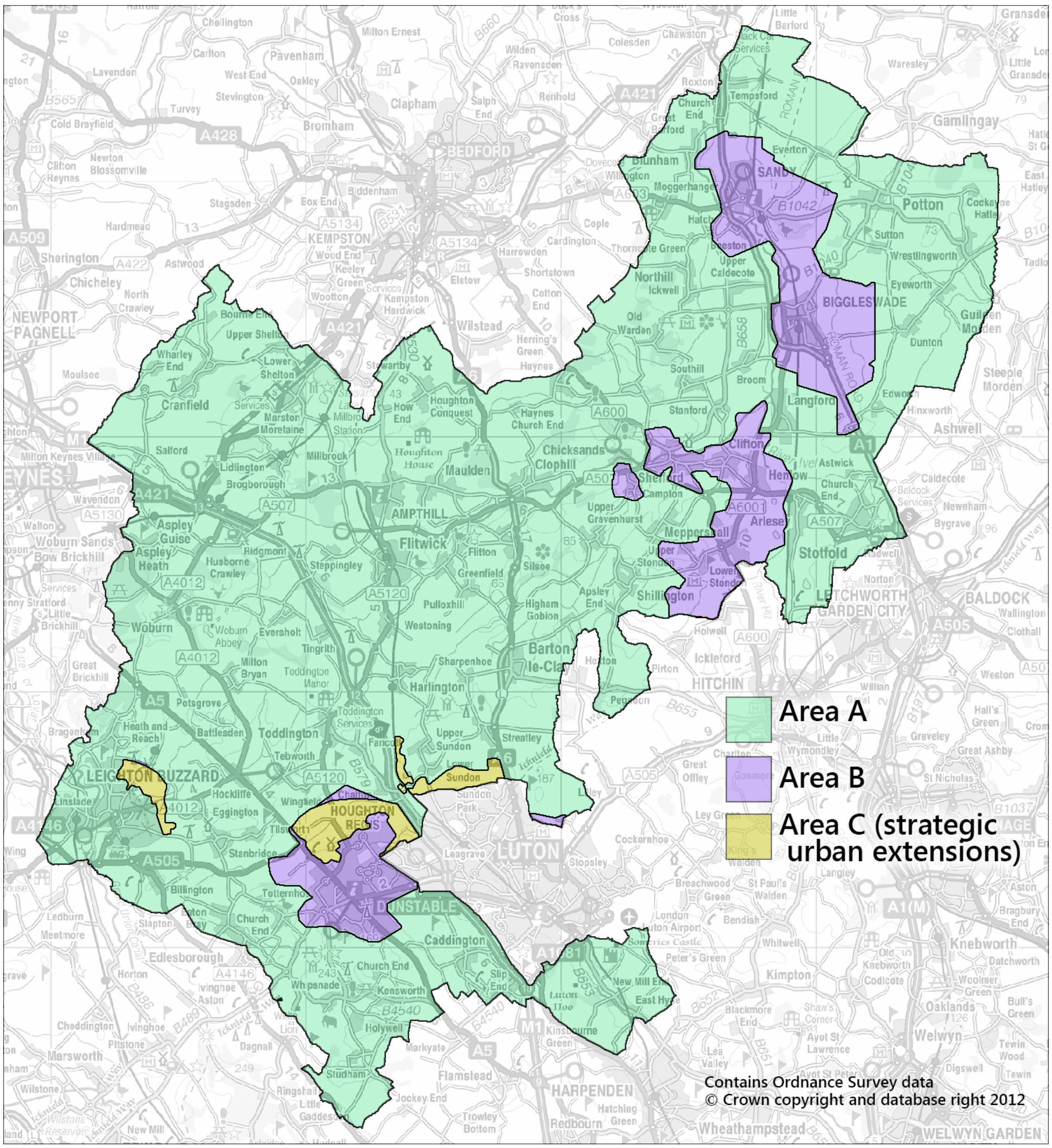
5.20 Urban Extensions are shown separately in the map below. Although they have been viability appraised with the house prices appropriate to their location (East Leighton Linslade Area A, North Luton Area B) site opening up and infrastructure costs are generally higher in urban extensions than in mainstream housing sites and we therefore look separately at the possible CIL levels for Urban Extensions.

[22] Based on the DEFRA Rural Definition – settlement size threshold 3,000 persons

Table 5.1: Specimen house prices Area A and Area B

		Detached	Semi	Terrace	Flat
		4 bed	3 bed	3 bed	2 bed
Area A	£ per dwelling	£355,000	£215,000	£170,000	£130,000
	£ per sq m	£2,850	£2,265	£2,125	£2,320
Area B	£ per dwelling	£325,000	£200,000	£165,000	£115,000
	£ per sq m	£2,600	£2,105	£2,060	£2,050

Chart 5.2: House Price Areas A and B



Note: The northern boundary of Area B at Houghton Regis is the ward boundary. The northern boundary of Area C, the proposed North Houghton Regis Strategic Urban Extension, is formed by the proposed line of the A5 / M1 link road.

Recent housing delivery

5.21 In 2011/12 1310 dwellings were completed in Central Bedfordshire[23] . Of these 33% were affordable dwellings. Historically the Council has achieved 35% affordable housing in line with policy, although this has proved more challenging in Area B than in Area A.

5.22 The Council uses an online calculator approach to assessing potential S106 contributions on a ward basis. For developments of up to ten units Unilateral Undertakings are accepted, for larger developments s106 planning obligations are negotiated. An analysis of these contributions has been undertaken over the three years since the current Planning Obligations protocols were introduced in February 2009 for Mid-Bedfordshire and October 2009 for South Bedfordshire. This shows that combined S106 Planning Obligations / Unilateral Undertaking contributions for residential development have averaged some £7.9 million per annum in that time, excluding affordable housing requirements. An analysis of some 35 individual planning permissions secured with S106 agreements shows that contributions have averaged £6,500 per dwelling over this period, but are subject to a significant range of values from site to site. This again excludes the value of Affordable Housing requirements. Contributions of £9,000 and over per dwelling have been achieved on a regular basis[24]. This broadly equates to a CIL charge of £110-£120 per sq m at 35% affordable housing (assuming no on-site S106 requirement).

