

North Somerset Council
Community Infrastructure Levy
Viability Assessment

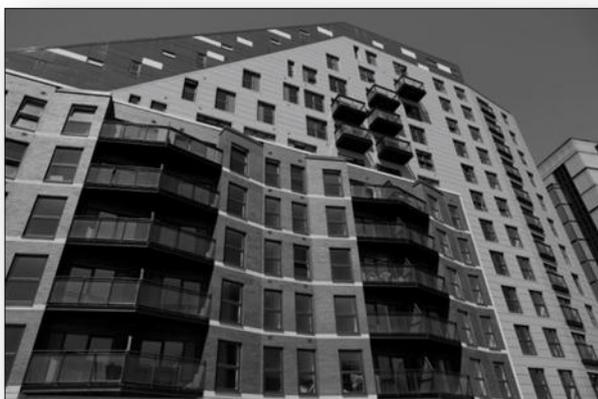
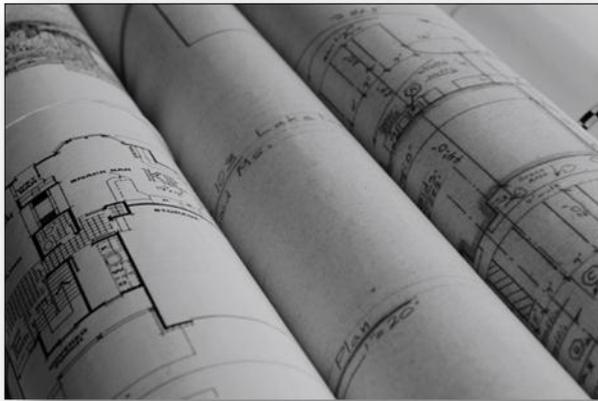
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Final Report Version

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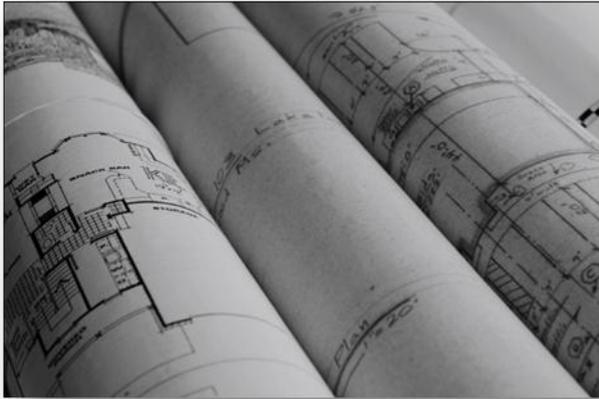
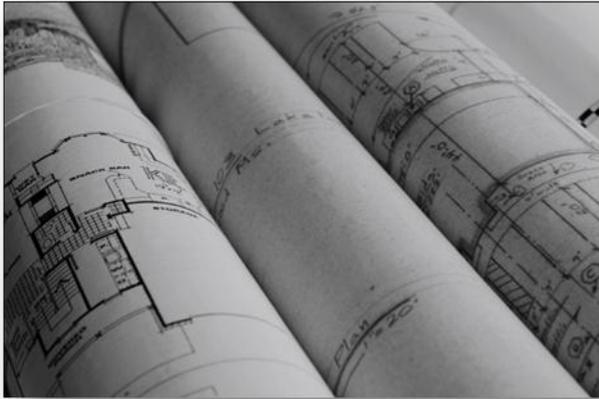


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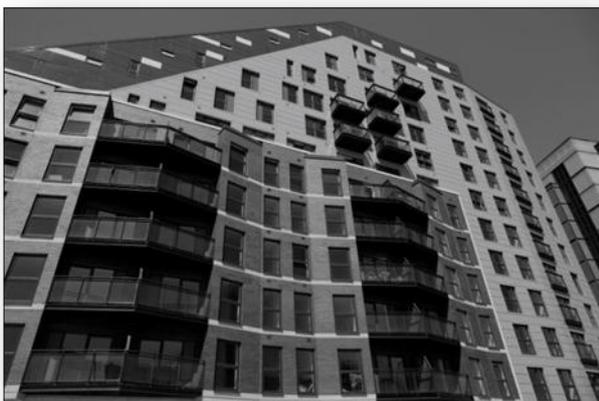
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Executive Summary

1. The Community Infrastructure Levy (CIL) has been introduced by the Government as a means of Local Authorities pooling development contributions to help fund the provision of the local infrastructure needed to support the planned growth in their area (wider area infrastructure improvements). The CIL will partially replace s.106 as a means of securing such contributions (after April 2014, pooling of s.106 contributions to fund wider infrastructure provision will be limited). S.106 will continue to be relevant (potentially alongside CIL) for any site specific matters; where the infrastructure impacts of a particular development require mitigation measures, and in particular on large sites.
2. The CIL will be chargeable on a per square metre (sq m) basis; on all new development exceeding 100 sq m (including extensions) and including new dwellings of less than 100 sq m. Affordable housing and developments by charities for the delivery of their services will not be subject to CIL. Subject to certain rules, the CIL will not apply to any existing accommodation on a development site (whether demolished or reused) – that floor area will be netted-off within the charging calculation.
3. In the process of considering its local implementation of the CIL, North Somerset Council appointed Dixon Searle Partnership (DSP) to review the scope for a range of development types (residential and commercial / non-residential) to support CIL funding in the district.
4. The purpose of this resulting study is to inform the Council's consideration of proposed CIL charging rate(s) in the district, by use type and potentially also by locality – depending on viability, differential charging rates may be set.
5. The CIL Regulations require that in setting their local charging rates, the local authority (charging authority) should aim to strike an appropriate balance between contributing to local infrastructure funding needs (based on a demonstrated funding gap) and development viability. In doing so, local authorities also consider a wide range of other information - including on the local site supply and the relevance of various development types to their area and

Development Plan. The key test applied in assessing whether an appropriate balance has been struck is about the Plan delivery as a whole not being unduly affected; as a principle of the CIL, it is accepted that some developments may not be viable.

6. This study involved key stages of research, assumptions setting, carrying out a wide range of appraisals and review. The appraisals used residual land valuation principles, consistent with the main established and approach to this type of review; as tested in most cases at Examination in Public stage so far.
7. For residential development we found the suitable parameters for CIL charging to be in the £0 - £60 / sq m range. More detailed review of the findings points to DSP recommendations for the Council to consider setting differential CIL charging rates at 3 levels for residential development; the lowest at a suggested £0 /sq m (nil rate) applicable to the inner town centre area of Weston-super-Mare; intermediate rate of not more than £40 / sq m in respect of outer Weston-super-Mare (including the proposed 'Weston Villages' major development areas to the south-east of the town); highest rate suggested at not more than £60 /sq m relevant to the rest of the district including the towns of Nailsea, Portishead and Clevedon along with the smaller settlements and rural areas where typically higher values mean that stronger viability outcomes are generally seen.
8. We consider that this type of approach would contribute appropriately to the greater certainty intended by the CIL regime and would better respect the housing values patterns in the District, particularly by being responsive to the poor viability indications (typically) for Weston-super-Mare central urban areas and also to the wider range of costs and obligations which are likely to be needed collectively as part of the Weston Villages scenario.
9. Alternatives have been discussed with the Council, including a higher charging rate for the more rural typically highest value areas of the district. However, on balance it has been considered that the relatively low potential additional CIL yield and the small overall contribution to the overall Development Plan picture were insufficient to outweigh the additional administrative burdens that this would create.

10. The viability of a range of commercial / non-residential development types in the District was found to be highly variable. However, we saw an over-riding theme that retail related development presents the principle clear scope for meaningful CIL contributions. Respecting the balance that needs to be found, we recommend that suitable rates for retail development in the district are no more than £125 / sq m for large units (supermarkets and retail warehousing) and not more than half that for smaller scale retail developments (e.g. convenience stores and others).
11. Charging rates scope equivalent to the intermediate residential level, as also applicable to sheltered housing (not more than £40/sq m, except where classified as affordable housing), is put forward for students' accommodation and care home uses.
12. In a wide range of other cases, it was found that CIL charging would generally either exacerbate a lack of viability or could place undue added risk to schemes. In summary, at the current time and for the foreseeable future we therefore recommend that a nil (£0 / sq m) charging rate be considered for application to other uses including business development (B uses).
13. In all cases the resulting parameters that we set out for CIL charging rates are considered to represent an appropriate balance between the need to fund infrastructure (based on a demonstrated funding gap) and development viability in the local circumstances. The report includes detailed information and commentary to explain the study process, assumptions and findings. It also makes associated recommendations relating to regular monitoring and potential review of the local CIL charging regime.
14. As with all aspects of planning / related policy that impacts on development viability, collective scheme costs will always need to be considered by the Council and planning applicants when it comes to considering the implications for actual schemes that will be highly variable in their specifics. Compromises and prioritisation may be necessary within some areas of the overall costs and obligations packages, as part of the usual adaptable, negotiated approach continuing alongside the CIL.

15. We have set out parameters and options for the consideration of CIL charging rates, and these have been shared with the Council as emerging findings as part of the iterative approach as the study has developed. In all respects, the selection of charging rates beneath the parameters that we have set out is within the scope of our viability recommendations (rates beyond the levels put forward are outside the scope of our recommendations). As a part of this, the Council is able to consider how the collective burdens may impact, the interaction with varying affordable housing scenarios and other costs / obligations.

**Executive Summary ends.
October 2012.**

1 Introduction

1.1. Background – Community Infrastructure Levy and Purpose of this Report

1.1.1 The Community Infrastructure Levy ('CIL') Regulations came into force in April 2010 (amended in 2011) and allow local authorities (the 'charging authorities') in England and Wales to raise funds from developers undertaking new developments in their area by way of this new tariff style approach to planning infrastructure contributions.

1.1.2 The levy is charged on most new developments that involve an increase in floor space. Most developments of less than 100 square metres (sq m) in area will not pay the levy, including, for example, a small extension to a house. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the unit has a floor area of under 100 sq m. The charge will be expressed as a rate in £s per sq m of chargeable development. Subject to certain criteria, only the net additional floor space formed by a development will be chargeable – in principle, any existing accommodation will be netted-off to get to the chargeable development area for the contribution calculation. The netting-off is subject to stipulations within the CIL Regulations on the criteria for the existing buildings being in Lawful Use in the period prior to redevelopment.

1.1.3 The funds raised are to be spent on the infrastructure needed to support the development of the Council's area (housing and employment growth for example). The adopted Core Strategy for North Somerset is the relevant Development Plan, and the local implementation of CIL is to be based on, and to support that. As part of its 'Localism' agenda, the government may require that charging authorities allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to that particular community - for localised decisions on infrastructure funding priorities. At the time of preparing the study and report-writing, guidance is awaited as to the recommended locally allocated proportion of the funds raised.

1.1.4 The levy rates will have to be underpinned firstly by evidence of the infrastructure needed to support new development, and demonstrated funding gap associated with that, and secondly by evidence of development viability. This study addresses the viability aspect. The Council's Preliminary Draft Charging Schedule version (PDCS) will

summarise the local picture on infrastructure requirements and the contributory role that CIL will pay in terms of the identified funding gap.

- 1.1.5 North Somerset Council has been working with infrastructure providers in preparing its Infrastructure Delivery Plan to support the North Somerset Core Strategy ('North Somerset Futures – Local Development Framework – Core Strategy') as adopted by the Council on 10th April 2012. Further information on the Core Strategy is available on the Council's web pages, at:

<http://www.n-somerset.gov.uk/Environment/Planning+policy/Core+Strategy.htm> .

The Council is continually updating and monitoring its picture of infrastructure needs. The Council's approach to this is set out in the North Somerset Core Strategy Infrastructure Delivery Plan (IDP) and delivery schedules, which may be viewed in the 'further documents' section on the Council's website at:

<http://www.n-somerset.gov.uk/Environment/Planning+policy/Infrastructure+provision.htm>

The IDP and associated updating work forms the basis of identifying the total cost of infrastructure associated with supporting the development plan (Core Strategy) led growth in the district; including the element that can be funded from CIL (the infrastructure 'funding gap'). This picture then needs to be balanced with the viability findings, whereby those effectively act as a limiting factor when viewed in the context of the overall scale of infrastructure needs; as the Council seeks to find the appropriate local balance for its implementation of CIL.

- 1.1.6 Infrastructure is taken to mean any service or facility that supports the district and its population and includes but is not limited to transport, energy, water, drainage, waste, ICT, open space, affordable housing, education, health community services and culture and leisure. In the case of current Community Infrastructure Levy (CIL) scope, and therefore this assessment, affordable housing is assumed to be outside the scope of CIL and dealt with in the established way through site specific planning (s.106) agreements. Affordable housing has been allowed for separately, in addition to CIL.

