

Stroud District Council

Community Infrastructure Levy Development Appraisal Study

Technical Report

August 2012

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A. Residential Development Appraisal Dataset

1 INTRODUCTION

BACKGROUND

- 1.1 Stroud District Council (SDC) appointed Christopher Marsh & Co Ltd in 2011 to prepare a Development Appraisal Study to underpin their approach to Community Infrastructure Levy, taking account of Affordable Housing Viability and all other financial variables.
- 1.2 It is intended that the Report will be published as part of the evidence base for the emerging Local Plan, which will replace the now expired District Plan 2005 (except for saved policies), and also in the light of the requirements of the Community Infrastructure Levy (CIL) (Amendment) Regulations 2011.

SCOPE OF THE STUDY

- 1.3 SDC is preparing a Local Plan as the principal document within the Local Development Framework and has considered alternative allocation strategies. The Preferred Strategy was presented for public consultation in 2012. The Gloucestershire Strategic Infrastructure Delivery Plan (SIDP) has informed that process but is not part of this Study which concentrates on financial viability and the impact of CIL on development viability.

The parallel approach being undertaken by Stroud DC is supported in paragraph 40 of the National Planning Policy Framework which states that *'where practicable Community Infrastructure Levy Charges should be worked up and tested alongside the Local Plan'*.

The CIL Regulations and National Policy Context

- 1.4 CIL was proposed by the previous Government (and has been endorsed by the present Government) as a fairer system for securing financial contributions from landowners and developers to the provision of community infrastructure by public bodies. It replaces what was seen as the inconsistent arrangements that local authorities had introduced to secure developer contributions using individual agreements and policies under s106 of the Town and Country Planning Act. It was (and remains) the Government's intention that CIL should be levied at a low rate but should apply to most forms of development across the country. It was hoped that it would become an 'invisible' levy that would not affect the viability of development, even in parts of the country where development values are low.

The draft CIL Regulations impose important restrictions on the ways in which CIL has to be set by charging authorities, such as Stroud DC. In particular:

- (i) Regulation 13 only allows a charging authority to set different CIL rates in defined different geographical zones and/or by reference to different 'intended uses of development'.
- (ii) Regulation 14 requires the charging authority to 'aim to strike ... an appropriate balance between' the objective of meeting the funding shortfall for infrastructure and the 'potential effects ... of the imposition of CIL on the economic viability of development across the area'.

Setting Reasonable CIL Rates

- 1.5 In practice therefore, the drafting of the Regulations mean that a single CIL rate has to be applied in each defined geographical area for each defined end use e.g. housing, industrial, etc.

The Preliminary Draft Charging Schedule has to be supported by relevant evidence, which Regulation 11 of the CIL Regulations defines as '*evidence which is readily available and has informedthe charging schedule*'.

The charging authority has to have reasonably robust evidence for defining the boundaries of, and any different rates to be applied to geographical areas. The most important evidence is the sales values of new development, such as open market private housing. Particularly in the last few years where rates of house building have been low and there is only limited up to date sales value evidence, this means that the charging authority will have little choice but to apply a single CIL rate to quite large geographical zones. Within each of these zones, there is likely to be some variation in housing sales values and CIL rates will have to be set to accommodate the average sales values in each geographical zone.

- 1.6 The purpose of this Study is to assess the viability of housing and commercial development in the District. It considers options for affordable housing policy so that the implications of these for CIL can be considered. The Council has asked for advice on the maximum and recommended levels of CIL on new developments that would allow the funding of infrastructure, without putting at risk the viability of development, including affordable housing, in Stroud DC.

CIL Exemptions

- 1.7 The CIL Regulations contain some exemptions from CIL, which were secured by lobbying by certain interest groups. Social housing and development by charitable bodies are the most important of these. The Regulations also restrict the use of s106 agreements, in particular, the 'pooling' of contributions to infrastructure from 2014 or after the adoption of CIL. The Council can also decide whether to allow Relief for Exceptional Circumstances under Regulation 55. Where Exceptional Circumstances Relief is considered for schemes, these proposals will need to be accompanied by a formal development appraisal valuation and be subject to a full third party evaluation.

Relief for Exceptional Circumstances allows a developer to claim, with appropriate evidence, that the level of CIL to be paid for a particular development would '*have an unacceptable effect on the economic viability*' of that development. The extent and

nature of that Relief is restricted by the Regulations. In particular, a precondition to any claim for relief, is that there is a s106 agreement in place, the value of which exceeds the value of the CIL which is payable for that development. The Council will also need to consider a range of other procedural provisions in the Regulations, such as the application of administration expenses, some of which will indirectly affect the economic viability of development.

Staged Payments

- 1.8 The regulations set out clear timescales for payment of CIL, which vary according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the Regulations allow local authorities to set their own timescales for the payment of CIL, if they choose to do so. This is an important issue that the Council will need to consider, as the timing of payment of CIL will have an impact on an applicant's cash flow, (the earlier the payment of CIL, the more interest the applicant will bear before the development is completed and sold).