[23] Source Housing Trajectory as at September 2012
[24] Source Council's own estimates

6 RESIDENTIAL DEVELOPMENT: POSSIBLE TARGETS FOR CIL, AFFORDABLE HOUSING AND DEVELOPMENT STANDARDS

6.1 The Council has stated in its Development Strategy that it wishes new residential development to achieve savings in water usage and to achieve a 10% carbon reduction on current building regulations. 70% of housing within any development should be built to Lifetime Homes standards and 30% of all new housing should be affordable. We take these base standards as our starting point for the possible assessment of any potential CIL level.

6.2 We focus on a 1 ha site and model residential development at 30, 35 and 40 dph. We model these specimen schemes in Area A and Area B. We model at the Council's proposed affordable housing target of 30% affordable housing in both Area A and Area B. We have assumed that affordable housing is provided as a mix of 2 and 3 units, with no 1 or 4 bed units and that this is provided split 50:50 between rent and low cost home ownership. It is assumed that no grant is available.

6.3 Provision in individual schemes may differ from the illustrative scheme that we have modeled and could include 1 bed and/or 4 bed affordable units.

6.4 Further analysis, to be found in Annex 7, looks at the current economics of development (used to derive current estimated land values for residential development) and at individual case studies of specific types of residential development which have historically been developed in Central Bedfordshire and indicates that most types of residential development produce comparable results to our specimen 1ha site at the various densities modeled.

Possible CIL targets per sq metre

6.5 We have tested a range of CIL targets up to £275 per sq metre. It should be noted that CIL is only charged on market housing. We have assumed that there is a site specific S106 of £3,500 per dwelling across all dwellings. Once this sum is taken into account the Council is currently achieving (at 35% affordable housing) around £75 per sq m in CIL – across all units not just market housing.

6.6 Charts 6.1 and 6.2 below show for **Area B** possible CIL rates per sq m ranging from £0-225 per sq m for a 1 ha site at various housing densities. In Chart 6.1 these are compared with current estimated residential land values of just over £1m per ha (at 35% affordable housing and £9,000 per dwelling S106) and with benchmark land values of £650-950,000 per ha.

6.7 Chart 6.2 provides modeled land values per hectare at different densities of development and levels of development standard. Values over the upper benchmark of £950,000 per ha are colour coded green, values below £650,000 per ha are colour coded red, values between these two figures are colour coded orange. The charts show that in Area B at base development standard a CIL of £75-100 per sq m is at the higher end of the benchmark land values[25] and a CIL of £150-£175 per sq m is at the lower end of the benchmark land values.

[25] Individual schemes are currently paying a typical S106 per dwelling of £9,000 which is equivalent to £75 per sqm for market housing only.

Chart 6.1: CIL at 30% affordable housing and proposed development standards Area B

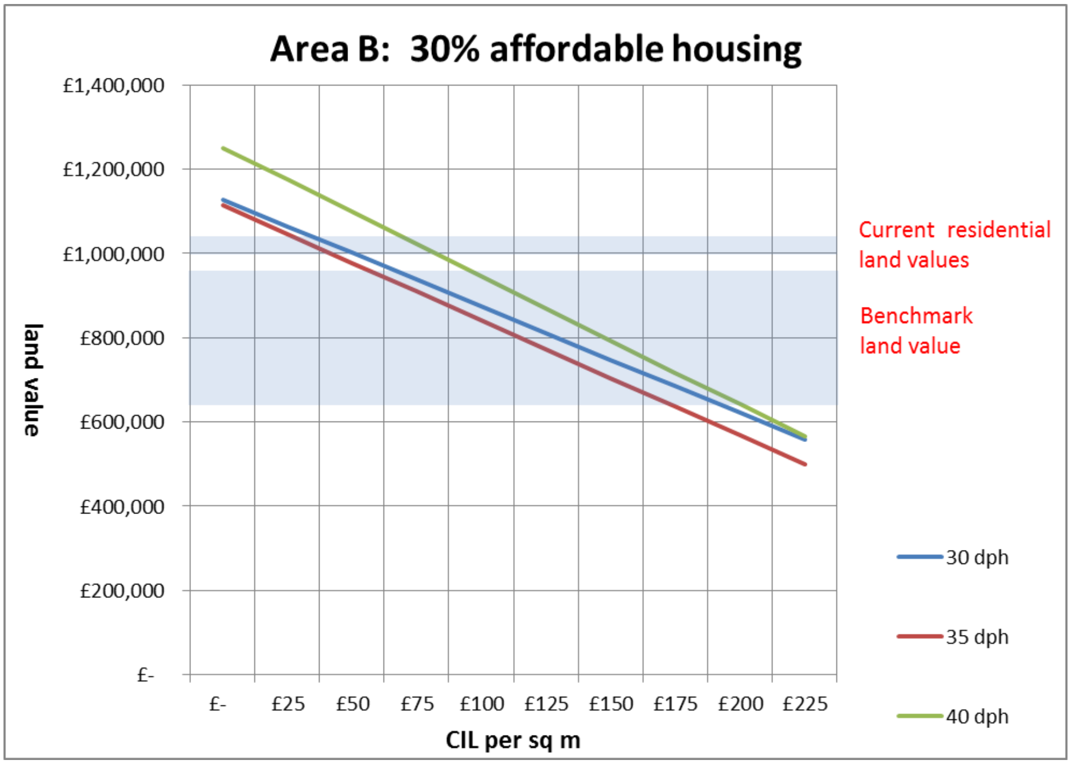


Chart 6.2: CIL per sq m at varying densities of development: Area B at 30% affordable housing

CIL per sq m	Area B residual land value per ha		
	30 dph	35 dph	40 dph
£0	£ 1,127,550	£ 1,104,975	£ 1,241,100
£25	£ 1,056,800	£ 1,036,775	£ 1,164,850
£50	£ 993,550	£ 968,575	£ 1,088,600
£60	£ 968,250	£ 941,295	£ 1,058,100
£75	£ 930,300	£ 900,375	£ 1,012,350
£90	£ 892,050	£ 859,945	£ 966,600
£100	£ 867,050	£ 832,175	£ 936,100
£125	£ 803,800	£ 763,975	£ 859,850
£150	£ 740,550	£ 695,775	£ 783,600
£175	£ 677,300	£ 627,575	£ 707,350
£200	£ 614,050	£ 559,375	£ 631,100
£225	£ 550,800	£ 491,175	£ 554,850

6.8 Charts 6.3 and 6.4 show the same information for **Area A**. The charts show that in Area A at base development standard a CIL of £175-225 per sq m is at the higher end of the benchmark land values achieving a land value of over £950,000 per ha. Current residential land values are higher in Area A than in Area B, ranging from £1,200,000 to £1,500,000 per ha. If the Council wished to set a CIL for Area A which generated a residential land value similar to those which are currently being achieved then a CIL rate of £100-150 per sq m (highlighted in bold in Chart 6.4) would achieve a land value of £1,200,000 per ha.