- 1.1.7 Any authority wishing to charge CIL must produce a Charging Schedule setting out the levy's rates in its area. The CIL charging rate or rates should be set at a level that ensures that development within their area as a whole (i.e. delivery of the Development Plan) is not put at serious risk. The Council will first prepare a Preliminary Draft (PDCS) and then a Draft Charging Schedule (DCS), proposing the local rates and in each case for consultation before the Draft Charging Schedule is subject to Examination in Public; usually by an Inspector appointed by the Planning Inspectorate (PINS).
- 1.1.8 A key requirement of CIL and the preparation of the Charging Schedule is that it should strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development. In order to meet the requirement of Regulation 14 of the CIL Regulations April 2010 (as amended) the Council therefore appointed consultants, Dixon Searle Partnership (DSP), to provide the evidence base to inform the development of and support the Council's draft charging schedule in viability terms. DSP are experienced development viability consultants, having many years experience of working on strategic level and site specific viability, affordable housing, other matters, and, more recently, significant experience of CIL viability studies including to Examination in Public (Examination or 'EIP') stage.
- 1.1.9 This study investigates the potential for implementing a CIL locally by showing the likely impact on the economic viability of residential and commercial / non-residential development scenarios across North Somerset. It aims to provide the Council with advice as to the likely scope for seeking developer contributions towards infrastructure in the form of CIL charging; including the viability considerations and the potential rate or rates that the Council could consider setting in the various local circumstances.
- 1.1.10 The approach taken in this study is based on the well recognised principles of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – 'GDV'). The RLV result then needs to be considered, to assess how that compares with a likely land value expectation; and therefore whether the scenario provides a surplus that could support infrastructure contributions.

- 1.1.11 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies (notional schemes) reasonably representative of schemes that are considered likely to come forward in North Somerset. The RLVs generated for the purposes of this study and indicating the potential viability of a scheme, need to meet or exceed an existing (or alternative) use value ('EUUV') whilst at the same time contributing towards the CIL. In considering the relationship between the land value created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one - it can be highly variable. It is not an exact science, as is acknowledged in a range of similar work and in technical papers and guidance notes on the topic of considering and assessing development viability. Therefore, as we do with other information to inform the study and our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached in various scenarios.
- 1.1.12 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial rates of between £0 and £140 / sq m at intervals of £20 /sq m; with an indication given also of the potential maximum CIL level that could theoretically be achieved.
- 1.1.13 The results of each of the appraisals are compared to a range of potential land value benchmarks or other guides relevant to the circumstances - to determine the potential scope for various CIL rate contributions according to development type and with varying completed scheme value levels (GDVs) – for example as may vary by location within the district. The results sets have been tabulated in summary form and those are included as Appendices IIA (residential) and IIB (commercial) to the rear of this document.
- 1.1.14 In the background to further considering the potential charging rates, as an additional layer alongside the appraisal methodology we have also considered the tone of outcomes by reference to other measures for viewing the scale of the potential CIL rates. This includes viewing the potential trial rates when expressed in terms of percentage of development value. All of these areas help us and the Council to consider the likely proportional effects and the level of CIL that could reasonably be expected to be charged on development without adding undue levels of risk to its

delivery as a whole across North Somerset; i.e. as part of finding the right balance in considering the local approach.

1.1.15 The report then sets out findings for the Council to consider in taking forward its further development work on the local implementation of the CIL and in particular the Council's Preliminary Draft and then Draft Charging Schedules (focussing on the conclusions, allied to the range of results and other indications as discussed and set out in the Appendices).

1.2 Notes and Limitations

1.2.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the production of strategic viability assessments for local authority policy development.

1.2.2 In order to carry out this type of study a wide variety of information is reviewed and a range of assumptions are required. This rarely fits all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential. It should be noted that in practice every scheme is different and no study of this nature can reflect particular sites or the variances seen across a multitude of site specific cases.

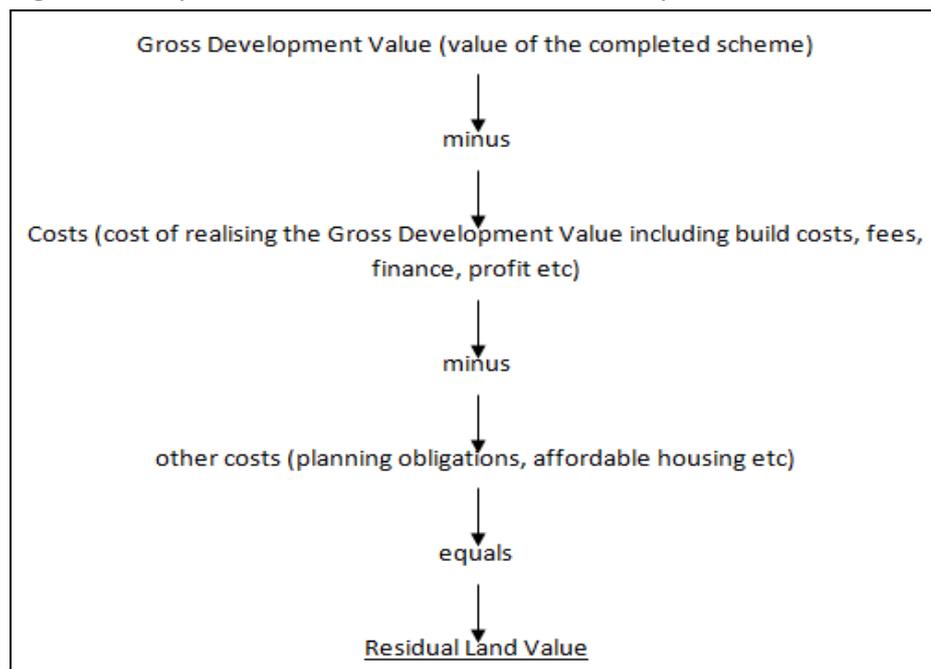
1.2.3 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's CIL Preliminary Draft Charging Schedule preparations. Work in progress and emerging findings have been shared with the Council prior to the issue of this full report – running through the Spring and Summer of 2012.

2 Assessment Methodology

2.1 Residual Valuation

- 2.1.1 This study investigates the potential for a range of development types to contribute to infrastructure provision funding across North Somerset through the collection of financial contributions charged via a Community Infrastructure Levy.
- 2.1.2 In order to do this we have considered the strength of the relationship between development values and costs and run appraisals using the well recognised principles of residual valuation to assess the viability of a range of residential and commercial / non-residential scenarios. These are not actual schemes – this is an overview process representative of different development typologies relevant to the district and the development considered likely to come forward within it in accordance with the Core Strategy.
- 2.1.3 As the term suggests, residual valuation provides a “residual” value (residual land value or ‘RLV’) from the gross development value (GDV) of a scheme after all development costs are taken into account. The diagram below (Figure 1) shows in simplified form the principles behind this technique:

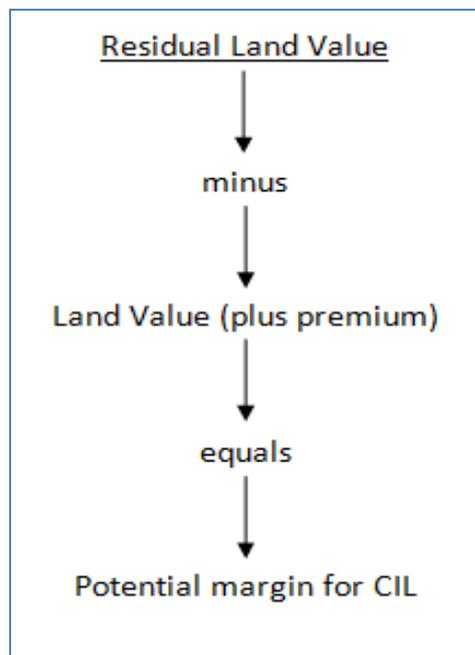
Figure 1: Simplified Residual Land Valuation Principles



- 2.1.4 Having allowed for the costs of development, including scheme finance and developer's profit, the resulting figure indicates the sum that is potentially available to pay for the land. In order to guide on a range of likely viability outcomes, the assessment process also requires a comparison, or range of comparisons, against which the RLV result can be measured to inform that viability view; whether or not a site is likely to be available at the RLV level and the scheme proceed.
- 2.1.5 The land values comparisons relate to indications of existing or alternative land use values (EUVs) relevant to the former / existing site use and locality; including any potential uplift required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar).
- 2.1.6 Essentially this means taking an appropriate high level view around the potential level(s) that land value may need to reach in order to drive varying prospects of schemes being viable. The level of land value sufficient to encourage the release of a site for development is in practice a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and the specific requirements or circumstances of the landowner. Therefore indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council and any available sales evidence have been used for this purpose in making our assessment. Recently there has been a relatively low level of activity on land deals and consequently there has been very little to go on in terms of examples; the range of reporting mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not just a North Somerset factor, but one that we are typically experiencing in carrying out a range of these types of studies.
- 2.1.7 In assessing results, where available (i.e. where the value less costs relationship is sufficiently healthy to support scheme viability), the surplus residual (land value) remaining after these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions. So the amount by which the scenario RLV exceeds the land value comparison (where it does so), after all other costs have been met, indicates the potential CIL funding scope.
- 2.1.8 From an overview of those relationships, in the context of the range of wider assumptions within particular scenarios, we can see results trends. These trends

include deteriorating RLVs and therefore viability outcomes as the scheme value (GDV) decreases; and / or costs rise – e.g. through adding / increasing affordable housing, increasing build costs (e.g. with varying commercial development types) and increasing the “trial” CIL charging rates. Any potential margin (CIL funding scope – as above)) is then considered in the round so that the potential charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs etc that could move around. In essence, the steps taken to consider that potential margin or surplus are as summarised in the following diagram (Figure 2 below):

Figure 2: Relationship between RLV & comparative land value (surplus or margin potentially available for CIL)



2.1.9 The assumptions that go into the RLV appraisals are set out in more detail in this report section. Further information is also available at Appendices I and III. They reflect the local market (through research on local values, costs and types of provision, etc) and locally relevant planning policies (taking into account the policies

set out within the North Somerset adopted Core Strategy¹) as well as other practical delivery aspects locally.

2.2 Site Typologies / Notional Site Types

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and commercial developments. The scenarios were developed and discussed with the Council following a review of information it provided; such as the Council's monitoring information and Strategic Housing Land Availability Assessment (SHLAA) data in the case of the residential scenarios. It was necessary to determine scenario types likely to come forward across the district. The scheme types were then proposed to and agreed with the Council as reasonably representative for the purposes of this high level overview viability assessment.

2.2.2 For residential schemes, six scenarios were tested with the following mix of units and including integrated affordable housing (where required by and in accordance with the Council's policy):

Figure 3: Residential scheme types

Scheme Type	Overall Scheme Mix
1 dwelling	1 x 4BH
5 dwellings	1 x 2BH; 3 x 3BH; 1 x 4BH
10 dwellings	2 x 2BH, 5 x 3BH, 3 x 4BH
25 dwellings	6 x 2BF; 7 x 2BH, 8 x 3BH, 4 x 4BH
100 dwellings	4 x 1BF, 6 x 2BF; 25 x 2BH, 30 x 3BH, 35 x 4BH
500 dwellings	20 x 1BF; 30 x 2BF; 100 x 2BH; 150 x 3BH; 200 x 4BH

Note: BH = bed house; BF = bed flat

2.2.3 The unit mixes were again based on information provided by the Council and reflect a range of different types of development that could come forward across the district - to ensure that viability has been tested with reference to the ongoing housing supply themes and policies. Each scheme type was also tested over a range of value levels

¹ North Somerset Council – North Somerset Futures Local Development Framework - Core Strategy Plan Text Adopted by the Council on 10th April 2012.

(‘VL’s – see below for explanation) representing varying residential values seen currently across the District and also allowing us to consider the impact on development viability of values varying with changing market conditions over time.

2.2.4 As above, a key area of the assumptions setting for the residential scenarios was to reflect the Council’s Core Strategy policies, including on affordable housing. Policy CS16 ‘Affordable Housing’ requires affordable housing on sites of 10 or dwellings (or 0.3 ha or above) and provides that the Council will negotiate for on-site provision or a financial contribution on sites of 5 to 9 dwellings. The target proportion sought is 30% which represents a continuation of the Council’s approach under its previous development plan – the Replacement Local Plan. The scheme typologies applied in this study reflect these policies and full details of the private and affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet. In each scenario and individual appraisal, on-site affordable housing has been factored-in to represent the greatest likely viability impact, for example in comparison with a negotiated financial contribution towards meeting affordable housing needs.

2.2.5 The unit sizes assumed for the purposes of this study are as follows:

Figure 4: Residential unit sizes

Unit Sizes (sq m)	Affordable	Private
1-bed flat	51	45
2-bed flat	67	60
2-bed house	76	75
3-bed house	86	95
4-bed house	110	125

2.2.6 As with many areas of the study assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. No single size assumption or even range of assumed sizes will represent all dwelling types coming forward. However, since there is a relationship between dwelling sizes, their values and their build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ per square metre – ‘£ / sq m’ - terms); rather than the specific dwelling sizes to which those levels of costs and values are applied. With the approach, the indicative ‘Value Levels’ (VLs) used in the study can then be applied to varying (alternative) dwelling sizes. The approach to focus on

values and costs per sq m also fits with the way developers tend to price and assess schemes; and is consistent with the CIL principles and regulations. It provides a more relevant context for considering the potential viability scope and the also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as proportions of the schemes' values and costs.