CIL Studies Elsewhere

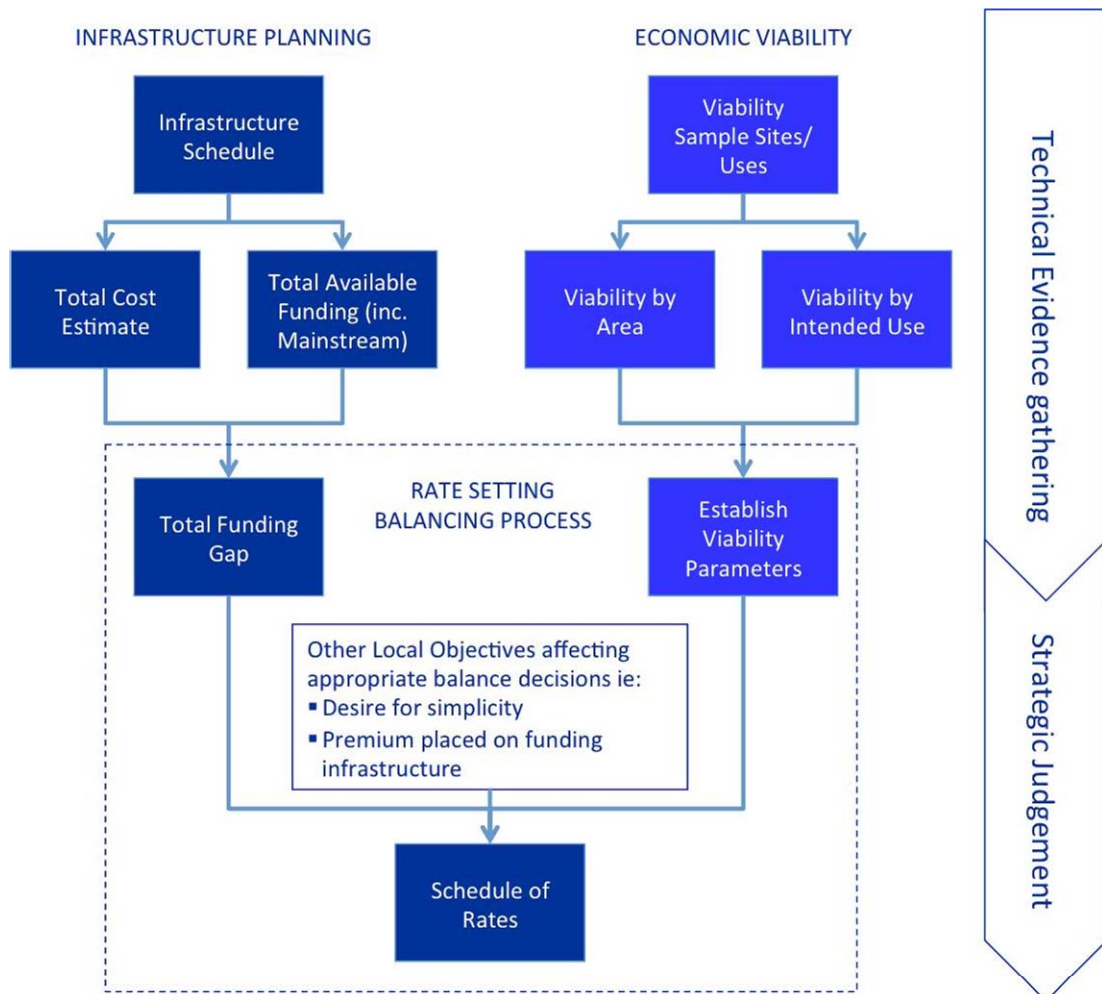
- 1.9 An increasing number of CIL studies have been completed elsewhere and in some cases, including Newark and Sherwood, Shropshire and Redbridge, have been adopted.

Table 1 below, provides some examples and the wide range of approaches from those with simple base CIL rates applied in all cases, to those with very small market sub-areas, with variable CIL rates attached. We are strongly of the view that the simpler approaches are far more likely to be justifiable and defensible at Examination.

Authority / Banding	A1	A2	A3	A4	A5	B1	B2	B8	C1	C2	C2A	C3	C4	D1	D2	Sui Gen
Newark & Sherwood DC	£100	£100	£100	£100	£100	£0	£0	£0	£0	£0				£0	£0	£0
Newark & Sherwood DC DC - Growth Point	£125	£125	£125	£125	£125	£20	£20	£20	£0	£0				£0	£0	£0
Newark & Sherwood DC - Rural North	£100	£100	£100	£100	£100	£15	£15	£15	£0	£0				£0	£0	£0
Newark & Sherwood DC DC - Southwell	£100	£100	£100	£100	£100	£5	£5	£5	£0	£0				£0	£0	£0
Shropshire Council - market towns	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£40		£0	£0	£0
Shropshire Council - rural	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£80		£0	£0	£0
Greater London Authority - Zone 1	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50
Greater London Authority - Zone 2	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35	£35
Greater London Authority - Zone 3	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20	£20
Redbridge	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70	£70
Colchester Borough Council	£120	£90	£90	£90	£90	£0	£0	£0	£0	£0	£0	£0	£0	£0		£0
Greater Norwich Development Pts (3 districts)	£25	£25	£25	£25	£25	£5	£5	£5	£5	£0	£0	£115	£115	£0	£25	£25
Greater Norwich Development Pts (3 districts) - Large A1 - over 2,000m ²	£135															
Greater Norwich Development Pts (3 districts) - C3/C4 - Outer Zone												£75	£75			
Greater Norwich Development Pts (3 districts) - C3 - 6 storey+ flats												£100				
Mid Devon District Council - (Consultation draft)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£113	£0	£0	£0	£0
Mid Devon District Council - Consultation - Large A1 - over 250m ²	£250															

Study Parameters

1.10 The diagram below summarises the overall CIL process within which this Economic Viability / Development Appraisal Study sits.



1.11 Following discussions with officers and some amendments to the original Study brief, the Economic Viability / Development Appraisal Study considered those principal forms of new development which may have the potential for imposing a rate of CIL. It has considered whether there is scope to adopt differential rates of CIL across different parts of the SDC area or to apply differential rates to particular scales of types of development within those principal forms of development, namely,

- Residential [C3];
- Residential Institution [C2].
- Office [B1A] / Industrial [B1/B2/B8];
- Retail [A1];
- Leisure uses;

- Hotel [C1];
- Other.

1.12 CONTENT OF REPORT

The report presents the findings of the Study in the following sections:

- **Section 2**, Methodology and Viability Assessment Scenarios;
 - **Section 3**, Findings from the Viability Assessment Modelling;
 - **Section 4**, Advice on Setting Community Infrastructure Levy Rates and Affordable Housing Levels;
 - **Section 5**, Policy and Procedural Issues to be Considered in the District Plan and Preliminary Draft Charging Schedule; and
 - **Section 6**, the Conclusions from the Study.
-
- **ANNEX A**, RESIDENTIAL DEVELOPMENT VALUATION TABLES

The Council has also been provided with electronic versions of **Annex A** , which contain all of the viability modelling results.

2.0 VIABILITY METHODOLOGY

INTRODUCTION

- 2.1 While our methodology is consistent and follows standard development appraisal conventions, it should be emphasised that local market and planning policy circumstances are always different. Consequently, not only are viability exercises specific to each local authority, they are also related to the time when they are undertaken and should be reviewed from time to time in order to reflect revised policies, changing market conditions, changes in the affordable housing regime and of course, planning obligations and Community Infrastructure Levy (CIL).

We have, however, attempted to ensure that the CIL policy recommendations reflect longer term market trends, rather than focusing on the current low point in the cycle. As will become clear, we have taken account as far as is practicable, of all these variables in carrying out this Study together with various potential levels of CIL.

THE APPROACH TO FINANCIAL VIABILITY

- 2.1.1 Development appraisal models are in essence simple and can be summarised via the following equation:

Completed Development Value
MINUS
Total Construction Costs
MINUS
Developer's Profit
EQUALS
Residual Land Value

- 2.1.2 Residual Land Value is the sum that the developer will pay to the landowner to secure a site for development and will normally be the critical variable. If a proposal generates sufficient positive land value, it will be implemented by the developer. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap' (and these will normally be particular to regeneration areas via public bodies such as the Homes and Communities Agency).