Chart 6.3: CIL and 30% affordable housing and proposed development standards Area A

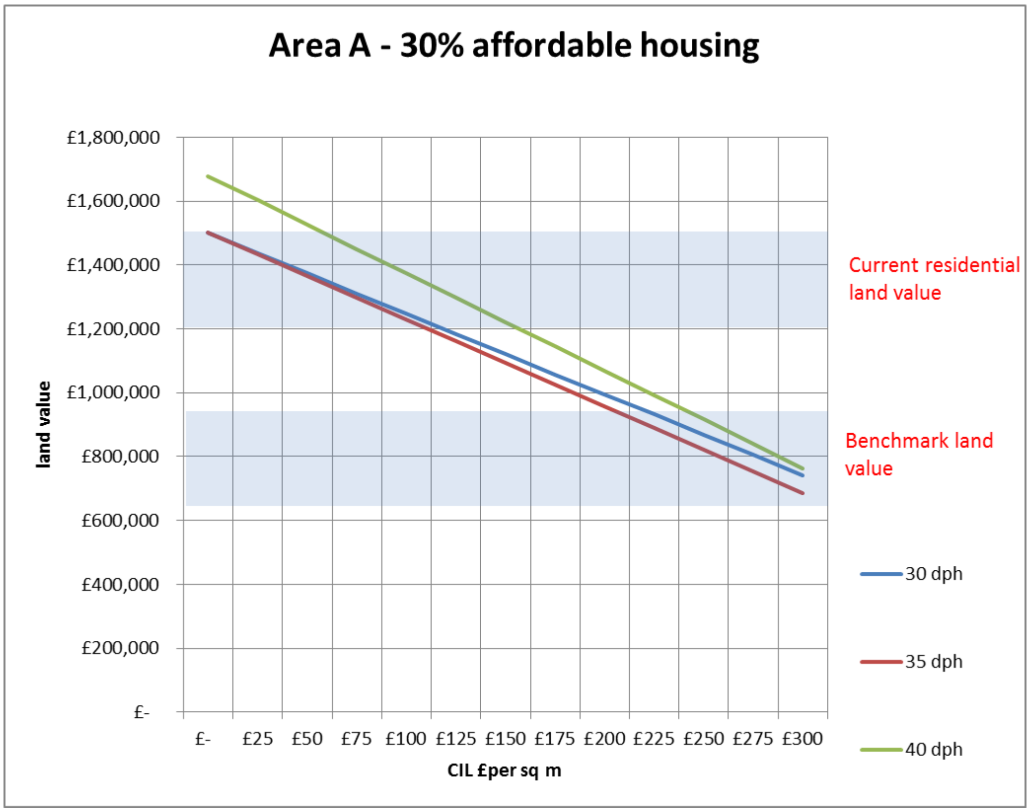


Chart 6.4: CIL per sq m at varying densities of development: Area A 30% affordable housing

Area A residual land value per ha			
CIL per sq m	30 dph	35 dph	40 dph
£0	£ 1,492,950	£ 1,493,770	£ 1,668,600
£25	£ 1,429,700	£ 1,425,575	£ 1,592,350
£50	£ 1,366,450	£ 1,357,375	£ 1,516,100
£75	£ 1,303,200	£ 1,289,175	£ 1,439,850
£100	**£ 1,239,950**	**£ 1,220,975**	£ 1,363,600
£125	£ 1,176,700	£ 1,152,775	£ 1,287,350
£150	£ 1,113,450	£ 1,084,575	**£ 1,211,100**
£175	£ 1,050,200	£ 1,016,375	£ 1,134,850
£200	£ 986,950	£ 948,175	£ 1,058,600
£225	£ 923,700	£ 879,975	£ 982,350
£250	£ 860,450	£ 811,775	£ 906,100
£275	£ 797,200	£ 743,575	£ 829,850
£300	£ 733,950	£ 675,375	£ 753,600

6.9 The Council, in deciding on the CIL rates it wishes to set, should take into account the following suggested range of CIL rates for mainstream residential development:

- Up to £75-100 per sq m in Area B
- Up to £175-225 per sq m in Area A.

6.10 There is an argument that the lower benchmark land value of £650,000 per ha is more realistic for Area B. It reflects the fact that market values (and hence land values) are lower in Area B than in Area A[26] but is still consistent with the lower benchmark value recently accepted by the Planning Inspector for the Mid Bedfordshire Core Strategy. By taking this benchmark a CIL charge of up to £150-175 per sq m could be considered in Area B. Such a benchmark would be considerably below the values at which land for residential development is currently coming forward[27] and would require some adjustment of expectations in the land market, but this adjustment is something the development industry would be aware of in the light of the previous viability studies and adoption of the Core Strategy.

6.11 We also note that the development costs and revenues we have modeled are based on cautious assumptions (including median build costs and house prices and a developer's return of 20% on market housing) and the Council has also reduced its policy target for affordable housing from 35% to 30% which will improve viability by approximately £100,000 per ha. The Council will need to take a view as to whether these factors would justify a higher CIL rate in Area B which did not put at risk the overall development of the area and which would maintain a balanced programme of housing delivery.