- 2.2.7 The unit / development sizes indicated are gross internal areas (GIAs). They are reasonably representative of the type of dwellings coming forward for smaller and average family accommodation, within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes, in particular, may be small compared with some coming forward. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions and would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ / sq m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.
- 2.2.8 In the same way, the Commercial scheme scenarios were developed through the review of information supplied by, and through liaison with, the Council; supplemented with and checked against wider information. In the case of commercial scenarios the following sets out the various notional scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from key types of commercial / non-residential development considered likely to be relevant in the District (see figure 5 below):

Figure 5: Commercial / non-residential development types

Development Type	Example Scheme Type(s)	GIA (sq m)	Site Coverage	Site Size (Ha)
Large convenience retail – supermarket	Large Supermarket – typically edge of / out of town	4000	35%	1.14
Large retail – retail warehousing	Retail warehouse – various locations. Could also include smaller supermarkets.	1000	40%	0.25
Small retail – convenience store (to include comparison, A1-A5)	Convenience Store - various locations. Also includes food and drink, financial services.	310	60%	0.05
Business development - B1(a) Offices - Town Centre	In town Office Building	1000	200%	0.05
Business development - B1(a) Offices Business Park	Edge of town Office Building	3000	40%	0.75
Business development B1, B2, B8 - Industrial / Warehousing	Move-on type industrial unit including offices - industrial estate (also office uses in industrial estate type buildings and locations)	500	40%	0.125
Business development B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	2500	40%	0.625
Students' accommodation	Halls of residence / similar (250 rooms)	4000	80%	0.50
Hotel - <i>not developed to full appraisals set</i>	Hotel - edge of town centre / edge of town (160 rooms)	4480	89%	0.5
Residential Institution - Care home – <i>not developed to full appraisals set.</i>	Extra care (60 beds)	3800	75%	0.50
D1/D2 - Institutional / Community / Health – <i>not carried through to full appraisals owing to poor value/cost relationships – see</i>	Clinic or similar	500	40%	0.13

<i>later text.</i>				
Leisure (D2) – not carried through to full appraisals owing to poor value/cost relationships – see later text.	Fitness centres, cinema, bowling, casino, etc	2500	50%	0.50

2.2.9 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial / non-residential scheme scenarios that could come forward in North Somerset. As in respect of the assumptions for the residential scenarios, a variety of local development industry stakeholders including property agents, developers and their planning agents / advisers were contacted and invited to supply any readily available market information, guides or particular examples; including on values, land values and other development appraisal assumptions. Again, as part of assembling and reviewing assumptions, we were also in contact with a range of staff from the Council, including those with employment sites knowledge and experience. Alongside seeking and, to varying degrees receiving, soundings from a range of sources such as these, DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and a range of other web-based resources. Further information is provided within Appendix III to this report.

2.2.10 The site coverage percentages indicated in Figure 5 are based on information provided by and discussed with the planning staff from their local knowledge and records, as supplemented / verified by local development examples and case studies from our research where possible. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of “sense check” to our proposed assumptions.

2.2.11 In addition to testing the commercial development uses of key relevance above, further consideration was given to other uses that may potentially come forward across the district. These include, amongst others, non-commercially driven facilities (community halls, medical facilities, schools, etc) and other commercial uses such as motor sales, garages / depots / workshops, agricultural storage, surgeries / similar,

and day nurseries. In discussion with the Council we also noted that airport-related development (at Bristol airport) could also be seen.

2.2.12 Clearly there is potentially a very wide range of such schemes, and others, that could come forward. Alongside their viability, it is also relevant for the Council to consider the frequency and distribution of these; and their role in the delivery of the development plan (Core Strategy). For these scheme types, as a first step it was possible to review in basic terms the key relationship between their completed value per square metre and the cost of building. This is considered later in the report. To date, local authorities have either set a £0 / sq m (nil) charging rate for all non-specified development uses; or set a relatively low “default” type rate for those. The Council will need to consider this in light of our findings and the wider picture on the overall plan relevance and frequency of other scheme types. This could also involve consideration of the resourcing of CIL when in operation, the potential “yield” from various ad hoc development sources and the points this report notes around added risk to development where inherent viability outcomes may in many cases be marginal. Depending on the local circumstances with regard to these factors, under the CIL Regulations potentially the Council could take the view that it would not prejudice the plan if a range of individual scenarios were not viable.

2.2.13 Where quickly it can be seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc are allowed for) outweighs or is close to the completed scheme value (GDV), it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide. This amounts to adding iteratively to the picture seen from those main assumptions and appraisals, whereby an increased deterioration of the relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support, or that are being produced for wider purposes or business plan aims despite their viability as developments, rather than being able to produce a surplus capable of some level of contribution to CIL.

2.2.14 Through this iterative / exploratory process we could determine whether there were any further scenarios that warranted carrying out additional viability appraisals.

Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus would not support any level of CIL, certainly not on any regular basis.

2.2.15 Further information on this section of the review process is provided within the findings commentary in report section 3.

2.3 Gross Development Value (scheme value or 'GDV') - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. As mentioned previously, this is in order to test the scope for and the sensitivity of scheme viability to the requirement for a range of potential CIL rates; potentially including geographical values variations and / or with changing values as may be seen with further market variations. As above, the range of potential CIL rates was explored iteratively – as a series of trials stepping-up at £20 / sq m intervals from £0 / sq m to £140 / sq m. As the results developed, we considered it not necessary to widen the range of trial rates. This iterative process enabled us to consider the ability of schemes of varying values to support, or not, CIL contributions at various potential rates. Therefore this also set up the potential to consider differential CIL charging rates for the district if necessary.

2.3.2 We carried out our own desktop and on the ground research on residential values in North Somerset. In addition, it is always preferable to consider a range of information so as to look for common themes and pointers. Therefore we also used existing information for example contained within the Council's wider Core Strategy evidence base; and from sources such Land Registry data, the Valuation Office Agency (VOA) and where available previous site assessments that the Council has been involved in.

2.3.3 A framework needs to be established for gathering and reviewing property values data. Our first stage desktop research using online property marketing and prices web resources - principally 'rightmove' and 'zoopla' - focussed on the town of Weston-super-Mare (inner urban and outer areas – outer including the Weston Villages proposed significant growth areas), the other 3 main towns of Nailsea, Portishead and Clevedon, and then the range of smaller settlements within the rural

areas of the district. It was felt that this understanding or way of describing the local geography would form a sound starting point as a framework for researching house prices – their levels and patterns across the district. This approach was discussed with the Council, as a relevant and workable basis against which to begin to consider whether any significant values variations by geography existed across the District. The Council provided a map indicating the inner urban and outer areas of Weston-super-Mare (included at Appendix III) – ‘Proposed inner and outer boundaries for CIL Viability Testing’ - and that was used as a basis for our values research in relation to Weston.

- 2.3.4 This in turn would then inform any due consideration of whether, and if so how, to determine any varying “viability zones” or similar for differential CIL charging rates – if applicable. Open minds were kept as to whether the potential to vary CIL charging rates by locality would be relevant, meaningful and, if so, justified, in this district - or not.
- 2.3.5 Following our initial research based on this approach, it became clear that there is a clear differentiation between the typical lower value levels seen in the inner urban areas of Weston and those around the town centre / in the peripheral settlement areas. Bearing in mind that it is not possible or necessary to reflect all local variations (as are seen in practice within small areas and between sites) in considering CIL viability, the other values pattern theme we identified was further increased values generally seen in other areas of the district (outside Weston and immediate surrounds).
- 2.3.6 Further checking research was then carried out by reference to other sources including the type of property pricing and heat-mapping information that is available through web-bases resources such as ‘zoopla.co.uk’, which use a combination of Land Registry data (on sold prices) and a form of “automated valuation model” to also provide current price indications based on very large data sets and trends. Having identified a clear scenario of typically lower values in the central urban area of Weston-super Mare, this further layer of review informed more detailed discussions with the Council’s officers, given their local knowledge and experience.
- 2.3.7 With the officers we were then able to test and consider variations on a theme which respected the typically lower values already seen in the main urban area of Weston-

super-Mare. As will be outlined in section 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability variations seen. Through ongoing discussion and consideration of the various data and knowledge sources – alongside the Council considering the likely distribution of development - this moved to a settled, evidenced view of the variations to be respected in proposing options for the local approach to CIL charging on residential developments.

2.3.8 The data sources behind our assumptions (including values, costs, land values, site coverage etc) are shown in Appendix III – Background Data - and are not included in the main part of this report. However, a summary of the values range applied for each residential scenario (again, expressed as Value Levels - VLs) is shown in Figure 6 below. Each residential scheme type was appraised at 6 value levels. These are shown as £ / sq m (sales) values, being the key point of reference as was explained above. Purely for the purposes of indicating what those £ / sq m values mean for the pricing of our assumed unit sizes, those are also set out – as at Figure 6 below:

Figure 6: Residential values range (and indicative occurrence by locality)

	VL 1	VL 2	VL 3	VL 4	VL 5	VL 6
Revenue (Sales value – £ / sq m)	£1,700	£2,000	£2,300	£2,600	£2,900	£3,200
£ / sq ft approx. equivalent	£158	£186	£214	£242	£269	£297
Indicative relevance to location / area of N Somerset	Inner urban WSM	Outer WSM / lower value villages	Nailsea, Portishead, Clevedon, lower value villages (rural)		Higher value villages (rural)	

Assumed dwelling type and indicative Revenue – MV (£)	VL 1	VL 2	VL 3	VL 4	VL 5	VL 6
1-bed flat	£76,500	£90,000	£103,500	£117,000	£130,500	£144,000
2-bed flat	£102,000	£120,000	£138,000	£156,000	£174,000	£192,000
2-bed house	£127,500	£150,000	£172,500	£195,000	£217,500	£240,000
3-bed house	£161,500	£190,000	£218,500	£247,000	£275,500	£304,000
4-bed house	£212,500	£250,000	£287,500	£325,000	£362,500	£400,000

2.3.9 For the large scenario (500 dwellings) appraisal our market values were placed at £1,989/sq m (£185 / sq ft approx.) overall, marginally beneath VL 2. That overall figure represents the blended rate across the scenario, with individual unit assumptions varying from £1,950 to £2,150 / sq m depending on type. For that scenario, a further layer of sensitivity appraisals as also added. That provided results on the basis of market values assumed overall at £2,188 / sq m (approx. £203 / sq ft) – i.e. 10% ahead of the base level assumption. Those appraisals were undertaken on both rented affordable housing scenarios considered (see the following text) – social and affordable rent. The results are summarised at tables 5, 6a and 6b within Appendix IIA.

2.3.10 In addition to the market housing we have assumed a requirement for affordable housing where applicable; in line with the Council's affordable housing policy (see 2.2.4 above). Within the proportions (overall %) of affordable housing, the base assumption in accordance with the high level Core Strategy Policy CS16 position is for 82% required as (social) rented accommodation and 18% as intermediate affordable housing tenure (the latter usually being in the form of shared ownership or similar). A significant bias in favour of priority needs rented tenure is a fairly typical approach to targeting an appropriate affordable housing tenure mix. This tenure mix was applied in a "best-fit" way to the available dwelling mix within each scenario – as with actual sites, it is not always possible to reflect the target mix requirements within the given number and type of dwellings provided by a scheme. It was agreed with the Council that for the "affordable" tenure the modelling should reflect the Council's practice to date to seek social rented tenure (based on target rents). The comparative impact of the "Affordable Rent" model introduced in 2011 - as detailed within the Homes and Communities Agency's (HCA) Affordable Homes Programme (2011-2015) - was then tested; all scenarios were re-run by substituting the 82% element (of the affordable housing content) with affordable rented assumptions. The results summaries tables at Appendix IIA contain both sets. Section 3 will explain those. At Appendix IIA, tables 1 and 2 outline the social rent based results for the scenarios of up to 100 dwellings. Tables 3 and 4 outline the affordable rent based results for those. Tables 5, 6a and 6b then provide further information and comparisons – for the 500 dwellings test scenario; representative also as a portion of large scale development.

2.3.11 For the affordable housing the revenue level that is assumed to be received by a developer is based on only the capitalised value of the net rental stream (social or affordable rent) or capitalised net rental stream and capital value of the retained equity (in the case of low cost / affordable home ownership – i.e. typically shared ownership). As a starting point, currently the HCA expects affordable housing secured through s.106 of either tenure to be delivered with nil grant / investment input. So at the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. A nil grant assumption has been made across all scenarios, therefore. Grant / investment monies may be available through the HCA where the added funds provide clear "additionality" (for example enhanced affordable housing numbers / specification / more affordable tenure mix; or a maintained level provision under pressure from scheme viability).

We are aware that some key recent developments in North Somerset have benefitted from HCA investment in this way.