- 2.1.3 Development appraisals require that the key variables, sales values, costs etc are identified with some degree of accuracy in advance of implementation of a scheme by the developer. Even on the basis of the standard convention, namely that current values and costs are adopted (not values and costs on completion), this can be very difficult. Particular problems with key appraisal variables can be summarised as follows:

- Values attached to Completed Development Value are largely dependent on comparable evidence which requires sufficient new development in the locality of a similar size and type, to provide a realistic value base. This is a particularly relevant issue at the current low point in the market.
- Development costs are subject to extensive national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. In Districts like Stroud, 'exceptional' costs such as decontamination may arise for example in Stroud Valleys, but are less common than in Metropolitan areas. Nevertheless, such costs can be very difficult to anticipate before detailed site surveys.
- Development value and costs will also be markedly affected by assumptions about the nature and type of affordable housing provision, other planning obligations and Community Infrastructure Levy and, on major projects, assumptions about development phasing and infrastructure triggers. In essence, where the cost of affordable units and/or planning obligations/CIL are deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations/CIL). The explanation is simply that deferred payments reduce borrowing costs

2.1.4 While Developer's Profit, expressed as a percentage of Completed (Gross) Development Value, has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the greater the profit level, in part as a contingency against the unexpected. While profit levels were typically around 13% to 17% of completed development value at the peak of the market in 2007, banks currently require schemes to show an expected profit at or above 20%. It is unclear whether/ when profit margins will fall back to historic levels, but this is unlikely to occur during the life of the Council's Charging Schedule.

2.1.5 Ultimately, the landowner holds the key and will make a decision on implementing the project or not on the basis of return and the potential for market change and thus alternative developments. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value' to make development worthwhile. Ultimately the Council has Compulsory Purchase powers which could be used to ensure that land and property comes to the market if landowners have unreasonable price aspirations in a slow market. It remains a tool at its disposal if it wishes to promote schemes that deliver important policy objectives.

Completed Development Value
MINUS
Total Construction Costs
MINUS
Planning Obligations / CIL
MINUS
Developer's Profit
EQUALS
Residual Land Value (must exceed Existing Use Value)

2.1.6 The standard appraisal calculation is therefore reasonably clear cut, subject to the problems noted earlier. However, the delivery of planning obligations and/or CIL, and in particular the provision of affordable housing, complicates the calculation by reducing Completed Development Value. The extent to which Completed Development Value is reduced depends on the percentage, tenure and funding of the affordable housing. Provided that other development costs remain unchanged, a reduced Completed Development Value arising from the requirement to provide affordable housing, will result in a lower Residual Land Value.

2.1.7 Developers take action to deal with the uncertainty inherent in appraisals using several means:

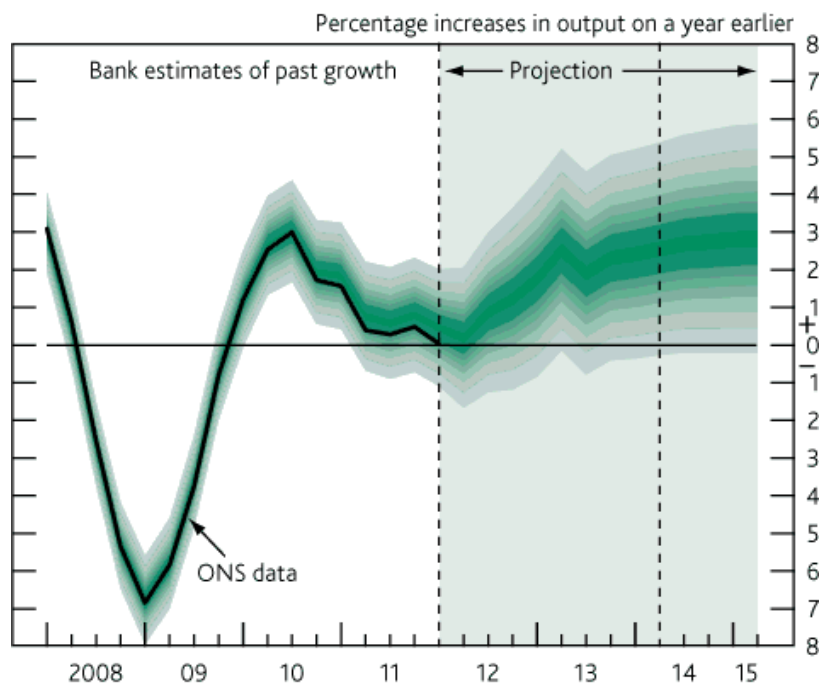
- When negotiating with the landowner, the prudent developer will either reflect planning requirements in the offer for the land, or negotiate an option to purchase, which put crudely, will enable any additional costs arising (planning obligations and/or CIL and affordable housing for example) to be passed on to the landowner. Ultimately, the landowner pays, providing the basic condition for Residual Land Value to exceed existing use value is met; and/or
- The developer will build sufficient contingency (in addition to profit which is meant to cover some risk) into the development appraisal to offset risks.

2.1.8 Clearly, however, landowners have expectations of the value of their land where these exceed the value of the existing use. The planning system affects the value of development land through planning obligations and/or CIL, which mitigate impacts and/or respond to policy, but ultimately, landowners cannot be forced to accept reduced values. Some will simply hold on to their sites, in the hope that policy may change. Those decisions will be heavily influenced by Economic and Property Market prospects.

Economic and Property Market Context

2.1.9 The UK property market has been through a turbulent period. Having peaked in late 2007/ early 2008, after extended real price growth, the markets have experienced a sharp 'correction' during which a combination of interest rates, the US sub-prime lending fiasco, the demise of Lehman Brothers, forced the UK government and the Bank of England to intervene. The product was a drastic reduction in available funding, a significant reduction in property transactions and a clear fall in property prices.

Currently, the property market remains unsure as to prospects. The Bank of England GDP fan chart (May 2012) suggests a short term deterioration but then, in the right combination of variables, some reasonable expectations of growth.



This is by no means assured. This study therefore has modelled financial scenarios on a wider range of current values than are current, to take account of possible fluctuations.