[26] See para 5.20 for further discussion of this point.
[27] ibid

6.12 It is our understanding that Central Bedfordshire Council has identified a number of infrastructure projects required as a result of the planned growth and these have been categorised as either critical, essential or desirable infrastructure. We are advised that this list has been compiled through close working within CBC as well as with external partners, and constitutes a comprehensive schedule of all the projects /infrastructure that would be required over the plan period. Where possible, the schedule identifies where the need for the infrastructure arises, the likely costs of providing the infrastructure and potential funding mechanisms including Government funding, the private sector and the Council itself. The infrastructure required and the funding mechanisms to secure it will change over time and therefore the infrastructure funding gap will also be subject to change. The schedule should therefore be considered as a 'snap-shot' at the given time based upon the most up to date information available at that time.

6.13 It is currently proposed that the schedule will be updated annually but also as and when new information is made available such as when studies are completed or updated or as planning applications are received and the infrastructure required and associated costs are refined. Future work will also continue to refine the categories and prioritise critical and essential infrastructure.

6.14 On this basis, the infrastructure schedule currently identifies a total infrastructure gap in the region of £485.5 million but this will change as work continues as identified above. (It should be noted however that this includes some 'big ticket' pieces of infrastructure which have significant associated costs). The Council's infrastructure schedule and accompanying technical note will be published in January 2013 as part of the Publication Development Strategy consultation

6.15 The viability evidence has identified CIL rates for residential development which do not "…..*put at serious risk the overall development of the area*" and which will help deliver the necessary infrastructure for growth. The viability evidence supports the Council in setting a CIL charge for residential development

Case Studies

6.16 Our individual case studies included the following types of site, based on experience of recent sites coming through as proposed or actual planning consents: Full details of individual case studies are contained in Annexes 6 and 7.

Table 6.1: Case studies used for viability testing

Case Study	Site Type	No of dwgs	Description
I	A lower density site	25	Notional site
IIa	Smaller market units	40	Smaller market units similar floor area to affordable
IIb	Smaller market units	30	Smaller market units similar floor area to affordable
III	Urban infill	55	High density urban infill
IV	Edge of market town	200	Edge of urban area
V	Small development in Market town	10	Urban infill
VI	Small development outside village envelope	10	Rural Exception site
VIIa	Single plot within village envelope	1	Infill plot – rear garden
VIIb	Two plots within village envelope	2	Infill plot
VIIIa	Extracare scheme	50-60	Older persons housing
V111b	Sheltered Scheme		Older persons housing
IXa	3000 dwelling SUE	3000	Major urban extension
IXb	6000 dwelling SUE	6000	Major urban extension

6.17 **Mainstream residential development** (Case Studies I to VIIb): In both Area A and Area B all types of development except for III and IV (a 55 dph town centre development and a 200 unit edge of town development) have residual values comfortably above the higher benchmark at 30% affordable housing, with base standards and with £3,500 per dwelling onsite S106 costs. These types of scheme should be able to afford the recommended levels of CIL. In the case of Case Studies III, IV and VI it may, be necessary to consider a reduction in the level of affordable housing or the onsite S106 requirement where scheme developers can demonstrate that this would enable the scheme to proceed. Very small sites (Case studies VIIa and b) have economics which are broadly comparable with those of larger sites and there is no reason why they should not be subject to the same CIL and affordable housing targets and the same development standards.

6.18 We were also asked to appraise the viability of **sheltered and ExtraCare Housing**. This analysis showed that at 30% affordable housing and CBC's proposed development standards both sheltered and ExtraCare schemes did not achieve a residual land value above the benchmark in either Area B or Area A. For these types of residential development the Council, in deciding on the CIL rates it wishes to set, should take into account the following suggested range of CIL rates for sheltered and ExtraCare housing

- £0 for sheltered housing and for ExtraCare housing.

6.19 We also modeled two specimen **Urban Extensions** one of 3,000 units and one of 6,000 units. Urban Extensions have significantly higher site opening up costs and lower net to gross areas than smaller developments with good access to local infrastructure. However costs and net to gross ratios can vary widely between individual schemes. The examples we have modeled should therefore be treated as illustrative only. The Council will need to appraise each individual scheme on its merits

6.20 Careful consideration will need to be given to the relationship between CIL and S106 costs and items secured through these two routes. (Annex 10 looks in more detail at the relationship between CIL and S106 charges in Urban Extensions) The Council will need to specify in its Regulation 123 list which items of infrastructure are specific to individual Urban Extensions and will be secured through S106 and which will be funded through CIL. It is not possible to use both sources of funding to contribute to the same item. We have modelled the Urban Extensions assuming a S106 charge per unit (for all units including affordable housing) of between £15-20,000 and a similar figure for site opening up costs to allow for on-site provision of necessary social and physical infrastructure. These figures are based on a range of sources including the Harman Report, published examples of S106 Agreements, discussion with developers and landowners with a track record of bringing forward major schemes and with enabling bodies such as the HCA and Atlas and also drawing on the Council's own aspirations for development in urban extensions. It should be noted that there can be a degree of overlap between what is counted as an 'opening up cost' and what is met through a s106 contribution (e.g. highway works, flood control measures). Therefore the figures we have used may overstate the additional costs.

6.21 At the S106 payments modelled both the 3,000 unit and the 6,000 unit Urban Extension are unable to achieve 30% affordable housing in either Area A or Area B. There is therefore no scope for additional CIL over and above the S106 payment.

6.22 If the Council decided not to seek S106 payments from Urban Extensions but to rely solely on CIL and fund social and physical infrastructure through the 123 list a CIL contribution comparable to that for mainstream development could be set in both Area A and Area B, but the Council would need to appraise each individual scheme and should be aware of the possibility that it would not achieve the target 30% affordable housing.

6.23 There is a third option for the Council and that is to set a low level of CIL for the Urban Extensions and accept that these schemes will bear significantly higher site specific costs than smaller sites , but not necessarily as high as the £15-20,000 per dwelling for both S106 and infrastructure modelled in our case studies. Were the Council to consider dedicating more CIL money to meet the costs of 'opening up' Urban Extensions and/or other planning obligations, a higher CIL levy would be viable. However, on the basis of the Council's approach to funding the Urban Extensions which we understand to place considerable emphasis on site specific S106 and infrastructure contributions, a lower rate of CIL charge is necessary for the Urban Extensions than for other residential development in the area, to maintain viability.