2.3.12 In practice, the values generated would be dependent on property size, location and other factors including the RP's own development strategies, and therefore would vary from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales/other tenure forms, recycled capital grant from stair-casing receipts, for example. However, as above any such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and varies when it is applied, and so has not been factored in here.

2.3.13 The value of the affordable housing (the level of revenue received for it by the developer, usually from a Registered provider (RP)) is variable. We sought soundings from locally active Registered Providers ('RP's) to allow us to further test our judgments on the potential level of receipt a developer could expect to receive for the social / affordable rented and shared ownership tenures. We undertook not to disclose specific information and therefore used any available data in the background to further informing our assumptions. Available information was reviewed in the context of our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on affordable rents for other authorities). We ran a series of RP type appraisals using 'SDS Proval' software, as used by a large number of RPs. These background appraisals, completed to derive the affordable housing revenue assumptions, were based on rental information supplied by the Council (relating to local social, market and affordable rent levels). Figure 7, below, provides an overview of the range of affordable housing revenue figures (individual figures were used for each viability appraisal, dependent on the market value levels (VLs) and dwelling types as varied between appraisals. The indications outlined below are rounded to the nearest £1 (weekly rents) and £500 (revenue levels). The affordable dwelling size assumptions are as at 2.2.5 (Figure 4) above.

2.3.14 In all scenarios, the intermediate affordable housing revenue was assumed at 65% market value (MV) – i.e. 65% market level GDV – a suitable high level assumption in our professional experience; figures not included in the summary table below.

Figure 7: Affordable housing revenue assumptions range

Dwelling type	Market rent £ per week	Social rent £ per week	Affordable rent £ per week	AH revenue (indicative transfer value)		AH revenue as approx. % of MV	
				SR	AR	SR	AR
1 BF	95 - 150	76 - 81	76 - 120	55,500 - 60,000	55,000 - 90,000	36 - 64	55 - 63
2 BF	124 - 142	87 - 94	100 - 114	66,500 - 74,000	78,500 - 93,000	34 - 58	43 - 69
2 BH	132 - 173	91 - 95	106 - 138	70,500 - 74,000	85,000 - 117,500	30 - 54	48 - 66
3 BH	155 - 196	99 - 105	124 - 157	78,000 - 84,000	103,500 - 136,000	30 - 53	49 - 70
4 BH	187 - 392	108 - 119	150 - 314	87,500 - 98,500	129,500 - 228,000	28 - 47	64 - 69

2.4 Gross Development Value (Completed Scheme (capital) Value) – Commercial

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by type of specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of completed scheme values for comparison with the various development costs to be applied within each commercial scheme appraisal. Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Information on yields and rental values was sought from a range of sources including the VOA, EGi, local contacts where possible and a range of development industry publications and features. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.4.2 Figure 8 below shows the range of rental values assumed for each scheme type; for capitalisation based on associated yield assumptions to provide a gross development value (GDV) for each scenario; dependent on the combination of yield and rental value indications applied. The rental values were tested at varying levels and are representative of a range potentially relevant to each scheme type in the local

context – expressed as low, medium and high. These were assumed for new builds, consistent with the nature of the CIL regulations because refurbishments / conversions / straight re-use of existing property will not attract CIL payments; whereas the great majority of the available information on commercial values relates to older, existing property.

Figure 8: Rental value assumptions for commercial schemes

Scheme Type	Value level (Annual rental indication £ / sq m)		
	("Low")	("Medium")	("High")
Large Retail (supermarket – convenience)	£200	£230	£260
Large Retail (retail warehouse) (<i>assumptions check in general</i>)	£120	£150	£180
Small Retail (convenience; also comparison; A1-A5)	£110	£140	£170
Business development - Town centre offices	£140	£170	£200
Business development - Business park / out of town offices	£150	£180	£210
Business development - B1, B2, B8 - Industrial / Warehousing - Small	£70	£80	£90
Business development - B1, B2, B8 - Industrial / Warehousing - Larger	£60	£70	£80
Students' accommodation – <i>not developed to full set of appraisals</i>	Trialled at £205/sq m / £2,949/room		
Hotel – <i>not developed to full set of appraisals</i>	Trialled at £4,500/room		
Residential Institution (care/nursing home) – <i>not developed to full appraisals</i>	Trialled at up to £8,000/room		
Institutional / Community / Health – <i>not developed to full appraisals</i>	£100	£150	£200
Leisure (e.g . Fitness, bowling, similar) – <i>not developed to full appraisals</i>	£100	£150	£200

2.4.3 These varying rental levels were combined with yields assumed initially at between 6.5% and 7.5% (varying dependent on scheme type). Most were appraised at 7.5% (which, following further review, we considered appropriate to develop for various forms of commercial / non-residential development envisaging good quality new

premises, rather than much of the limited transactional evidence – which relates mostly to older accommodation. Retail, hotel and office scenarios were also appraised at 6.5% yield; which was felt to be more reflective of levels for large retail (supermarkets / retail warehousing) and hotel developments. Further comments on offices are provided at 2.4.3.

- 2.4.4 As will be noted, more positive yield assumptions (rental capitalisation) could well be relevant to the retail scenarios. Further tests added later (after the consideration of the main sectors with the Council) for students' accommodation and care homes used trial yields of between 6.5% and 7.5%.
- 2.4.5 A 6.5% yield assumption for office uses produced poor results; useful tests as part of the overall iterative approach because we considered that assumptions relying on a more positive rental capitalisation than this would not be relevant in those cases. At this level, the yield assumption for office development in North Somerset might be regarded as optimistic, so this gave an early indication of the weakness of the results related to these scenarios when viewed overall. They would deteriorate with a less favourable capitalisation of the rents. The same applied to a 7.5% yield assumption in the case of the trial industrial scenarios.
- 2.4.6 This range, overall, enabled to us to explore the sensitivity of the outcomes to such variations, given that in practice a wide variety of rental and yield expectations or requirements could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (6.5% for large retail, hotel and student accommodation uses) were the most appropriate at the current time in providing context for reviewing results and considering viability outcomes.
- 2.4.7 As above, these are assumptions that leave some room for manoeuvre in relation to site-specific viability outcomes aside from the business development (B use class) scenarios. In fact, in our experience yields of more like 4.75% - 6% could well be seen for some of these scenarios (retail in particular), so a fairly prudent view has been taken on the yield positions. Yields reset towards those more positive levels produce a considerably stronger capitalisation of the rents. However, the selected range, overall, enabled to us to explore the sensitivity of the outcomes to values variations, given that in practice a wide variety could be seen.

- 2.4.8 It is important to note here that small variations, particularly in the yield assumption, but also in rental value assumptions, can have a significant impact on the level of development value that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important to bear in mind in the context of the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions, or assumptions that would rely on infrequent circumstances in the local context, could well act against finding that balance in our view.
- 2.4.9 Overall, this approach enabled us to consider the sensitivity of likely viability outcomes to changes in the capitalised rents (commercial scheme GDVs) and allowed us to then consider the most relevant areas of the results in coming to our overview. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in section 3 which follows.
- 2.4.10 We are making this viability assessment following a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we still have a relatively weak and uncertain economic backdrop dominated by Euro-zone difficulties and feeding through into significant ongoing economic and property market uncertainty. Although there have been a range of mixed signs through 2011 into 2012 so far, including some more positive market signs later in 2012, we are still seeing relatively low levels of development activity; and particularly on commercial schemes. This is caused by a cocktail of factors e.g. as a result of low occupier demand, and related to poor availability of attractively priced and readily available finance for property development and purchasing. As an example of this, looking at viability now, and as is borne out by the range of town-centre schemes stalled nationally given the economic backdrop, we would expect traditional town centre / shopping centre shopping style development based on small retail units for comparison goods to struggle for viability. The short-term prospects for this type of development look relatively poor. The Council will need to monitor and keep under review the delivery prospects, options and alternatives if that type of development is to be promoted.

2.4.11 The RICS Commercial Market Survey stated for Q3 of 2011 that *“tentative recovery in real estate shows signs of faltering”*. It goes on to say *“that tenant demand retreated over the quarter which, coupled with rising available space, is resulting in a more negative view on rental expectations. Surveyors attribute the fall in sentiment to the uncertain outlook for the wider economy... Significantly, sentiment has fallen across all sectors of the market. Retail demand slipped furthest into negative territory, while available space also rose fastest in the retail sector. However, rental expectations at the national level were most negative for offices”*.

2.4.12 For Q4 2011, the same survey stated under the headline *‘Sentiment in the market eases further’* the following key points / trends:

- *‘Weaker demand and rising availability leads to most negative rent expectations net balance since Q3 2009’*
- *‘Development starts fall further across all sectors of the market’*
- *‘Capital value expectations fall further and surveyors expect investment transactions to slow significantly’*

That survey issue went on to summarise:

‘The latest RICS UK Commercial Market Survey continues to show falling occupier demand and rising availability, which is leading to an increasingly negative rental outlook. Furthermore, surveyors expect the market to stagnate as finance remains tight and tenants become increasingly cautious. In particular, respondents are continuing to express concern regarding economic prospects at home and abroad’.

In order to track trends through the study period, on closing our work the RICS Q3 2012 Commercial Property Market Survey themes were similar:

‘The latest UK Commercial Market Survey shows that occupier demand has weakened alongside rising supply, leading to a further deterioration in rental expectations.

- *Demand weakens while supply continues to edge upwards*
- *Rent expectations remain negative at headline level; London offices continue to buck the trend*

- *Investment enquiries fall and capital value expectations are rooted in negative territory.'*

(Source: RICS Commercial Property Market Survey)

2.4.13 As with residential, consideration was given to whether there should be any varying approach to CIL charging levels for commercial and other developments in North Somerset.

2.4.14 On review, whilst most scheme types would not occur, or at least not regularly, in the smaller settlements / rural areas, it was considered that the key types could occur at the four main settlements of Weston-super-Mare, Portishead, Nailsea and Clevedon. Other developments might occur elsewhere, on a smaller scale. However, in each case it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between location alone. On review of the commercial values data, no justifiable or readily definable approach to varying the potential CIL charging on commercial / other development types on a widespread basis was found. Whilst certain specific scheme types could create more value in one location compared with another in the district, typically, there was felt to be no clear or useful pattern which might be described for that; not as there was for residential.

2.5 Development Costs - General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required; and is appropriate. Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), local liaison / scheme examples where available, professional experience and other research. For this overview we have not allowed for abnormal costs that may be associated with particular sites as these are highly specific and can distort comparisons at this level of review. In our view, and again related to the need to consider balance (and not "push to the limits") in setting CIL charging rates, this is another factor that should be kept in mind; in

some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is what counts and, whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the median figure, rebased to Q4 2011 and a Somerset location index (101 relative to a national level of 100) is used. Costs shown are for each development type (residential and commercial):

Figure 9: Build cost data (BCIS Median, Q4 2011, Location Index 101)

Use	Property Type	BCIS Build Cost (£/m ²)*
Residential	Houses - BCIS category 'mixed developments'	£821
Residential	Flats - BCIS category 'generally'	£935
Large Retail	Supermarket	£1,085
Large Retail	Retail warehouse	£570
Small Retail	Convenience Store	£680
Business development	Town Centre Office Building	£1,260
Business development	Business Park Office Building	£1,186
Business development	Industrial unit including offices	£795
Business development	Larger industrial / warehousing unit including offices.	£574
Students' accommodation	Halls of residence / similar	£1,244
Hotel	Hotel	£1,508
Residential Institution	Nursing Home	£1,285
Institutional / Community / Health	Clinic or similar	£1,268
Leisure	Fitness etc	£1,520

(*Note -excludes external works and contingencies (these are added to the above base build costs – see further text below)

2.6.2 The above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type. This is typically between 14% and 21% of base

build cost for flatted and housing schemes, respectively, based on analysis of specific schemes within the BCIS dataset. A notional allowance for externals of 20% of base build cost has been added for all commercial schemes, based on a range of information sources and cost models; also to build-in reasonable buffers to the assumptions on the build-related costs overall. There will always be a range of data and opinions on, and methods of describing build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on overview assumptions are necessary. As with any assumption of course this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, we could also see cases where externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible at all assumptions areas.

- 2.6.3 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.
- 2.6.4 Survey and normal site preparation costs have also been allowed for on a notional basis (£500 and £4,000 per unit respectively for smaller residential scenarios; variable within the larger residential and commercial scenarios).
- 2.6.5 In addition, for this broad test of viability it is not possible to test all variations to additional costs however a further allowance of 5% has also been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM). In the residential scenarios, this was applied to the affordable homes envisaging Code for Sustainable Homes enhancement to level 4.
- 2.6.6 In the case of the 500 dwellings scenario, external works and infrastructure / other costs allowances totalling £12.5m i.e. approximately £25,000 per dwelling have been

added to the same level of base build costs (so that no economies have been assumed on base build costs for the study purpose).

- 2.6.7 The interaction of costs and values levels will need to be considered again at future review points. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we have seen build costs fall, but moving ahead they are expected to rise again.