RESIDENTIAL SCENARIOS AND ASSUMPTIONS

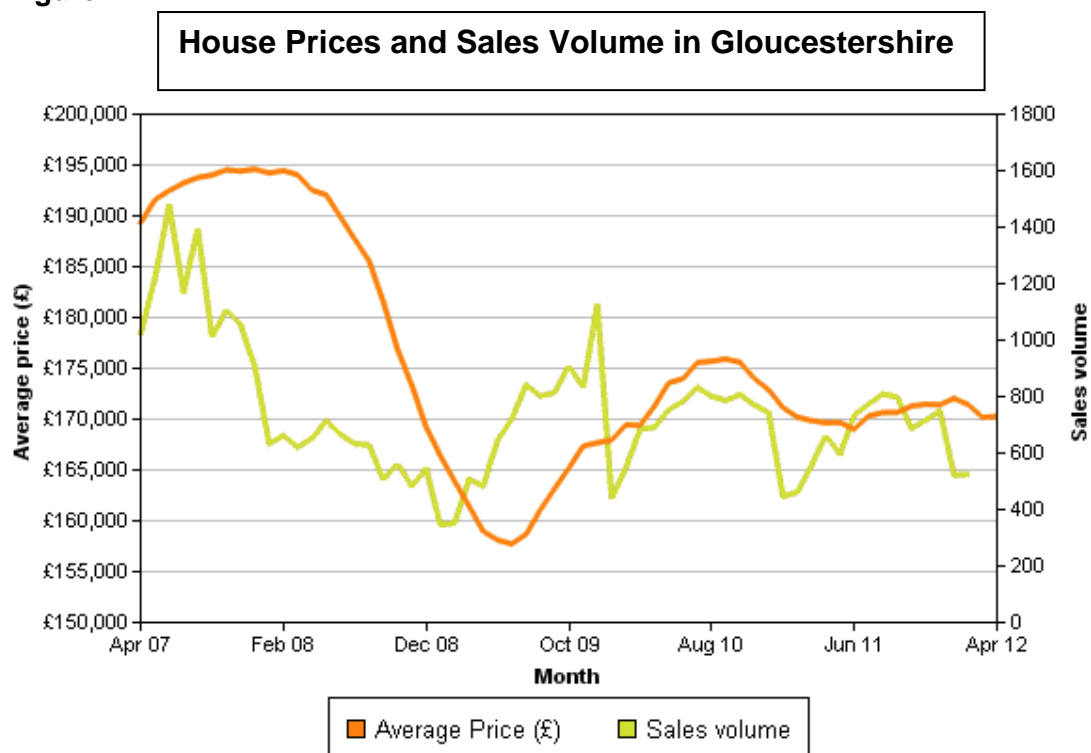
- 2.2.1 This Section summarises the particular assumptions used in the SDC appraisals, within the context of current property market conditions, albeit taking account of a wider range of financial variables to reflect *'more normal market conditions'* as noted in recent Core Strategy Inspector's reviews (see for example, LB Islington, January 2011) and planning appeal cases, noted below in para.2.4.1.

Residential Values

- 2.2.2 Residential values in Stroud DC have reflected national trends in recent years but do of course vary across the District. Our model uses a relatively conservative view of sales values. It takes some account of the possibility of a return to peak 2007 values at some point in the next cycle, but also the risk of a 'double dip' in the recession, which threatens further falls in values. By doing so, the outputs of the modelling provide an indication of the levels of planning obligations and/or CIL and affordable housing that might be possible if sales values increase or decrease modestly, providing other variables do not move adversely.

Utilising Land Registry data, which is only available at the County level outside Metropolitan and Unitary areas, the sharp fluctuations in residential market conditions are obvious and can be seen in **Figure 2.1** with overall recovery to the peak of late 2007/early 2008 still some way off, while sales volumes remain volatile.

Figure 2.1:



Locally, there are certainly variations across the District, in particular between the urban and rural areas, albeit, there are also a range of values within both urban and rural areas. In this study, we have utilised post codes for modelling purposes as shown in Figure 2.2.