6.24 Taking a pragmatic approach we recommend that the Council sets a CIL rate for its large scale urban extensions in the order of £30 to £45 per sq m. The Council must ensure that its Regulation 123 list clarifies what requirements will be met through site specific planning obligations and other contributions to scheme infrastructure and what requirements for urban extensions will be funded through CIL receipts. This will ensure that large scale urban extensions are not being asked to bear a higher or lower rate of total planning requirements than other residential development in the same value area.

Sensitivity tests

6.25 The impact **of varying developer margins**, and **increases and decreases in build costs** and market value have been assessed using notional 1 hectare schemes at 30, 35 and 40 dph, with 30% affordable housing provision in Areas A and B. A reduction in developer margin to 17% improved viability. If developer margin was increased to 25% the 30 dph scheme in Area A fell slightly below the £950,000 benchmark and the three schemes in Area B achieved residual values ranging from £690,000-£790, 000 per hectare.

6.26 We tested the impact of increasing house prices and build costs by 5% and 10% (assuming that costs and prices moved in parallel) and also tested a 5% reduction in costs and prices. A 5% increase in prices and costs improved residual land value to between £1.3m and £1.6m per ha in Area A and to between £1.1m and £1.2m per ha in Area B. A 10% increase in house prices and development costs improved land values to between £1.36m and £1,7m in Area A and to between £1.1m and £1.25m in Area B. A 5% reduction in build costs and house prices resulted in residual land values falling to just over £1.1m in Area A. In Area B they were only just over the £950,000 benchmark. This analysis emphasizes the importance of the local authority monitoring house price and build cost change (which can be done through publicly available indices) and being prepared to review the CIL level should either of them change by 5% or more.

6.27 We also modeled the impact of varying the affordable housing tenure between affordable rent and low cost home ownership (testing at 20% intervals from 80:20 rent to low cost home ownership to 20:80 rent to low cost home ownership). The higher the percentage of low cost home ownership units the higher the residual land value. Residual value was modeled assuming that affordable housing was applied equally across all dwelling types and not as in the base scheme, with the affordable housing concentrated in the 2 and 3 bed units. The effect of this change in housing mix was to reduce residual land values. In Area A residual values ranged from £540,000 to £770,000 per ha. In Area B residual land values varied from £145,000 to £345,000 per ha. This analysis confirms that both the type and tenure of affordable housing will have an impact on scheme viability which will need to be taken into account when considering individual schemes.

7 NON-RESIDENTIAL DEVELOPMENT

Introduction

7.1 We have assessed the viability of a set of notional commercial developments, across a range of uses based on the development likely to come forward in Central Bedfordshire[28].

7.2 The non-residential viability assessments use a residual value methodology, in which a scheme's value is calculated using rents and yields; all of the costs of development (including developer's profit and planning obligations) are then deducted from this capital value; leaving a residual value which is the amount the scheme is able to pay for land. This residual value is then compared to the threshold land value – if the residual value is higher than the threshold land value then the scheme can be expected to proceed (i.e. viable), if the residual value is lower then the development will not be expected to proceed.

Values and Costs

7.3 The values and costs (including threshold land values) used in these viability assessments draw upon published data from recognised sources[29], workshop discussion with the development industry and subsequent individual telephone interviews to confirm some of the workshop's commentary. The values and costs can be found in the appendix to this report.

7.4 Our approach to setting non-residential threshold land values follows the recommendations in the Local Housing Delivery Group's 2012 report[30]. This reviews the use of market values and premiums on existing use values (EUV) and recommends that the threshold land value is based on a premium over current use values and credible alternative use values. Valuation Office Agency data has been used and discussed with the development industry and Central Bedfordshire Council officers. The land values used for the viability testing were:

- Between £490,000 to £620,000/net developable hectare for industrial and office uses near major transport routes and lower values to the east of Central Bedfordshire. It is likely that demand will be focussed on the sites near the major transport routes and therefore the higher values have been used for the testing.
- Around £1,800,000/net developable hectare for town centre retail and large convenience retail. However whilst this per hectare figure is comparable to the other threshold land values it is often more appropriate to work in terms of the assumed site value, and these are detailed in the viability appendices.
- Around £1,200,000/net developable hectare for out of centre retail.
- The threshold land value for out of centre leisure, care homes and hotels will be similar to industrial and out of centre office uses – i.e. between £490,000 to £620,000/net developable hectare.

7.5 The summary assessments presented here include costs and value of achieving BREEAM Excellent.

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[28] Based on a review of the Draft Development Strategy and in discussion with CBC officers.
[29] CoStar Focus for rents and yields, BCIS for construction costs and VOA Property Market Report for land values
[30] Viability Testing Local Plans, 2012, Local Housing Delivery Group

Summary Viability Assessments

7.6 The tables below summarise the detailed assessments, and represent the net value per square metre, the net costs per square metre (including an allowance for land cost and S106 to deal with site specific issues (i.e. on-site highways, travel plan etc) to make development acceptable) and the balance between the two. We have also presented the threshold land value as a per sqm of development. This takes account of the different site coverage and the number of storeys for the notional developments.

7.7 It is important to note that the analysis considers development that might be built for subsequent sale or rent to a commercial tenant. However there will also be development that is undertaken for specific commercial operators, either as owners or pre-lets. In these circumstances the economics of the development relate to the profitability of the enterprise accommodated within the buildings rather than the market value of the buildings.

B Class Uses – Offices, Industrial and Warehouses

7.8 Central Bedfordshire does not currently have a major office market although there remains a need for premises to accommodate office-based businesses serving the local population and other commercial organisations in the area. The viability assessments suggest that office development is not viable in Central Bedfordshire at the current time and that there is no opportunity to charge CIL on this use.