2.7 Other development Costs – Fees, Finance & Profit (Residential)

- 2.7.1 The following costs have been assumed for the purposes of this study and vary slightly depending on the type of development (residential or commercial). Other development cost allowances for residential scenarios are as follows:

Professional fees: 10% of build cost (8% on the 500 dwellings scenario)

Contingency: 5%

Site Acquisition Fees: 0.75% agent's fees
0.75% legal fees
Standard rate (HMRC scale) for Stamp Duty Land Tax

Finance: 6% interest rate (assumes scheme is debt funded)
Arrangement fee variable

Marketing & sale costs: 3.0% GDV
£750 per unit legal fees

Developer Profit: Open Market Housing – 17.5 - 20% GDV

2.8 Other development Costs – Fees, Finance & Profit (Commercial)

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

Professional and other fees: 12% of build cost

Site Acquisition Fees: 1.0% agent's fees
0.75% legal fees
Standard rate (HMRC scale) for Stamp Duty land Tax

Finance: 6.5% interest rate (assumes scheme is debt funded)
Arrangement fee variable

Marketing costs: 10% letting / management fees (% of annual income)
0.75% letting legal fees
5.75% purchaser's costs

Developer Profit: 20% of GDV

2.9 Build Period

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

Figure 10: Build period

Scenario Type	Build Period (months)
1 Unit Housing Schemes	6
5 Unit Housing Scheme	6
10 Unit Housing Scheme	9
25 Unit Mixed Housing Scheme	12
100 Unit Mixed Housing Scheme	24
Large Retail	9-12
Small Retail	6
Business - Town Centre Offices	18
Business - Business Park Offices	18
Students' accommodation	18
Industrial (small)	6.5
Industrial / Warehousing (larger)	8
Hotel	18
Care Home	12
Institutional / Community / Health	7.5
Leisure	12

2.10 Planning obligations - s.106 costs

2.10.1 An ongoing site specific s.106 allowance (financial contribution) has been factored into the appraisal assumptions as well (alongside affordable housing). On discussion with the Council it was considered that a number of existing planning obligation requirements would be taken up within the CIL proposals, but nevertheless that some site specific requirements (for example related to open space or potentially related to dedicated highways improvements / alterations or similar) could remain in some circumstances. For the 1 to 100 dwellings scenarios, the appraisals therefore included a notional sum of £1,000 per dwelling on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements.

2.10.2 In the case of the 500 dwellings scenario, the base assumption combined with the 82% / 18% tenure mix with social rented affordable housing was increased to a notional basis of £6,000 per dwelling (£3m across the scheme) after discussion with the Council based on the likelihood that significant sums would most likely still be required in such a case, but in the knowledge of the potential viability impacts of larger sums especially when viewed alongside the other relevant costs and obligations in that scenario. These sums were applied in the appraisals in addition to the trial CIL charging rates.

2.10.3 As we changed the rented affordable housing content to affordable rented tenure (from social rented), we found that we were able to increase the base s.106 assumption used alongside the CIL trial rates to £10,000 / dwelling. Tables 5, 6a and 6b within Appendix IIA indicates the various affordable housing, CIL and s.106 combination scenarios considered within the review of sensitivities; and begins to give a feel for the type of potential switches or “trade-offs” between various categories of obligations that might be considered; those are indicative and not exhaustive – they are aimed to further inform the Council’s thinking.

2.11 Indicative land value comparisons

2.11.1 As discussed previously (2.1.4 to 2.1.6), in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the results of the development appraisals (the RLVs) and some level of benchmark or comparative land value. As suitable context for a high level review of this nature, DSP’s practice is to compare the wide range of appraisal RLV results with a variety of land value indications. This allows us to consider a wide range of potential scenarios and outcomes, and the viability trends that are seen across those.

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

2.11.3 Alongside information sourced from the VOA, previous research / studies provided by the Council, and other web-based resources such as EGi, we sought to find examples of recent land transactions locally. Very little firm information was available locally to inform these land value comparison levels. As shown in the footnotes to the Appendix IIA and B results summaries tables, each of the RLV results is compared to a range of land value levels representing the selected assumptions on land values for sites of varying types (greenfield at £250,000 - £500,000 / ha; PDL at £600,000 - £1,200,00 / ha). In the course of reviewing results, some greenfield comparisons (potential greenfield enhancement values) were also considered at a mid-range £350,000 / ha. That was not seen to very significantly affect the tone of results, whilst a target figure of £500,000/ha (the upper-end Greenfield enhancement comparison level) is seen from the Appendix II tables to have a marked effect on the planning obligations delivery scope in comparison with the lower levels. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will in practice be variable. These indications are purely for the study purposes of providing context for the RLV results and enabling us to make comparisons to assess how the many assumptions variations tested (for example on affordable housing and trial CIL charging rates) affect the likely viability outcomes.

2.11.4 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report; with data provided only for limited areas (Bristol and Plymouth Cities) within the latest (January 2011) report. However, the July 2009 report provides a range of values for industrial land for the South West and the January 2011 report indicates that commercial market had changed little in between. Other information has been sourced from existing research and examples as far as possible, together with general indications and responses as were otherwise available.

2.11.5 As well as a level of value relating to an existing or alternative use driving a site's value, there may be an element of premium (an over-bid or incentive) required to enable the release of land for development. In our view, this would not apply, however, in situations where there is no established ready market for an existing or alternative use. The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that *'the rationale of the development appraisal process is to assess the residual land value that is likely to be*

generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development'. This benchmark is referred to as threshold land value in that example: 'Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely. Further it goes on to say that 'There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied'.

- 2.11.6 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.
- 2.11.7 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, landowners' expectations will need to be realistic.
- 2.11.8 Essentially this approach lead to the comparison of the RLV results in £s / ha (having taken into account all values and costs including varying levels of CIL) to a range of potential land values representing various greenfield and PDL (former commercial / residential) scenarios. The results summaries in the tables at Appendices IIA and IIB show the trends produced by these comparisons. Further information, as was available, is set out within the wider research as included at Appendix III. Section 3 follows – findings discussion.

3 Findings

3.1 Introduction

3.1.1 Results summaries are included at Appendix IIA (residential scenarios) and Appendix IIB (commercial / non-residential); in each case reflecting the scenarios outlined at Appendix I and discussed in this report. Within Appendices IIA and IIB there are different tables according to the type of host site assumed for the scenarios and bearing in mind the variables / dynamics discussed for example at 2.1.4 within the methodology section – e.g. greenfield, PDL (e.g. former commercial / residential). In the case of the commercial results, there are 2 sets covering alternative yield views of 6.5% (on retail and hotel uses) and 7.5% (on all uses); as discussed, in relation to exploring the sensitivity of the results to these factors and again bearing in mind that especially on the retail scenarios, lower yields that are significantly more positive for the capitalisation of rents could be seen.

3.1.2 In summary Appendix IIA and IIB results tables show:

- Left side columns: Scheme scenario (dwelling numbers / scenario type, value level (VL) and density / coverage). Under each commercial scheme type: Increasing value level (GDV) – L (low); M (Medium); High (H). The 'M' value levels are considered the key area regarding a current balanced interpretation of assumptions and results, 'L' and 'H' looking at the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements.
- Left hand side of main table area (non colour-shaded): RLV appraisal results expressed in £s).
- Right hand side of main table area (colour shaded): RLV appraisal results expressed in £s per Ha equivalent, given the assumed scenarios on type, density / coverage, etc.
 - Within each of those sections the coloured cells (see below) are the key areas in terms of reviewing trends. The trial CIL rates – in £s per

sq m are shown across the top row - applied as a key part of the iterative process of exploring the affect on likely viability (or risk to the scheme proceeding) of those rates increasing. As discussed earlier, realistically this has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Providing these trial rates span a wide enough range and have small enough steps in between, the iterative process can be applied and considered successfully. We have considered rates of £0 to £140 / sq m for residential and commercial scenarios at £20 / sq m intervals.

- The colour coding provides a rough guide only to trends – helping to highlight the general results trends. Based on the accepted nature of such an exercise, i.e. not being an exact science, this must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs.
- Taking into account the above comments, the colours therefore indicate general trends as follows:
 - Green - Considered to be good viability prospects – increasing with the intensity of the green colouring.
 - Very pale green / off-white - Considered to be results which at best indicate marginal viability prospects.
 - Red – Negative RLVs and therefore poor viability outcomes – no to very low prospect of viable schemes unless special circumstances apply.

- Footnotes at the bottom – reminder of the range of indicative land value comparisons; bearing in mind the context and explanations provided in section 2.
- At tables 5, 6a and 6b, the expanded scenario testing and comparisons considered in respect of the 500 dwellings scenario (at VL2 as appropriate for example to the ‘Weston Villages’ / outer Weston-super-Mare). These tables provide information of the relationship between the varying affordable housing scenarios tested (social and affordable rent) and the potential links or “trade-offs” between CIL and s.106. Tables 6a and 6b indicate how those scenarios and considerations vary as the land value comparison / expectation moves from £250,000 / ha to £500,000 / ha (based on assumed net / developable area) given our acknowledgments that there are no fixed rules or guides on these aspects.

3.1.3 In addition, each results Appendix contains appraisal summary sheets, which display the key input areas, the relationship between those and the outputs (indicative RLVs) they produced (as transferred to the results tables discussed above). Bearing in mind the study purpose and nature, these are not the full appraisals, given the volume and added complexity of information that would involve displaying. They are intended to provide an overview of the main assumptions areas and the outcomes, and to further help an understanding of how the residual land valuation process has been used here.

3.1.4 On reviewing the results and the Council taking this further into the wider consideration of its preliminary draft charging schedule CIL rate(s) proposals, a number of key principles have been and are to be kept in mind – for example:

- a. The CIL rates should not be taken to their limits. Bearing in mind that in practice:
 - i. Costs will vary from these assumptions levels (build costs being a key example) – we have allowed appropriately and have not kept these to what might be minimum levels by any means. Some scope may be

needed where costs are higher, however, by reason of site specific abnormalities, increasing carbon reduction agenda requirements, etc.

- ii. Land owners' situations and requirements will vary. While, as stated, those will need to be realistic (and, as part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from existing or alternative uses in the prevailing market), they could be outside the ranges we have explored in making our overviews; including at higher levels.
- iii. The market remains uncertain and could continue to falter, including to an increased view (reducing sales volumes and further impacting on prices – directly impacting the GDV assumptions; hence the range of value levels explored for sensitivity).
- iv. Affordable housing provision (as has been assumed in accordance with Council Policy alongside the trial CIL rates) and other wider planning objectives such as sustainability remain key priorities of the Council. There is likely to be a need to prioritise planning objectives and obligations in some situations. HCA funding for affordable housing appears to be uncertain and is likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made.
- v. Developer's profit level (and related funders') requirements could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed. However, we felt it appropriate in particularly depressed commercial market conditions to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks. This, again, is part of setting assumptions which fit with arriving at a balanced approach overall; not looking to remove cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving correct in practice. All will vary, and so how they inter-act will too, when it comes to site specifics.

- b. The potential CIL charging rates need to be considered alongside other factors relevant to the locality and development plan (Core Strategy), for example regarding:
- i. Location and frequency of key parts of the local growth planning – considering where will development in the main be coming forward (in relation to the values patterns for example). In North Somerset’s case there is a considerable emphasis on the major growth proposals at ‘Weston Villages’ to the south of Weston-super-Mare.
 - ii. Types and frequency of schemes likely to be relevant; including accepting that in practice variation is very wide – particularly in the case of commercial / non-residential, where schemes could be seen in many shapes and sizes, uses and combinations of those, etc. However, it is necessary to consider the local relevance of those alongside their likely typical viability in terms of any scope to support viability. Focus needs to be on the main relevant types, given this is all about the development plan (adopted Core Strategy) delivery and the district as a whole.
 - iii. Respecting clear values patterns but also understanding that there are bound to be imperfections in defining any viability zones or similar for differential charging rates – in practice values can change over a very short distance (within schemes, different sides or ends of roads, with different aspects, school catchments, with other local variations, etc). A suitable overview needs to be made and the charging regime not made over-complicated by aiming to respect too many of these detailed aspects. It would not be possible to respect them all fully in any event.
 - iv. Understanding that some schemes may not be able to support the collective requirements, but looking at the bigger – district-wide – picture.

- v. On the flip-side, also understanding that some schemes / scheme types may in theory have been able to fund a greater level of contribution than the recommended levels (and / or greater levels of other obligations) – in the context of balance in setting levels and not adding undue risk to delivery which could fetter the promotion of local economic growth.
- vi. The variety of site types that is expected to come forward – it is appropriate to review the results scales in the context of a range of potential land value comparison levels. We do not consider it appropriate to rely on comparisons at a single land value level for each scenario, because development will come forward in various guises and on a range of site types over time. In assessing results it has been necessary to consider viability outcomes across the results sets and with various land value comparison levels.
- vii. The scale of local infrastructure needs and therefore likely funding gap in assessing the balance. This is large here; meaning that the Council does need to look quite hard at securing a significant but realistic level of funding through CIL as a key ingredient of the overall initiatives to secure local infrastructure provision.
- viii. The collection of CIL payments from net new development – in practice a number of developments will entail some level of “netting-off” of existing floor space within the scheme-specific CIL charge calculations. This means that the CIL rate will not be applied to the full scale of new development in some cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will be a highly variable influence on scheme outcomes. So whilst in practice this principle could have a positive effect on viability compared with our assumptions, this is not assumed or relied-upon in any way in our consideration of CIL charging rates. Where this principle is relevant, any refurbishment costs may also be relevant to overall viability calculations on site specifics.