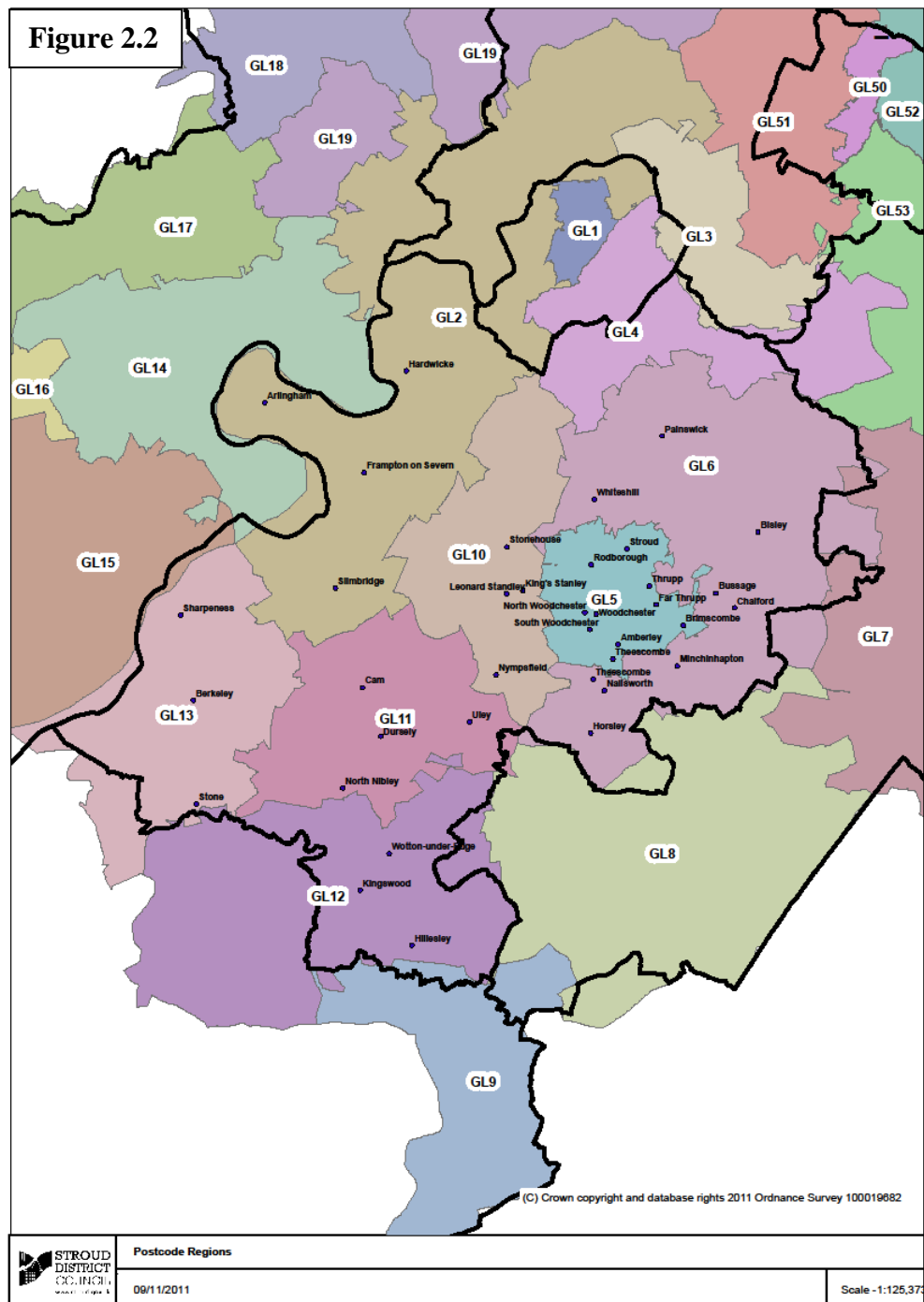
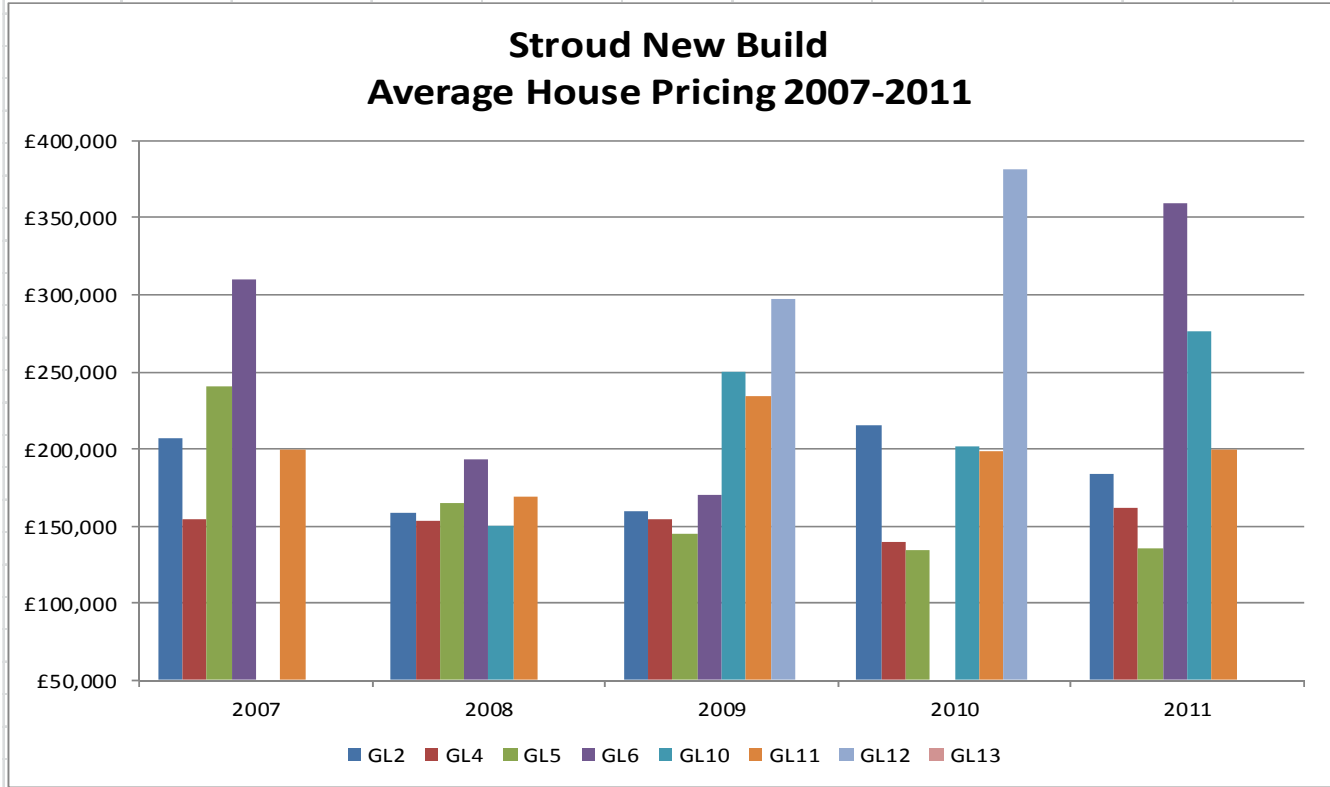


Figure 2.3 demonstrates average new build house prices and sales volume by these postcodes over a five year period. On both counts, there are clear variations.

Figure 2.3

Postcode	2007		2008		2009		2010		2011	
	Average	No of Sales	Average	No of Sales	Average	No of Sales	Average	No of Sales	Average	No of Sales
GL2	£206,750	92	£158,966	137	£159,358	199	£215,281	248	£183,946	159
GL4	£154,025	101	£153,101	62	£154,055	93	£140,354	40	£162,193	20
GL5	£241,199	78	£164,593	56	£145,148	73	£135,077	48	£135,478	31
GL6	£309,828	81	£192,904	22	£170,000	3			£359,625	4
GL10			£150,833	3	£249,763	5	£201,680	5	£276,250	4
GL11	£199,951	38	£168,990	55	£234,727	21	£199,194	26	£199,630	53
GL12					£297,834	21	£381,116	9		
GL13										



2.2.3 Overall values for modelling purposes in the Stroud urban area mostly range between £2,200 psm (£206psf) and £2,780psm (£260psf) but the majority are concentrated at the lower end of this range. In the rural areas, while there are variations east and west of Stroud, most sales values are within the range £2,650psm (£250psf) to £3,050psm (£280psf).

2.3.1 Density

An analysis of recent planning permissions and applications shows that residential densities of new development vary across the District, with occasional higher densities in town centre fringes but generally lower densities in most development situations. Based on the analysis and officer advice, we have assumed that densities are likely to range from 25 units per hectare for low density detached housing schemes to 60 units per hectare for medium / higher density flatted schemes.

We have based the housing mix range specified in the modelling exercise as shown in **Figure 2.4** on a simplified averaging of recent schemes in the District provided by officers from the SDC monitoring system, together with the analysis in Table 7.1 of the SHLAA 2010.

Figure 2.4 - Stroud DC Unit Mix Assumptions					
Private Residential Units					
	Stroud Urban Area	Cam/Dursley	Small towns & larger villages	Other settlements	Total
1 bed house	2%	1%	4%	0%	2%
2 bed house	9%	10%	13%	13%	11%
3 bed house	23%	25%	25%	42%	30%
4+ bed house	18%	36%	22%	38%	28%
1 bed flat	26%	2%	10%	1%	12%
2 bed flat	20%	25%	20%	5%	16%
3 bed flat	1%	0%	6%	0%	2%
4+ bed flat	1%	0%	0%	0%	0%
Affordable Units					
1 bed house	5%	0%	0%	0%	0%
2 bed house	24%	16%	50%	31%	30%
3 bed house	31%	45%	22%	27%	29%
4+ bed house	13%	5%	9%	6%	6%
1 bed flat	14%	11%	13%	9%	10%
2 bed flat	13%	23%	6%	28%	25%
3 bed flat	0%	0%	0%	0%	0%
4+ bed flat	0%	0%	0%	0%	0%

Generally, the higher the density, the greater the reduction from gross to net lettable or saleable space. In this model, the lower densities all assume that all dwellings are houses, hence no adjustment is necessary to take account of the loss of saleable space. The higher densities are adjusted slightly to take account of some flatted content, where building cores and common areas reduce saleable space.