Table 7.1 Offices

	Out of centre offices	Town centre offices
Value/sqm	£1,522	£1,495
Costs/sqm	£1,938	£2,063
Residual/sqm	-£417	-£568
Land benchmark/sqm	£63	£21
Viability 'headroom'	-£479	-£589

7.9 Both industrial and warehouse units are also not able to support a CIL. However, unlike industrial uses, warehouse development is relatively close to demonstrating viability as it has a positive residual value, although not sufficient to cover the threshold land value and so logically the development will not proceed at the current time. Following the initial testing, the land values used for warehouse development have been confirmed through follow up discussion with the private and public sector and no evidence has emerged to suggest that a lower land value can be assumed for this viability testing. However this marginal position means that as a planning authority, Central Bedfordshire may have more opportunities in determining planning applications for this type of development, particularly in ensuring development is to high standards and meets specified site specific S106 requirements.

Table 7.2 Industrial and Warehouse Units

	Industrial units	Warehouse units
Value/sqm	£656	£870
Costs/sqm	£929	£768
Residual/sqm	-£273	£101
Land benchmark/sqm	£124	£154
Viability 'headroom'	-£396	-£53

7.10 In line with other areas of the country our analysis suggests that for commercial B-class development it is not currently viable to charge a CIL. Whilst there is variance for different types of B-space, essentially none of them generate sufficient value to justify a CIL charge. As the economy recovers this situation may improve but for the purposes of setting a CIL we need to consider the current market.

A-class uses

7.11 The viability of retail development will depend primarily on occupier demand and the type of retail being promoted. For this reason we have tested different types of retail provision.

7.12 **Superstores, supermarkets and local convenience** – large scale convenience retail continues to be one of the best performing sectors in the UK, although we are aware that even this sector is seeing some reduced profits at the time of writing. Leases to the main supermarket operators (often with fixed uplifts) command a premium with investment institutions. Although there are some small regional variations on yields, they remain generally strong with investors focusing primarily on the strength of the operator covenant and security of income. There is also evidence that the values increase as the size of store increases, which is due to a range of factors including an increased range of comparison goods being included within a weekly convenience shop; larger stores becoming shopping destinations rather than relying on passing trade; as well as larger stores generally operated by brands with strong covenants.

7.13 We would therefore suggest the evidence base for predominantly convenience provision retail can be approached on a wider region or even national basis when justifying CIL charging. Following our appraisal on this basis in Central Bedfordshire we believe there is scope for a significant CIL charge without affecting viability. Convenience retailing is defined as the provision of everyday essential items, including food, drinks, newspapers/magazines and confectionery; and within this:

- Supermarkets: Self-service stores selling mainly food, with a trading floorspace less than 2,500 square metres, often with car parking.
- Superstores: Self-service stores selling mainly food, or food and non-food goods, usually with more than 2,500 square metres trading floorspace, with supporting car parking.

7.14 We have also noted that large superstores – over 5,000 sqm - see even better values and we have modelled a large superstore as well.

Table 7.3: Convenience Retail

	Small convenience store	Supermarket	Superstore	Large superstore
Value/sqm	£1,996	£2,274	£3,317	£4,141
Costs/sqm	£1,710	£1,973	£2,581	£2,989
Residual/sqm	£285	£301	£735	£1,152
Land benchmark/sqm	£150	£150	£450	£360
Viability 'headroom'	£135	£151	£285	£792

7.15 **Town centre comparison retail** –We have tested town centre retail and this suggests that it is not able to support a CIL charge. In terms of what constitutes a retail 'centre', CBC has undertaken separate work as part of the Development Plan process identifying town centre boundaries on a functional basis, and these could be used as suitable boundaries for a charging schedule.

7.16 **Retail warehouse** – although this market has been relatively flat in recent times, especially in terms of new build, there may potentially be more activity in the future. Whilst values have dropped the relatively low build costs mean that there is still value in these types of developments when there is occupier demand, and schemes are viable and able to support a CIL charge. Retail warehouse is defined as including large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering mainly for car-borne customers.

Table 7.4: Comparison Retail

	Town Centre	Retail Warehouse
Value/sqm	£2,041	£1,775
Costs/sqm	£1,974	£1,314
Residual/sqm	£67	£461
Land benchmark/sqm	£116	£309
Viability 'headroom'	-£49	£153

Leisure development

7.17 We have tested a budget hotel and a cinema scheme. Our high level appraisal of both these types of development shows that in the current market values are not sufficient to justify a CIL charge.

7.18 **Hotels** – The rapid expansion in the sector (particularly budget hotels) at the end of the last decade was in part fuelled by a preference for management contracts or franchise operations over traditional lease contracts as well as changing market preferences. These arrangements were able to provide the profile of returns sought by investors. However the economic cycle has affected this sector and some operators – e.g. Travelodge have seen difficulties. Our viability model is based on an out of town centre budget hotel scheme and it can be seen that although the scheme does produce a positive viability outcome, it is not sufficient to charge CIL.

7.19 **Leisure** - A cinema scheme has been tested and our analysis shows that this sort of scheme is currently not viable and cannot support a CIL charge.

Table 7.5: Hotel and Leisure Development

	Budget hotel	Leisure development
Value/sqm	£1,668	£1,082
Costs/sqm	£1,630	£1,665
Residual/sqm	£38	-£583
Land benchmark/sqm	£30	£39
Viability 'headroom'	£8	-£621

Care homes

7.20 In addition to the uses above we have tested the viability of care homes. There has been significant private sector investment in care homes in the recent past, fuelled by investment funds seeking new returns. However there have been concerns about the occupancy rates and the ability to sustain prices. The high level analysis suggests that care homes are unlikely to be viable enough in Central Bedfordshire to support a CIL.

Table 7.6: Care homes

	Care home
Value/sqm	£1,691
Costs/sqm	£1,952
Residual/sqm	-£261
Land benchmark/sqm	£77
Viability 'headroom'	-£338

Sensitivity

7.21 It is likely that costs and values will change in the future and a set of sensitivity tests have been run to determine at what point viability changes. This indicates that:

- A 10% increase in values would see warehouses, town centre retail and budget hotels become viable, and have some room to pay CIL
- A 15% increase in values would further improve viability for retail, warehouses and hotels and provide the opportunity to have a larger CIL. No other uses have become viable at this stage.
- A 20% increase in values would again further improve viability for retail, warehouses and hotels and provide the opportunity to have a larger CIL, but no other uses have become viable at this stage.
- A 10% increase in costs would see small convenience and supermarkets become unviable
- A 5% decrease in costs would see town centre retail and budget hotels become viable.