- 3.1.5 In-line with the broad overview nature of this assessment, the results are highly variable. The information provided here is to be used as a viability health-check from a strategic perspective alongside the Council's wider work on, and consideration of, a range of other information and factors relevant to implementing the CIL.
- 3.1.6 This all links to avoiding 'setting a charge right up to the margin of economic viability'² in accordance with the tone of the Government (CLG) guidance. Local ('charging') authorities have significant scope to consider exactly how they will assess and arrive at the right balance in a particular area.
- 3.1.7 A common theme running through all of the results (commercial and residential) is that they are highly sensitive to varied appraisal inputs and the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumption areas can have a significant effect on the result.
- 3.1.8 This assessment process explores the degree to which changes in key assumptions produce varying results. In this way it is not a specific valuation exercise (it cannot be) but it has enabled us to consider the likelihood of a wide range of potential CIL charging rates being achievable and suitable. In the case of poor viability results (i.e. showing no or low viability prospects), this included looking at the extent to which assumptions would need to vary (improve in favour of viability) to make those suitable approaches as a sustainable CIL levels. The opposite was considered for scenarios with good viability prospects (i.e. the potential leeway for a decrease of those outcomes in the event of appraisal inputs moving against viability). In each of these cases we considered whether those sensitivities amounted to realistic scenarios or not, given what we can currently see of market conditions, etc.
- 3.1.9 Potentially there are almost infinite combinations of assumptions that could be worked through. Therefore it is important that an overview is made. The overview produces results trends so that it is also possible to consider what type of outcomes would be found between the points (appraisal assumptions combinations) that have been appraised.

² DCLG – Community Infrastructure Levy Guidance – Charge Setting and Charging Schedule Procedures (March 2010)

3.1.10 Ultimately there will be no getting away from the reality of a range of outcomes, within and potentially outside the scope of the appraisal inputs we have used. There may be cases where specific developments are unable to bear some or all of the additional cost of CIL (in the same way that is sometimes seen with other obligations on a scheme). Such viability outcomes are unlikely to be a result of CIL charging alone, however, and may well also link with market conditions (arguably the biggest single factor) affordable housing, particular development costs (associated with the site, scheme design, construction or specification requirements) and wider planning objectives.

3.1.11 Usually, the collective costs impact on schemes will be relevant for consideration where viability issues arise, so that some level of prioritisation in other areas of the planning objectives may be required – bearing in mind that the CIL payments will be non-negotiable. The study has been carried out in accordance with the National Planning Policy Framework (NPPF) and these themes about taking account of collective costs are also referred to in the June 2012 ‘Viability Testing Local Plans’ document produced by the ‘Local Housing Delivery Group’.

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

- This is not just a North Somerset factor, but one that we firmly believe will have to be recognised in any similar assessment and practical implementation of the Government’s CIL regime – regardless of location.
- These characteristics would usually apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0) CIL rate. The overall results – see the coloured tables at Appendices IIA and IIB - include a range of unviable results in relation to particular scenarios and especially for some commercial development use types (including what amounts to negative CIL potential).

Values Patterns

3.1.13 In the assessment stages, pending completion of the values research we deferred the consideration of whether any sufficiently clear values patterns were evident for a reliable link with and driver for differential CIL charging rates for the district. We needed to consider whether a differential charging rates approach would be required owing to the variation in values and viability outcomes. The operation of CIL requires that any differential rates are viability led.

3.1.14 With reference to the research summarised at Appendix III, we found a range of clear and relatively consistent pointers to residential values variations and patterns in the district. Noting again that values always vary with in particular areas, these showed:

- a. Lower values in the inner urban area of Weston-super-Mare, compared with those typical of outer Weston-super-Mare (see the Council's map included at Appendix III). New builds even in low value areas have the potential to buck trends, but we would still expect to see the same general patterns as observed in the market overall. A clear case for differentiating between inner and outer Weston emerged.
- b. Typically increasing values moving away from Weston-super-Mare to most other parts of the district – including at the three other main settlements of Nailsea, Clevedon and Portishead which, overall, we found were likely to support reasonably consistent values at usually higher than Weston levels.
- c. Higher values still in many of the smaller settlements and rural areas, although on quite a variable basis. Given the variation seen outside the larger settlements and the smaller scale role for housing supply, however, DSP's initial view was consolidated - that any additional higher rate(s) would have limited relevance and add complication. Our thinking for the Council's consideration firmed-up on the basis of 3 differential rates – for inner Weston (1), outer Weston (2) and the rest of the District (3).

3.1.15 A similar process was considered with respect to commercial / non-residential schemes – i.e. whether or not there were any particular values patterns or distinct

scenarios that might influence the implementation of a charging schedule for the district.

3.1.16 Following review of the available commercial values information, it was decided that no clear patterns were seen; variations are more scheme specific. In our view the values are driven by the precise details and siting of schemes more so than influenced by the particular town or other location.

3.1.17 In practice, certain types of commercial development could occur across a wide range of locations within the District (for example smaller retail proposals – e.g. new convenience stores, care homes and similar proposals, hotels, small office developments).

3.1.18 Conversely, any out of town centre proposals such as for large format convenience retail / retail warehousing, larger scale office development and industrial / warehousing is likely to occur in a relatively limited range of locations between which it may well be difficult to distinguish values on general location (geographical area) alone.

3.1.19 Overall, following the consideration of options we are of the opinion that a clear district-wide application of the CIL by commercial / non-residential development use type will be most appropriate for North Somerset; as has been the case in several other local authority cases progressed to this extent to date. In summary, currently the only clear viability scope available to support CIL charging from commercial schemes is associated with retail development (particularly larger format retailing – convenience retailing in the form of superstores / supermarkets and comparison retailing in the form of retail warehousing).

3.1.20 Unlike with residential development in this district, our view is that no amount of attempted sensitivity to particular local value variations is likely to be capable of actually respecting the variations likely to be seen in practice; there are no clear broad patterns without this becoming very complicated. Higher and lower value commercial space of varying types could be delivered in each of the main towns and in other smaller settlements.

3.1.21 Notwithstanding this main finding, the Council may wish to consider the types of commercial development that could come forward within Weston-super-Mare town

centre (that are not permitted already) and how that picture affects the plan delivery if some schemes are rendered less viable (or more unviable) as a result of CIL charging.

3.1.22 In any event, the key variable characteristics associated with different types of development require an approach that moves away from a single CIL rate. Development use rather than locality should be the key driver for differential CIL charging on commercial scenarios.

3.1.23 Therefore the assessment outcomes will now be discussed by development type, starting with residential and then moving on to non-residential commercial / non-residential development scenarios.

3.2 Residential scenarios – Findings

3.2.1 The following is taken to include sheltered housing where the residents live in self-contained flats or similar, although they often have access to some level of support and facilities, potentially including communal areas (except where such housing is classified as affordable housing).

3.2.2 The relevance of the values range was outlined at 2.3.8 / Figure 6. Value Levels 1 to 4 represent the key scenarios representative of where most development will come forward and including Weston-super-Mare which we consider warrants differential CIL charging rates treatment. Above these value levels, typically the scenarios would be in the higher value villages – smaller settlements in the rural areas of the district. Within this VL 1 to 4 range, VL 1 best represents Weston-super-Mare town centre – ‘inner Weston’. VL 2 best represents ‘outer Weston’ including land allocated as the Weston Villages proposals.

3.2.3 Overall (district-wide) the parameters for suitable CIL charging rates for residential development are £0 - £60 / sq m. While it is possible to look at some results from higher end value scenarios and justify a higher rate for those, we consider that their relevance would not be significant enough to warrant a level of charge set above this range in any of the local circumstances. This is stated with the above points about balance in mind, and the need to recognise factors such as higher house prices tending to drive higher land price expectations.

- 3.2.4 Whilst a single District-wide (blanket type) approach could be taken – that is an option - we consider that there are sufficiently clear values patterns stemming from the varying characteristics in North Somerset to require and support a 3 zones charging zone approach; following the identified characteristics as explained above. Crucially, a district-wide charging rate would need to be set low enough to provide the right balance and sufficient flexibility for the Weston Villages delivery. This would restrict the identified charging scope for the rest of the district outside Weston-super-Mare and would also have effect of exacerbating the identified viability difficulties associated with the lower values and poor inherent scheme viability considered to be largely relevant in central Weston.
- 3.2.5 A single rate would need to be set at no more than say £30 – 40 / sq m, but we consider that would impact negatively in inner Weston.
- 3.2.6 As above, there will be lower value schemes and localities where developments struggle in viability terms, even without any significant CIL contribution. So far as we can see, no lower level set for CIL could ensure the deliverability of all these individual schemes on a reliable basis; or make sure that some levels of CIL were always collectable. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. These are not just North Somerset factors; we find them in much of our wider viability work.
- 3.2.7 Associated with this, we think it will be necessary to monitor outcomes annually as part of the Council's normal monitoring processes, with a view to informing any potential / necessary review in perhaps 2-3 or more years time as other policy developments take place. Review may also be triggered in response to market and costs movements and to other key viability influences that emerge over time. These might include any significant developments in the Government's approach to climate change and sustainable construction.
- 3.2.8 The results of the residential appraisals are typically most sensitive to the value levels assumed for the market housing that drive scheme viability. Other factors which can also have a significant effect on viability outcomes are:
- Scheme density – linked to land take (site area occupied) and the land value requirement / expectation.

- Build costs – generally, but including related to sustainable design and construction.
- Other costs side influences – profit levels, finance, fees, etc.
- Any abnormal development costs.

3.3 Commercial / Non-Residential Findings

- 3.3.1 As would be expected, the commercial appraisal findings are also very wide ranging. Whilst these are certainly sensitive to the annual rental value estimates used and these two factors cannot be separated, clearly they are highly sensitive to variation in the yield assumed - which in essence is reflected through significant changes to the rental multiplier (rental capitalisation rate – i.e. ‘Years Purchase’ – ‘YP’) for example from an apparently small change (say +/- 0.5%) to the yield assumption. Across the range of trial scenarios, an increasing yield % has the effect of reducing the RLV and therefore reducing the viability outcome (with other assumptions unchanged). An increasing rent and / or reducing yield % has the effect of increasing the RLV and therefore improving the viability outcome.
- 3.3.2 For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield as presenting a view of sample ranges within which capitalised net rents could fall. In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from negative outcomes (meaning very limited or nil CIL scope) to those which produce meaningful and in some cases considerable CIL scope. To illustrate the trends we see, the coloured tables in Appendix IIB use the same “coding” principles as the residential results tables (strengthening green colour shading indicating good prospects of viable schemes through to red indicating no or very limited viability prospects at best).
- 3.3.3 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; very much the equivalent of residential scheme density. This can affect results considerably, combined with the land buy-in cost for the scheme. We saw the effect these factors with residential too.

3.3.4 Factors such as build costs clearly have an impact too, but for the given scheme scenarios are not likely to vary to an extent which makes this a more significant single driver of results than the values influences (rents and yields) outlined above. In practice, it will be the interaction of actual appraisal inputs (rather than these high level assessment assumptions) that determines specific outcomes. There are some commercial use types where build costs, or build and other development costs, will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development.

3.3.5 We will now summarise the assessment findings for the commercial uses (development scenarios) considered, bearing in mind that scheme types will be highly variable.

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

3.4.1 In general, we saw good viability indications – viable or potentially viable outcomes for the retail scenarios we ran, based on the range of assumptions applied. These schemes showed the best viability outcomes from the wide range seen; including residential in many cases. The RLVs were shown in many cases to better or significantly better the range of PDL land value comparisons used, so that in the local context land values of say £1 – 2m+/ha depending on assumptions would be expected to be highly competitive and to out-bid many alternative use scenarios; so that relatively high land value expectations often associated with retail schemes should be met. As a high level outcome, this is consistent with our previous and wider work on CIL viability, as well as findings by other consultants. This tone of results is shown by the largely green-coloured cells (as a guide only) in the Appendix IIB results summary tables (using this measure of potential CIL scope up to £140 / sq m; and well beyond that level given the theoretical maximum CIL rate levels shown in some circumstances).

3.4.2 We consider that the CIL charging rate for the larger retail type (supermarkets and retail warehousing) certainly could be taken up to around £125 / sq m and potentially higher, but that in finding the right balance, the Council should consider not taking rates higher than this because varied outcomes are possible in North Somerset, as the results indicate. The Council should not pursue CIL charging rates set further

towards the very high theoretical maximums indicated. Behind this, the prospect that relatively high land values may be associated with this form of development need to be kept in mind, together with the significant overall development costs. Having said this, we discussed at 2.4.2 what we consider to be our fairly prudent use of rental yield assumptions, as experience shows that in many cases we might expect to see significantly stronger capitalisation of the rents than assumed here – this represents an area of “cushioning” within the appraisals and their outcomes. Overall, rates of £100 - £120 / sq m could be considered, being further within our recommendations scope for increased “buffering”, and in any event we suggest a rate of not more than £125 / sq m for the larger retail types as envisaged in this district. While higher rates could be justified, we consider that rates of this order would strike an appropriate balance.