2.3.2 Base Construction Costs

The modelling exercise plots a range of **base** construction costs, reflecting density considerations, ranging from £915 per square metre to £1,184 per square metre, (£85 per square foot to £110 per square foot) incorporating the costs of meeting Lifetime Homes requirements. Our costs take the Royal Institution of Chartered Surveyors Building Cost Information Service costs including the local adjustment for Gloucestershire as their base, together with an additional 5% per unit to take account of achieving Code 4 Sustainable Homes on all units (which assumes a clear planning policy requirement for this Code level). These costs could increase further should 'exceptional costs' arise on particular sites, that is the variety of above average costs which include contamination and remediation. As a result, costs need to be treated with caution and where exceeded, will inevitably diminish the capacity of some schemes to carry planning obligations and/or CIL and affordable housing. To cover such possibilities, the modelling includes scenarios where base costs are 10% and 20% higher. (See Dataset Index tab in para.3.1.2 and Annex A).

2.3.3 Developer's Profit

Residential developer's profit is closely correlated with the perceived risk of development. The greater the risk, the greater the profit level, which helps to mitigate against risk, but also to ensure that the potential rewards are sufficiently attractive for a bank to fund a scheme. In 2007, profit levels were around 17% of Gross Development Value. However, following the credit crunch, inter-bank lending difficulties and the various government bailouts of the banking sector, profit margins have increased. The views of the banks which fund development are important. If the banks do not fund a development, it is very unlikely to happen, as developers do not generally carry sufficient cash to fund it themselves.

Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards property development. The threat to the global banking system not least within the Euro zone, is likely to result in a much tighter regulatory system for some time, with UK banks having to take a much more cautious approach to all lending. In this context, the banks may not allow profit levels to decrease much lower than their current level, if at all. The minimum generally acceptable profit level is now around 20%. Some riskier schemes may be required to show an even higher profit level, of perhaps up to 25%.

The study appraisals have been run with two different profit levels applied to private market units, namely 17% and 20% of Gross Development Value, to reflect the more 'normal' market conditions experienced in 2007 and current expectations of profit levels. By running the appraisals with a range of profit margins, we are generating a wide range of outcomes but the possibility of a return to lower acceptable returns may arise over the plan period. It should be noted that the affordable housing units are modelled to require a contractor's profit of 9% of Gross Development Value.

Planning Obligations and Community Infrastructure Levy

- 2.3.4 While it was agreed with officers, for modelling purposes, to assume an on-site Planning Obligation of £1000 per residential unit, the financial model then allows any or all levels of CIL or other contributions to be considered. We have modelled a range of potential CIL levels from nil to £150 per square metre in £50 increments.

Affordable Housing Percentage, Tenure and Value

- 2.3.5 This Report is intended to provide evidence on which the Council will be able to adopt an appropriate approach to affordable housing for the plan period. The current development plan affordable housing requirement is 30% on schemes of 15 or more dwellings. There is an almost limitless combination of possible affordable housing variables including percentage, tenure, mix, and thus scenarios that could be considered. In this study, we have modelled affordable percentages at 0% (for benchmarking purposes), 20%, 30%, 40% and 50% and one variation of tenure split as instructed, namely 50% affordable rent and 50% intermediate tenures albeit recognising that there may be site specific circumstances where these proportions are adjusted. All scenarios assume that there will be no affordable housing grant available.

Following SDC's consultation with the affordable housing providers operating in the District, an average affordable rent capital value of £1,100 per square metre (£102psf) has been used in the model. Shared ownership/intermediate capital value have been based on 35% initial equity sale at the appropriate market value and 2.75% net rent on unsold equity. (Where the initial equity sale percentage is higher, say 50%, then there would be a slight improvement in the resulting residual land values). It may be necessary to review these value assumptions in the future, as new evidence becomes available from the affordable housing providers, in particular following the change in the funding regime in February 2011.

Other costs in the modelling reflecting standard appraisal conventions are sales fees at 2%, marketing costs at 1.25%, show houses at 0.25%, professional fees at 9%, finance costs at 6% and site acquisition costs at 5.75%.

Existing Use Value and Benchmark Land Value

- 2.4.1 Existing Use Values are important in determining whether landowners will be willing to release land for development. Put simply, if the residual value that results from the development appraisal is going to be less than the land's Existing Use Value, plus some premium to encourage disposal, the landowner is unlikely to release the site for development.

Perhaps surprisingly, the CIL Regulations provide no specific guidance on how local authorities should test the viability of their proposed charges. However, there is a range of good practice generated by both the Homes and Communities Agency and appeal decisions that assist in guiding planning authorities on how they should approach viability testing for planning policy purposes with particular reference to Existing Use value and Residual Land Value.

Thus, in 2009, the HCA published good practice guidance, *Investment and Planning Obligations: Responding to the Downturn*. This defines viability as follows: “a viable development will support a residual land value at a level sufficiently above the site’s existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner”.

A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable. For example,

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF

“the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development”

Bath Road, Bristol: APP/P0119/A/08/2069226

“The difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing.”

Beckenham: APP/G5180/A/08/2084559

“without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed.”

Oxford Street, Woodstock: APP/D3125/A/09/2104658

“The main parties’ valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances.”

It is clear from the planning appeal decisions above and the HCA good practice guide that the most appropriate test of viability for planning policy purposes is to consider the residual value of schemes compared to the existing use value plus a premium and that is the approach in this Study.

- 2.4.2 Existing use values can vary significantly, from very little, agricultural at say £10,000 per hectare to existing office sites at up to £50 million per hectare or more in Central London. Similarly, subject to planning permission, any potential development site may be capable of being used in different ways, business rather than residential for example or at least a different mix of uses (the latter being a key factor). In relation to greenfield sites, the Existing Use Value that we quote includes both a substantial development premium to be paid to the landowner as well as an allowance for the costs of infrastructure provision. These are derived from our experience and knowledge of the recent behaviour of the owners of greenfield sites. The Existing Use Values are effectively a ‘bottom line’ in the financial sense and a major driver in the modelling.

In this exercise, we have sought to provide a guide that compares all of the other variables with various Existing Use Values attached to the most common site uses which come forward as potential development sites in SDC.

However, the development appraisals can only provide a guide to how much CIL and/or planning obligations and affordable housing can be delivered before the value generated by development falls below Existing Use Value. In this Study, we have indicated in our tabular results, a range of Existing Use Values in order to test the viability of different development situations. Four levels of Existing Use Value are used. In each case, the calculations assume that the landowner has made a judgement that the current use is not an optimum use of the site, for example, it has fewer stories than neighbouring buildings or there is a general lack of demand for the space, which results in low rentals, high yields and high vacancies. We would not expect an existing building which makes optimum use of a site and that is attracting a high rent to come forward for development, as residual value may not exceed existing use value in such circumstances.