7.22 The figures presented within this summary of findings are for non-residential development to BREEAM Excellent standard, which has cost and value implications. As part of the sensitivity testing BREEAM Outstanding was also modeled and the impact was that viability was lessened because of an increase in costs without any discernible premium values. The main tangible impact of the higher BREEAM standard was that hotels moved from being marginally viable to unviable; all other uses remained either viable/unviable depending on where they started.

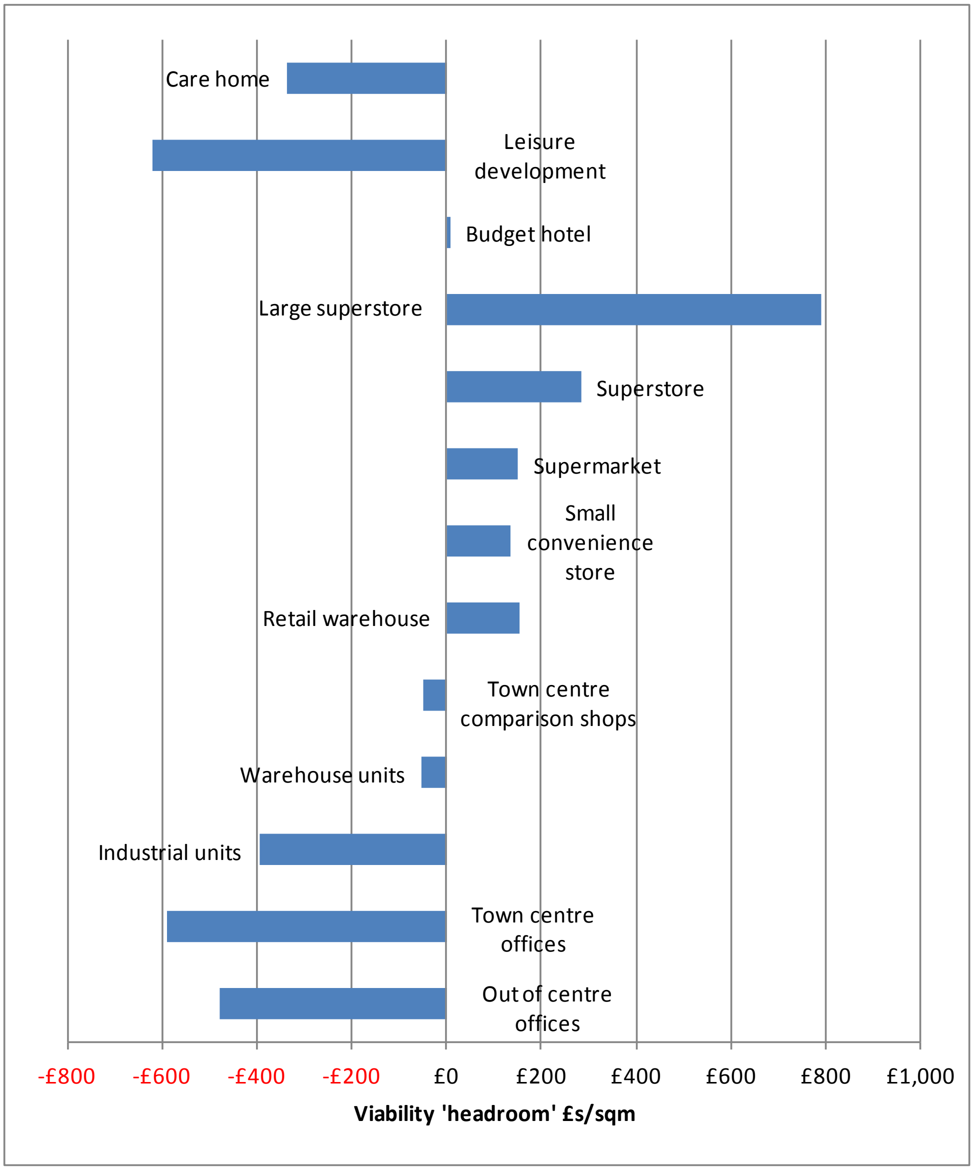
Viability Summary and Ability to Support a CIL Charge

7.23 The graph below summarises the viability ‘headroom’ for each of the non-residential uses tested, and this clearly shows that:

- Convenience retail is viable and is able to bear a CIL charge.
- Retail warehouses are viable and able to bear a CIL charge.
- Hotels are viable but not sufficiently to bear a CIL charge.
- Warehouse and town centre comparison retail are not currently viable but may become viable and able to pay CIL if values change.
- The other uses are not viable and would require considerable changes in value before they are able to pay CIL.

7.24 When considering this graph please note that while the testing suggests that some types of development are not viable, there may still be some development for specific occupiers’ requirements rather than return on property values.

Figure 7.1: Non-residential viability summary



What level of CIL?

7.25 The decision on the level of CIL needs to be informed by this evidence but ultimately taken by CBC. In theory the amount a scheme can afford to contribute CIL is to a maximum of all of the difference between the residual value and the threshold land value after taking into account all costs. However it is clear from the guidance that it is not appropriate to charge up to the maximum viability headroom in order to allow for margins of error and the likelihood of different costs and values affecting different locations and sites.

7.26 The analysis above has demonstrated that of the non-residential development types considered, only retail uses are currently able to support a CIL. In practical terms many retail developments are part of mixed use schemes with the higher value uses able to support the provision of lower value but nonetheless desirable uses. Therefore if all of the viability 'headroom' is taken up by CIL this may jeopardise a larger set of development. Instead it is recommended that CIL is set well below the theoretical maximum and that this is taken into account along with the scheme specific factors when the S106/278 obligations are negotiated.

7.27 The Council, in deciding on the CIL rates it wishes to set, should take into account the suggested maximum rates set out in the figure and individual appraisal tables above. If CBC elected to set a CIL rate for the viable uses at around half[31] of the viability headroom this would leave a set of charges as set out in table below, but this will be a decision for CBC to take.