- 3.4.3 We also considered an intermediate sized supermarket (of 1,300 sq m) in the background to seeking a relatively simple overall approach to retail, but were unable to distinguish that, at this level of review, from the larger supermarket in likely viability terms. We have therefore not reported that particular variation in detail. Through a number of CIL viability studies we have formed the view that varying floor area (specifically) in itself is not a determinant of viability until it falls beneath the Sunday Trading threshold of 3,000 sq / approx. 280 sq m of trading space which means that it has different characteristics – in our view it then becomes a different development use, which serves a different market and purpose; and supports different viability outcomes by virtue of the different type of location, premises and sites that it occupies typically. This thinking builds on the understanding we developed for Portsmouth City Council’s and Wycombe District Council’s CILs; as accepted by the Examination Inspectors in those cases.
- 3.4.4 We explored the sensitivity of this small convenience store development use type to varied size (floor area). Since this would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see significantly altering viability prospects as we altered its floor area. Figure 11 below summarises what happened to our base appraisal outcome for the small retail unit at 310 sq m (gross) with 7.5% yield, medium value (£140/sq m rent) £0 CIL starting point test:

Figure 11: Small retail unit sensitivity trials to floor area change:

Gross floor area	Net floor area (sales)	Site size - rounded (60% coverage maintained)	Land value (RLV) indication / Ha
310	280	0.05	£1,274,420
350	315	0.06	£1,193,301
400	360	0.07	£1,166,962
450	405	0.08	£1,147,207

3.4.5 The RLV remains around £1.2m/ha and in fact is most sensitive to the assumed detail on site coverage and therefore the (rounded, as viewed above in Figure 11) site size. As an example of the greater effect of that variable (compared with the effect from the specific unit floor area) if we do not round the assumed site size for the 450 sq m unit test above, then that site size is 0.075 Ha; assuming instead a 0.07 Ha site then the land value is viewed as £1,324,997/Ha. At 0.075Ha for the site, the land value is viewed as £1,236,664/Ha; a very similar figure to the starting point with the 310 sq m unit. The same is true at other points where the site size rounding shown above affects the viewing of the land value so that the result is again not varying greatly in terms of the rate at which value is generated. For example the non-rounded site area on the assumptions used for the 350 sq m unit is 0.0583Ha; the use of that actual figure shows the land value then displayed as £1,228,097/Ha. A series of other tests within / around this bracket would show similar results, unless the use and unit type (and therefore the value generated and build costs etc) altered. A higher floor area threshold does not alter the outcome materially until a different use type is assumed.

3.4.6 This means that the outcomes for this scenario (as for many others, such as Business space) are not dependent only on the specific size of unit around the floor area variations likely to be relevant. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where we find that relationship is usually not as positive as it is in respect of larger convenience stores which provide a different offer and clearly are found on different sites. Specific floor area will not produce a different nature of use and value / cost relationship, unless it relates to something such as the Sunday trading scenario that drives other considerations.

- 3.4.7 So as in other areas that we have dealt with, we consider that creating a link with the scale of sales floor space associated with the Sunday Trading provisions may be the most appropriate threshold for any differentiation between CIL charging rates for retail development. This means the overall unit size (which could vary greatly with ancillary and other space included) would not necessarily need to be determined as the key factor in differentiating for this scheme type. On this occasion a total floor area of 310 sq m has been appraised as the base position for this development use.
- 3.4.8 Whilst on the face of it the rate at which they potentially create land value appears similar to the larger convenience retail format (superstore / supermarket), the actual sums of money available for land purchase can become relatively small, particularly if the CIL rate assumed too high a rate. It is also likely that, where these schemes come forward, that could be often on previously developed land; or be associated with mixed uses whereby there will need to be a positive contribution to overall viability (potentially as part of supporting other non-viable or less viable uses as part of neighbourhood centre developments, etc). At the very least, the scenario would need to avoid being too much of a drag on the viability of mixed-use proposals.
- 3.4.9 Overall, we consider that a charging rate set at around half of the large format retail rate would be appropriate. It seems possible to justify more, but again we would question whether that would begin to add an undue effect on likely viability. On balance, and relative to the parameters at 3.4.2 for larger retail, we recommend that the Council considers a CIL charging rate of no more than £50 – 60 / sq m for small convenience and all other retail scenarios; and this does not have to link to a specific floor area size from a viability viewpoint. A use-type description and threshold related to the Sunday Trading provisions would provide a clear, practical approach and is justified on viability grounds.
- 3.4.10 We are envisaging the principally relevant form of development here being new convenience stores. We consider that it is widely recognised in the retail industry that small convenience stores are different in terms of their markets, their type of operation and size to supermarkets / superstores (or 'one stop shops').
- 3.4.11 DSP is aware of wider information that supports our approach to seeking to describe and consider different retail scenarios in the absence of CIL guidance on this aspect.

The Competition Commission and the Office for Fair Trading³ have typically distinguished three different categories of grocery retail shopping:

- 'One stop shops' – over 1,400 sq m
- 'Mid-range store's – between 280 sq m and 1,400 sq m
- 'Convenience stores' – less than 280 sq m

3.4.12 In representations to a retail mergers report by the Competition Commission⁴, the Association of Convenience Stores (ACS) state that 'the normal industry definition of a convenience store was below 280 sq metres (3,000 sq feet)'.

3.4.13 In a report⁵ primarily dealing with mid-range or secondary shopping, the Competition Commission consider that one-stop shops and mid-range stores (all stores of 280 sq m and above) are competitors in the same market for secondary shopping.

3.4.14 The Competition Commission do not regard convenience stores of this type as offering effective competition to mid-range stores primarily because of the very narrow range of goods on offer in convenience stores and the fact that a large proportion of shopping in convenience stores is characterised by impulse or distress purchases. (This refers to the small convenience store format – our clarification).

3.4.15 The fact that mid-range stores and larger superstores operate in the same market (for secondary shopping) is backed up by our assessment which considered the intermediate sized units on a trial basis but did not find distinguishable differences in viability terms between those and the larger supermarket scenarios. The evidence available indicates that 280 sq m is an appropriate threshold consistent with the distinguishable difference in markets, use and viability.

3.4.16 In the background to this recommended viability distinction, it is also likely that a less favourable rental capitalisation rate (higher yield) would be applied to smaller retail units such as these. This is a variable factor, but it may reinforce the different nature of the value levels available to outweigh the development costs. We can see also that most of the theoretical maximum CIL rates are notably lower than those indicated for the large retail scenarios.

³ The grocery market: the OFT's reasons for making a reference to the Competition Commission. London: Office for Fair Trading, 2006.

⁴ Safeway plc and Asda Group Limited (owned by Wal-Mart Stores Inc); Wm Morrison Supermarkets PLC; J Sainsbury plc; and Tesco plc: A report on the mergers in contemplation, Competition Commission 2003

⁵ A report on the acquisition by Somerfield plc of 115 stores from Wm Morrison Supermarkets plc. London: Competition Commission, 2005

3.4.17 Since it is likely that the Council will need to use a combination of a description (in words) and accompanying unit size threshold (to add clarity to the distinction) the outcome at Wycombe District Council could be of interest to the Council. There the Council offered to the CIL Examination process some additional wording to clarify what it meant by the clearly differing retail formats under consideration. In that case, the Council put forward wording and the Inspector recommended its inclusion (by way of footnotes to assist the Council's Charging Schedule definitions), as follows:

- *'Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.'*
- *'Retail warehouses are 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.'*

(Source: Planning Inspectorate Report to Wycombe District Council 10 September 2012)

3.4.18 While we understand the prospect of new comparison shopping units to be very limited in planning and economic terms in the coming few years, we consider that – should that form of development come forward – it would be appropriate to link that to a similar level of CIL charging; rather than the higher (larger retail) rate. This could be relevant in parades / any neighbourhood centres.

3.4.19 There are a range of retail related uses, such as motor sales units and retail warehousing / wholesale type clubs / businesses, which may also be seen in the district, albeit possibly not regularly. Whilst it is not possible to cover all eventualities, and that is not the intention of CIL by our understanding, we consider that it would be appropriate in viability terms to relate these to the lower CIL rate for retail; particularly in preference to aligning them with usually less viable prospects (those with lower value levels to support development costs), as will now be discussed.

3.4.20 We assume that new fast food outlets, e.g. as part of retail developments, would be treated as part of the retail scheme and (from our wider research) with values per sq m at broadly similar to supermarket levels this would be an appropriate outcome.

3.4.21 Other uses under the umbrella of retail would be treated similarly. Individual units would be charged according to their size as per the potential dual retail rate scenario put forward above.

**3.5 Business Development –
Office / Industrial / Warehousing scenarios (Use Classes B1, B1a, B2, B8)**

3.5.1 In terms of likely scheme viability, these are simpler to discuss than retail. Whilst again proposals could be highly variable in nature, the results convincingly show that there is no foreseeable scope for any meaningful level of CIL charge to be made applicable to such schemes in North Somerset.

3.5.2 These results indicate that only with the most optimistic capitalised rental scenarios (yield and annual rent assumptions combinations), higher density (site coverage) and / or lower land value expectations do we see marginally viable schemes; but then with little room for manoeuvre as seen through the low CIL charging rates only possible even with a range of those ingredients in place.

3.5.3 We consider that the collective assumptions need to be moved to points that are too optimistic in order to create meaningful CIL scope at the current time and in the foreseeable future.

3.5.4 The industrial unit type scenarios reviewed produced worse results on the basis of the assumptions applied. Again, we do not think it appropriate to assume a sufficiently significant appraisal improvement – a positive CIL charging rate cannot be supported in viability terms.

3.5.5 As such, we have not considered it appropriate or necessary to further explore where the potentially workable scenarios may lie in terms of wider views of assumptions. In practice, we could also see less favourable yield and rental combinations than those we have reviewed. We would certainly not want to assume more favourable rental capitalisation than from a 6.5 – 7.5% yield for these scheme types in the current ongoing climate of economic uncertainty. The results at 6.5% for offices and 7.5% for industrial were poor. We consider that those initial test yield assumptions could not get more optimistic in the circumstances; the results would deteriorate from the low levels seen if higher yield percentages (lower rental capitalisation) were applied.

- 3.5.6 Any funding yield benefits from seeking the collection of a nominal / modest level of CIL charge would in our view be far outweighed by the likely additional risk placed upon these forms of development through additional costs.
- 3.5.7 The red-coloured results sections within Appendix IIB serve to highlight the poor outcomes from the appraisal of these scenarios.
- 3.5.8 In summary, we recommend that a zero (£0) CIL charging rate be considered for these use types.

3.6 Hotels

- 3.6.1 The hotel scenarios reviewed represent a range of outcomes that are again very sensitive to the capitalised rental assumptions (varying combinations of annual rentals and yields) driving the appraisals.
- 3.6.2 Whilst we consider that the 6.5% yield test scenarios could well be more or as relevant to this development type as those run at a 7.5% yield trial, we still see a range of poor outcomes across our scenarios.
- 3.6.3 Bearing in mind the Council will need to consider the likelihood of further development of this type occurring in the coming few years balanced against the potential to add further risk to its delivery, we recommend that at the current point a zero (£0) charging rate be considered for this use type. In looking for the right balance on this development use, it appears that the likely limited CIL yield (contribution to funding gap) potential would not outweigh the added risk to the viability of any new build / extension proposals for hotel use.

3.7 Students' accommodation (halls of residence and similar)

- 3.7.1 This test scenario, added subsequent to the main commercial use scenarios being considered, assumed 250 units totaling 3,600 sq m within a 4,000sq m (gross) building, probably of 3 stories.
- 3.7.2 This appraisal allowed us to include what we considered to be full levels cost. With the assumed rental income capitalised based on a 7% yield, and costs assumptions as

outlined in section 2, this scenario produced an RLV of just over £236,000 for the assumed circa 0.5Ha site; equating to about £583,000/Ha (in excess of our upper level Greenfield enhancement land value (£500,000/Ha) and at around our lower end PDL comparison value (£600,000/Ha). In a range of relevant circumstances locally, this could produce workable scenarios.

- 3.7.3 As during our wider research (rather than based on locally available examples), we found pointers to yield assumptions as low as 4.8% for this development use, although most likely not relevant re Weston-super-Mare at those levels, we also ran this scenario at a 6.5% yield assumption. This further trial added approx. £0.8m to the capital value; about £0.5m of which showed through to a greatly improved land value of about £727,000 for the same 0.5Ha site with same development costs. Alternatively, this appraisal would allow us to reduce the income side (students' weekly rents or occupation levels) to some extent and still produce a reasonably healthy looking land value in the local context.