Yields on commercial properties reflect the confidence of a potential purchaser of a building in the income stream (ie. the rent) that the occupant will pay. They also reflect the quality of the building and its location, as well as general demand for property of that type at that time. Over the past two years, yields for commercial property have softened signalling lower confidence in future demand for commercial space. This has had the effect of depressing the capital value of commercial space, resulting in a reduction in Existing Use Values. However, as the economy recovers, yields will improve, which will result in increased capital values. Consequently, Existing Use Values will rise, increasing the cost of potential sites, which will then have implications for the delivery of CIL and affordable housing. However, in a recovering economy, we would expect sales values to increase also, counteracting the impact of increasing Existing Use Values.

2.4.3 We reviewed the recent and likely future supply of sites with SDC Officers in order to determine the most common future existing use scenarios in SDC. From this, we have derived four levels of Existing Use Value to demonstrate the range of impact that different Existing Use Values have on the viability of development:

- **Benchmark Land Value 1 - Medium/High Existing Use Value** – such as secondary retail and office with an average Existing Use Value of £2,000,000 per hectare (£809,700 per acre).
- **Benchmark Land Value 2 - Medium Existing Use Value** – such as previously developed low grade industrial/storage space and car parks with an average Existing Use Value of £1,500,000 per hectare (£607,300 per acre).
- **Benchmark Land Value 3 - Low Existing Use Value** – such as previously developed but vacant town centre sites, sports facilities and local authority assets with an average Existing Use Value of £750,000 per hectare (£303,600 per acre).
- **Benchmark Land Value 4 - Greenfield sites** with an average ‘value’ of £500,000 per hectare (£202,430 per acre), which assumes an estimated

£200,000 per hectare infrastructure cost and a £300,000 per hectare land payment to the owner.

Existing Use Values are very sensitive to location (as are residential sales values) so the four Existing Use Value scenarios set out above only provide an indication of likely values of sites across the District and should only be seen as examples. It is important to recognise that other site uses and values exist on the ground. Whilst particular sites might present significantly higher development costs, it is not expected that there are any 'broad areas' that would result in significantly higher costs. Paragraph 21 of the Community Infrastructure Levy Guidance notes that Regulation 14 recognises that while the rate of CIL may put some development sites at risk, the charge set by the Council should be based on viability across 'broad areas.' Furthermore, in addition to the existing site uses used in our analysis, there will be other existing uses, where the economic context for the delivery of development and thus planning obligations and/or CIL may vary from our four Existing Use Value examples.

Redevelopment proposals that generate residual land values below Existing Use Value are unlikely to be progressed. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. It is simply indicative. If proven Existing Use Value (via a formal RICS Red Book valuation) justifies a higher or lower Existing Use Value than those assumed, then appropriate adjustments may be necessary. As such, Existing Use Values should be regarded as benchmarks rather than definitive fixtures. At a practical level, it is also necessary to stress that in the District, some residential development sites may be redevelopments of existing residential uses, thus emphasising the significance of value uplift.

Size of Residential Sites

- 2.4.4 We have also considered small residential sites in this Study. While the results could simply be extrapolated from the full model, it was appropriate to consider the effects, as required in our brief, of different affordable housing levels and various CIL levels on small sites. Building and other costs on small sites are generally greater than on larger sites, but, there is usually a small value premium as well and as result, as in the main dataset, most scenarios on small sites will reflect the main conclusions, albeit with somewhat softer residual land values, compared to larger sites where various economies of scale apply.

COMMERCIAL SCENARIOS AND ASSUMPTIONS

- 2.4.5 While the residential market has been seriously affected by economic conditions, so too has the commercial property market, with few exceptions. In this Study, we have considered a range of non-residential uses which initially are worthy of general comment.

While commercial developments in the District are less common than residential, we have carried out a series of generalised appraisals on different commercial development types at average rent levels and yields. (See Section 3.)

According to Investment Property Databank, all commercial property posted a total return of 15.2% during 2010, beating the expectations of most real estate forecasts. However, there was a marked slowdown in the second half of the year which has continued through most of 2011 and was especially significant outside London. Returns for the next three years are predicted to fall due to subdued capital growth and sluggish economic recovery. This is likely to adversely affect occupational demand for some commercial property with a consequent impact of low rental growth for the next two years. Despite the overall slow commercial market, we are aware that there are some potential proposals in SDC, however in our modelling, we have adopted 'soft' yields in capitalising potential rental streams from commercial property and thus discriminated between uses and recommended CIL Rates.

3.0 FINDINGS FROM THE VIABILITY ASSESSMENT MODELLING

INTRODUCTION

3.1 This Section of the Report summarises the results from the development appraisal modelling and presents the headline results.

RESIDENTIAL MODELLING RESULTS

3.1.1 For the residential financial modelling, the tables in the full dataset (**Annex A**) are constructed to provide the maximum amount of data in the same place to provide easy comparison. An example is provided in **Figure 3.1**. Each table shows a range of sales values (column 1) and a range of densities (Row 2). For each density, we show the build costs adjusted to reflect gross to net floor space (Row 4). Shaded cells in **Figure 3.1** show negative residual land values and white cells are positive, ignoring Existing Use Value in this case.

Figure 3.1: Illustrative Residential Model Outputs from Full Dataset

MODEL	1								
Density - units/ha ->		25 uph	30 uph	35 uph	40 uph	45 uph	50 uph	55 uph	60 uph
Build costs ->		£915 per sqm	£942 per sqm	£969 per sqm	£996 per sqm	£1023 per sqm	£1076 per sqm	£1130 per sqm	£1184 per sqm
Sales value per sm									
£1,938		321,040	287,531	249,374	189,489	52,730	- 182,381	- 493,794	- 893,474
£2,077		459,415	451,721	439,124	405,761	295,073	86,888	- 194,749	- 577,806
£2,217		596,412	615,362	628,875	620,918	537,415	356,158	100,888	- 262,843
£2,357		733,350	777,849	818,624	836,075	777,458	625,427	394,438	48,575
£2,497		870,288	940,335	1,008,375	1,051,232	1,017,092	892,281	686,417	359,991
£2,637		1,007,224	1,102,821	1,198,125	1,266,389	1,256,727	1,158,541	978,396	671,408
£2,777		1,144,162	1,265,308	1,387,035	1,481,546	1,496,362	1,424,802	1,270,374	981,967
£2,917		1,281,100	1,427,794	1,575,140	1,696,703	1,735,996	1,691,063	1,562,353	1,289,942
£3,057		1,418,037	1,590,280	1,763,244	1,911,859	1,975,631	1,957,324	1,854,332	1,597,917
£3,197		1,554,974	1,752,767	1,951,349	2,127,016	2,215,265	2,223,584	2,146,310	1,905,893
£3,337		1,691,912	1,915,253	2,139,454	2,342,173	2,454,901	2,489,845	2,437,559	2,213,868
£3,477		1,828,850	2,077,739	2,327,558	2,557,330	2,694,535	2,756,106	2,727,008	2,521,843
£3,617		1,965,787	2,240,226	2,515,664	2,771,792	2,933,030	3,022,367	3,016,457	2,829,819
£3,757		2,102,724	2,402,712	2,703,768	2,985,517	3,170,926	3,288,581	3,305,906	3,137,795