Table 7.7: Potential CIL charges for viable uses

Uses	Potential CIL
Retail warehouse	£80
Small convenience store	£65
Supermarket	£70
Superstore	£150
Large superstore	£400

7.28 A further consideration is the simplicity or complexity of the charging schedule and the types of charges made by other authorities:

- Discussions with inspectors suggest that simpler charging schedules are easier to take through examination. Variations by use[32] or by area will need to be clearly supported by increased amounts of evidence.
- Furthermore the higher the charge (in its own right and in comparison with other areas) the more likely that there will be objections to be addressed at examination.
- A review of the adopted or proposed CIL charges across the UK shows that at the time of writing:
    - There is a clear picture of the majority of locations with adopted/proposed Charging Schedules having a £0/sqm CIL charge for B1, B2 or B8. The few examples where such development is judged to be viable generally have low CIL rates c. £20-£30 sqm
    - Most authorities have a retail CIL charge and that this often varies by location - in or out of centre, with in centre normally low or £0 - and type, with large format convenience attracting the highest charges. Some authorities have used the 280 sqm Sunday trading breakpoint whilst others have used a larger sized breakpoint or supermarket/superstore description. Large scale convenience retail can attract proposed charges of £200-£300 sqm, while retail warehouses are a) less likely to have a charge and b) it is likely to be lower.

7.29 Taking this into account our initial recommendation is that the Council might consider a retail charge of around:

- £0 for town centre *comparison* as defined by the town centre designations

[31] Note that this is an arbitrary amount based on prudence rather than informed by specific guidance
[32] Note that the CIL regulations use the term 'use' rather than 'use class' (Regulation 13)

- £70 - £100 sqm for all other retail

7.30 Although this may reduce the overall CIL receipts for the largest supermarket development it will maintain a simple charging schedule that may minimise opposition at examination.

7.31 CBC may wish to consider a simple extension to this, such as a variation for large convenience retail. If this is pursued it is recommended that it is defined as 'superstores' of 2,500 sqm or more with at least 50% of the sales floorspace selling convenience goods[33]. It is recommended that the rate should be between £150-£200 per sqm, which is well within the theoretical viability 'headroom'. If this option is pursued then it is recommended that attention is given to the examination outcomes of other draft charging schedules that propose a variation in CIL rates for different retail uses.

Other Uses

7.32 The viability testing has been based on the development expected to come forward. It is acknowledged that there may be other uses that will arise and it is recommended that the following approach is taken:

- A2 Financial and Professional Services – treat as A1 in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- A3 Restaurants and Cafes – again treat as A1 in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- A4 Drinking Establishments - again treat as A1 in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- A5 Hot Food Takeaways - again treat as A1 in viability terms as many of these uses are likely to occupy the same sorts of premises as some town centre retail.
- Selling and/or displaying motor vehicles - sales of vehicles are likely to occupy the same sorts of premises and locations as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- Retail warehouse clubs – these retail uses are likely to be in the same type of premises as the out of town A1 retail uses and covering the same purchase or rental costs.
- Nightclubs – these uses are likely to be in the same type of premises as A1 city centre retail uses and covering the same purchase or rental costs.
- Scrapyards – there may be new scrapyard/recycling uses in Central Bedfordshire in the future, particularly if the prices of metals and other materials rise. These are likely to occupy the same sorts of premises as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.

[33] This builds on the functional definition used in the superseded PPS4 - Superstores: Self-service stores selling mainly food, or food and non-food goods, usually with more than 2,500 square metres trading floorspace, with supporting car parking - http://webarchive.nationalarchives.gov.uk/20120919132719/www.communities.gov.uk/documents/planningandbuilding/pdf/planningpolicystatement4.pdf

- Taxi businesses – these uses are likely to be in the same type of premises as A1 city centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- Amusement centres – these uses are likely to be in the same type of premises as A1 city centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.

7.33 PAS guidance[34] suggests that in addition to the development considered above there needs to be evidence that community uses are not able to support CIL charges. For community facilities that are ultimately paid for by the public sector such as community centres, health centres, hospitals and schools there is a relatively simple approach. The commercial values for community uses are £0 but there are build costs of around £1,300 to £1,600 per sqm[35] plus the range of other development costs; with a net negative residual value. Therefore we recommend a £0 CIL for these uses.

[34] http://www.pas.gov.uk/pas/core/page.do?pageId=1242969
[35] Based on BCIS November 2012 – Hospitals, Community Centres, Schools and Libraries

8 OTHER ISSUES

Instalment Policy

8.1 The liability to pay CIL commences with the granting of consent for the development. However the timing of development costs including planning obligations has an impact on viability, as any monies paid out before the scheme produces values will have to be sourced from elsewhere (with finance charges) and present a risk to the developer. The CIL regulations allow the charging authority to delay the payment required and this will improve viability. The regulations state[36]:

69B.—(1) A charging authority which wishes to allow persons liable to pay CIL to do so by instalments must publish on its website an instalment policy containing only the information described in paragraph (2) ("the instalment policy").
(2) The instalment policy must state—
(a) the date on which it takes effect, which must be no earlier than the day after the instalment policy is published on the website;
(b) the number of instalment payments;
(c) the amount or proportion of CIL payable in any instalment;
(d) the time (to be calculated from the date the development is commenced) that the first instalment payment is due, and the time that any subsequent instalment payments are due; and
(e) any minimum amount of CIL below which CIL may not be paid by instalment.

8.2 It is recommended that the Council considers the use of an instalment policy and that this is included within its Draft Charging Schedule.

Exceptional circumstances

8.3 DCLG guidance states that, "*Regulations 55 to 58 allow charging authorities to set discretionary relief for exceptional circumstances. Use of an exceptions policy enables the charging authority to avoid rendering sites with specific and exceptional cost burdens unviable should exceptional circumstances arise. Before granting relief, the charging authority will need to be satisfied that the costs relating to the section 106 agreement are greater than those related to the Community Infrastructure Levy, and that the relief would not constitute notifiable State aid*"[37]

8.4 The decision about whether to have an exemptions policy lies with CBC. In arriving at their decision, the council will need to take into account the issue of state aid.

[36] DCLG, The Community Infrastructure Levy (Amendment) Regulations 2011
[37] DCLG, Community Infrastructure Levy, Guidance, December 2012, para 31