3.8 Residential Institutions – Care Homes (C2)

- 3.8.1 Since proposals falling under this category could again be highly variable in nature, we focussed our review on a notional Care Home scenario at this stage.
- 3.8.2 We have not been able to identify or been provided with any recent development examples or other comparables / guides as to likely financial assumptions associated with this form of development in the district. In the absence of available information, it has been necessary to consider this use type at high level by reference to the level of current and emerging activity in North Somerset in this sector; as per information provided to us by the Council.
- 3.8.3 The level of activity indicates market interest in and commitment to the sector (for class C2 uses) locally. There have been a number of proposals, including for new-builds and extensions, over the last 2 to 3 years even when property market conditions have been difficult. The Council's records indicate that there have been 12 applications associated with new-build or large-scale extensions to C2 care homes since 2008.

- 3.8.4 It appeared to us that appraisal results for this use could be highly variable and highly dependent upon the particular assumptions selected.
- 3.8.5 The Council could consider whether or not marginal added risk (from CIL) to viability is likely to have any plan delivery significance (i.e. whether reduced viability / exacerbated non-viability in certain circumstances would be prejudicial to the delivery of the Core Strategy overall), since we understand that the support of / planned growth in this form of development is not a theme of the Core Strategy.
- 3.8.6 In-line with the proposals suggested for the intermediate residential rate (as would also apply to sheltered housing) and for student housing, consideration of a charging rate of not more than £40/sq m is put forward as an option for consultation purposes.

3.9 Other uses – including community uses

- 3.9.1 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).
- 3.9.2 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that the even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.
- 3.9.3 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of “lost opportunity” as regards CIL funding scope. We consider

that many of these uses would more frequently occupy existing / refurbished / adapted premises.

- 3.9.4 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL scope.
- 3.9.5 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.
- 3.9.6 In any event, from our viability perspective, a zero (£0) CIL rate is recommended in these instances.
- 3.9.7 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from local entries in the VOA’s Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are no dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).
- 3.9.8 Figure 12 below provides purely illustrative examples of the review of relationship between values and costs in a range of these other scenarios. This is not an exhaustive list by any mean, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and complication in the local CIL regime.

Figure 12: Other development uses – example value/cost relationships

Example development use type	Annual rental value £ / sq m	Indicative capital value £/sq m <u>rough guide</u> prior to all costs allowances (based on assumed 10% yield for illustrative purposes - unless stated otherwise)	Indicative base build cost - BCIS (Somerset; excluding external works, fees, contingencies, sustainability additions, etc).	Viability prospects and Notes
Community centres, community halls, clubs and similar	£10 - 40	£100 - 400	£934 - 1,610 (General purpose halls, Community centres)	Clear lack of development viability
Workshops & depots	£40 – 75 (max £125)	£400 – 750 (max £1250)	£682 (Builders yards, highways depots and similar)	Similar to low grade industrial (B uses) – costs generally exceed values
Storage – e.g. on farms / other	£30 - 90	£300 - 900	£366 - £717 (Agricultural storage, cold storage, purpose built warehouse)	As above – assumed B type uses. Costs generally exceed values. No evidence in support of regular viability.
Surgeries / similar	£90 - 185	£900 – 1850	£1,172 – 1,408 (Health centres, clinics, group practice surgeries).	Insufficient viability to clearly outweigh costs on a reliable basis.

Day nurseries / play centres / out of school clubs	£80 - 125	£800 - 1250	£1,313 – 1,395	
Leisure – other cinema / casino	£115 - £125	£1533 (@7.5% yield)	£1,005 - £1,415	Costs often outweigh values. Likely marginal development viability at best. No evidence in support of regular viability.
Leisure – private health / fitness	£120	£1600 (@7.5%yield)	£1,538 (Gymnasia, fitness centres etc)	

3.9.9 With the exception of retail linked uses, such as mentioned at 3.4.16 above, our recommendation is for the Council to consider a zero (£0) CIL rate in respect of a range of other uses. As in other cases, this could be reviewed in response to monitoring information. Our over-riding view is that the frequency of other new build scenarios that could support meaningful CIL scope is likely to be very limited.

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

3.10 Considering other measures and modes of review – wider context for CIL rate setting

3.10.1 To further inform the Council’s rate setting and potential CIL “yield” considerations, we have considered the range of potential CIL “trial rates” that have been viability tested in terms of their proportion of completed development value.

3.10.2 The following indications (contained with the tables at Figures 13 and 14) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered them at a selection of

the potential CIL (trial) rates tested for viability. The values assumptions used to calculate the following proportions are as assumed within the study.

Figure 13: CIL charging trial rates as % of Gross Development Value – Residential

CIL Charge (£ / sq m)	Value Level					
	1	2	3	4	5	6
	£1,700	£2,000	£2,300	£2,600	£2,900	£3,200
£20	1.2%	1%	0.87%	0.77%	0.69%	0.63%
£40	2.4%	2%	1.74%	1.54%	1.38%	1.25%
£60	3.6%	3%	2.61%	2.31%	2.07%	1.88%
£80	4.8%	4%	3.48%	3.08%	2.76%	2.5%
£100	6%	5%	4.35%	3.85%	3.45%	3.13%
£120	7.2%	6%	5.22%	4.62%	4.14%	3.80%
£140	8.4%	7%	6.10%	5.40%	4.83%	4.38%

Figure 14: CIL charging trial rates as % of Gross Development Value – Commercial

Scheme Type	Yield / Capitalised Rental Value (£ / sq m)					
	7.50% Yield			6.50% Yield		
	L	M	H	L	M	H
Large Retail - Supermarket	£2,667	£3,067	£3,467	£3,077	£3,538	£4,000
Large Retail – Retail Warehouse	£1,600	£2,000	£2,400	£1,846	£2,307	£2,768
Small Retail – convenience (and other related, comparison, A1-A5)	£1,467	£1,867	£2,267	£1,692	£2,154	£2,615

Scheme Type	CIL Rate (£ / sq m)	7.50% Yield			6.5% Yield		
		Low	Med	High	Low	Med	High
Large Retail - Supermarket	£20	0.75%	0.65%	0.58%	0.65%	0.57%	0.50%
	£40	1.50%	1.30%	1.15%	1.30%	1.13%	1.00%
	£60	2.25%	1.96%	1.73%	1.95%	1.70%	1.50%
	£80	3.00%	2.61%	2.31%	2.60%	2.26%	2.00%
	£100	3.75%	3.26%	2.88%	3.25%	2.83%	2.50%
	£120	4.50%	3.91%	3.46%	3.90%	3.39%	3.00%
	£140	5.25%	4.57%	4.04%	4.55%	3.96%	3.50%
Large Retail - Retail Warehouse	£20	1.25%	1.00%	0.83%	1.08%	0.86%	0.72%
	£40	2.50%	2.00%	1.66%	2.16%	1.72%	1.44%
	£60	3.75%	3.00%	2.50%	3.25%	2.60%	2.17%
	£80	5.00%	4.00%	3.33%	4.33%	3.47%	2.89%
	£100	6.25%	5.00%	4.17%	5.42%	4.33%	3.61%
	£120	7.50%	6.00%	5.00%	6.5%	5.20%	4.33%
	£140	8.75%	7.00%	5.83%	7.58%	6.07%	5.06%
Small Retail - convenience (and other related, comparison, A1-A5)	£20	1.36%	1.07%	0.88%	1.18%	0.93%	0.76%
	£40	2.73%	2.14%	1.76%	2.36%	1.86%	1.53%
	£60	4.09%	3.21%	2.65%	3.55%	2.79%	2.29%
	£80	5.45%	4.29%	3.53%	4.73%	3.71%	3.06%
	£100	6.82%	5.36%	4.41%	5.91%	4.64%	3.82%
	£120	8.18%	6.43%	5.29%	7.09%	5.57%	4.59%
	£140	9.55%	7.50%	6.18%	8.27%	6.50%	5.35%

3.11 Summary – CIL rates and other recommendations

3.11.1 In summary, from a viability point of view we recommend the following parameters for consideration by the District Council in taking forward the setting of a draft CIL charging schedule:

A. Residential

Recommendation:

To consider an approach incorporating 3 differential rates:

1 - £0 / sq m Weston central ('inner Weston')

2 - £40 / sq m – Outer Weston including Weston Villages proposals

3 - £60 / sq m – rest of district (including Nailsea, Clevedon, Portishead and all other settlements / areas of the district).

In all cases applied also to sheltered housing proposals (C3), except where such proposals take the form of affordable housing provision.

See map within Appendix III and to be included with the Council's PDCS (Alternative: single district wide rate not exceeding £40 / sq m but noted to be a low rate in comparison to 3 above and potentially prejudicial to development in inner Weston).

B. Retail – large (supermarket / retail warehousing)

Recommendation:

Although a higher rate might be justified, to consider setting this at **no more than £125 / sq m**. Suggested for potential consideration offering further buffering within this: a rate of £100 - £120 / sq m.

C. Retail – smaller - principally convenience stores but also applicable to all other categories including A1-A5, comparison shopping and retail linked (e.g. motor sales, retail warehousing/wholesaling clubs)

Recommendation:

To consider a rate at approximately half the large format retail rate – suggested at **not exceeding £50 -60 / sq m.**

D. Business Development - Office and Industrial (B1, B1a, B2, B8)***Recommendation:***

To consider a **zero rate (£0 / sq m).**

E. Students' accommodation (Halls of residence or similar)***Recommendation:***

To consider a rate aligned to intermediate level rate for residential (not exceeding £40/sq m).

F. Care Homes***Recommendation:***

To consider alignment to intermediate residential and students' accommodation rates for consultation purposes (not exceeding £40/sq m).

G. Hotels***Recommendation:***

To consider a zero rate (£0 / sq m) on balance in preference to a low / nominal rate.

(Alternative: nominal / low CIL rate, but added risk to delivery in viability terms and sensitivity of any marginal outcomes).

H. Community and other uses***Recommendation:***

To consider a zero rate (£0 / sq m) on balance in preference to a low / nominal rate.

(Alternative: nominal / low CIL rate, but noting the likely frequency of non-viable scenarios and sensitivity of any marginal outcomes).

I. All other / non-specified uses

Recommendation:

The Council should consider whether to propose a nil (£0 / sq m) CIL charging rate for non-specified uses, or to propose a low standard charging rate that could further reduce the viability of a wide range of scenarios. Overall, bearing in mind the poor relationship between development values and costs for many scenarios, our preference would be towards a nil rate at this initial implementation stage. Setting a low default charging rate may not be an issue in the event that those proposals are not key to the Council's Plan delivery so that the overall development of the area is not prejudiced as a result. However, the relatively limited additional CIL yield potential, the ad hoc nature of such development and the associated resourcing of such an approach probably outweigh the advantages of such an approach when viewed collectively. This, as with all other local charging regime aspects, could be reviewed in future as the CIL Charging Schedule is updated within the next few years.

3.11.2 ***Additional recommendation:*** As with all aspects of planning / related policy that impacts on development viability, **collective scheme costs will always need to be considered by the Council and planning applicants when it comes to considering the implications for actual schemes that will be highly variable in their specifics. Compromises and prioritisation may be necessary within some areas of the overall costs and obligations packages, as part of the usual adaptable, negotiated approach continuing alongside the CIL.**

3.11.3 ***Additional recommendation:*** We have set out parameters and options for the consideration of CIL charging rates, and these have been shared with the Council as emerging findings as part of the iterative approach as the study has developed. **In all respects, the selection of charging rates beneath the parameters that we have set out is within the scope of our viability recommendations** (rates beyond the levels put forward are outside the scope of our recommendations). As a part of this, the Council is able to consider how the collective burdens may impact, the interaction with varying affordable housing scenarios and other costs / obligations.

3.11.4 **Additional recommendation: To consider Monitoring and Review.** The DCLG Charge Setting Procedures (paragraph 75)⁶ state that: *'The Government has not specified a recommended lifetime for charging schedules and there is no requirement in the Act placing charging authorities under a duty to review their charging schedules. However, charging authorities are strongly encouraged to keep their charging schedules under review. This is important to ensure that CIL charges remain appropriate over time – for instance as market conditions change, and also so that they remain relevant to the gap in the funding for the infrastructure needed to support the development of their area. Although there is no fixed period or frequency for this we recommend that the Council begins to consider its more detailed implementation strategies around CIL, including how it will monitor and potentially review CIL collection and levels – informed by the experience of operating it in practice.'* (Italics section quoted from the CLG document)

3.11.5 The DCLG CIL Overview⁷ document (at paragraphs 19 and 20) touches on the intended open and transparent nature of the levy and in doing so states that charging authorities must prepare short monitoring reports each year.

3.11.6 **Additional recommendation: To implement such monitoring processes and use them to inform the future review of the local implementation of the CIL.**

Main text of Final study report ends (DSP v 10)
October 2012.

⁶ DCLG – Community Infrastructure Levy Guidance – Charge Setting and Charging Schedule Procedures (March 2010)

⁷ DCLG – The Community Infrastructure Levy - An Overview (May 2011)