Aff Hsg	50%
% SR	50%
% SO	50%
S106 (private)	£1,000 per unit
S106 (affordable)	£1,000 per unit
CSH (% uplift on Private)	5%
CSH (% uplift on AH)	5%
Grant	No
Developer's profit	17%
EUV	0% change from base
Build costs	0% change from base

The Summary Box on each Data sheet, as illustrated, provides a reminder of the key financial variables in that Model.

In addition to the full model outputs, a simpler ‘traffic light’ presentation of the results is available as shown in **Figure 3.2**. As can be seen in **Figure 3.2**, red symbols show where, for any given sales values and density of development, a scheme would yield a residual land value that is at least 15% lower than the site’s Existing Use Value. Yellow symbols show where viability is marginal. Green symbols show where the residual land value exceeds EUV by at least 25% and can be considered viable.

Figure 3.2: Sample Residual Residential Land Values Less Existing Use Value with 30% Affordable Housing

RLV's less benchmark land value £		£750,000 per hectare £300,000 per acre							
Density - Units per hectare	25 U/ha	30 U/ha	35 U/ha	40 U/ha	45 U/ha	50 U/ha	55 U/ha	60 U/ha	65 U/ha
Existing Use Value	£500,000	£600,000	£700,000	£800,000	£900,000	£1,000,000	£1,100,000	£1,200,000	£1,300,000
£1,000,000	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖
£1,100,000	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖
£1,200,000	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖
£1,300,000	⊕	⊕	⊕	⊕	⊖	⊖	⊖	⊖	⊖
£1,400,000	⊕	⊕	⊕	⊕	⊕	⊕	⊖	⊖	⊖
£1,500,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊖
£1,600,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£1,700,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£1,800,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£1,900,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,000,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,100,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,200,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,300,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,400,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,500,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,600,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕
£2,700,000	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕	⊕

3.1.2 Before examining the detail of the results, it is helpful to recognise the density ‘peak’. There is invariably an optimum combination of financial factors, subject to local conditions, which maximises residual land value, subject to all the financial inputs involved, including sales value, costs, profit margin, obligations and affordable housing assumptions. The result usually favours low to medium densities and is demonstrated in **Figure 3.2** where the 35-40 units per hectare columns clearly are more positive in residual land value terms than for example higher densities.

It should also be noted that in our visual presentation of results (the ‘traffic lights’), all Existing Use Values include a **25% uplift** to take account of the incentives on landowners to sell. The 25% premium over Existing Use Value requires some explanation. Clearly, a landowner is unlikely to sell a development site for less than its Existing Use Value. Indeed, the owner will require a sufficient premium to persuade him/her to sell. There are no ‘rules’ as to the scale of the premium. The owner under no pressure to sell may well hold out for a higher figure while the owner in financial difficulties may sell for less. We consider a 25% premium to be an average premium and in the data set, the models (traffic lights only) reflect this average.

The modelling output tables are provided in **Annex A** via the Index Tab as follows.

Stroud District Council - Community Infrastructure Levy viability										
	AH percentage	Tenure		CSH		Grant	Profit	Build costs	Wheelchair (costs +10%)	
		Social	Intermediate	Private	Affordable					
Model 1	50%	50%	50%	Level 4	Level 4	No	17%	Base	10% of all units	
Model 2	50%	50%	50%	Level 4	Level 4	No	20%	Base	10% of all units	
Model 3	50%	50%	50%	Level 4	Level 4	No	17%	+10%	10% of all units	
Model 4	50%	50%	50%	Level 4	Level 4	No	20%	+10%	10% of all units	
Model 5	50%	50%	50%	Level 4	Level 4	No	17%	+20%	10% of all units	
Model 6	50%	50%	50%	Level 4	Level 4	No	20%	+20%	10% of all units	
Model 7	40%	50%	50%	Level 4	Level 4	No	17%	Base	10% of all units	
Model 8	40%	50%	50%	Level 4	Level 4	No	20%	Base	10% of all units	
Model 9	40%	50%	50%	Level 4	Level 4	No	17%	+10%	10% of all units	
Model 10	40%	50%	50%	Level 4	Level 4	No	20%	+10%	10% of all units	
Model 11	40%	50%	50%	Level 4	Level 4	No	17%	+20%	10% of all units	
Model 12	40%	50%	50%	Level 4	Level 4	No	20%	+20%	10% of all units	
Model 13	30%	50%	50%	Level 4	Level 4	No	17%	Base	10% of all units	
Model 14	30%	50%	50%	Level 4	Level 4	No	20%	Base	10% of all units	
Model 15	30%	50%	50%	Level 4	Level 4	No	17%	+10%	10% of all units	
Model 16	30%	50%	50%	Level 4	Level 4	No	20%	+10%	10% of all units	
Model 17	30%	50%	50%	Level 4	Level 4	No	17%	+20%	10% of all units	
Model 18	30%	50%	50%	Level 4	Level 4	No	20%	+20%	10% of all units	
Model 19	20%	50%	50%	Level 4	Level 4	No	17%	Base	10% of all units	
Model 20	20%	50%	50%	Level 4	Level 4	No	20%	Base	10% of all units	
Model 21	20%	50%	50%	Level 4	Level 4	No	17%	+10%	10% of all units	
Model 22	20%	50%	50%	Level 4	Level 4	No	20%	+10%	10% of all units	
Model 23	20%	50%	50%	Level 4	Level 4	No	17%	+20%	10% of all units	
Model 24	20%	50%	50%	Level 4	Level 4	No	20%	+20%	10% of all units	
Model 25	0%	50%	50%	Level 4	Level 4	No	17%	Base	10% of all units	
Model 26	0%	50%	50%	Level 4	Level 4	No	20%	Base	10% of all units	
Model 27	0%	50%	50%	Level 4	Level 4	No	17%	+10%	10% of all units	
Model 28	0%	50%	50%	Level 4	Level 4	No	20%	+10%	10% of all units	
Model 29	0%	50%	50%	Level 4	Level 4	No	17%	+20%	10% of all units	
Model 30	0%	50%	50%	Level 4	Level 4	No	20%	+20%	10% of all units	

The data tables accessed automatically via the hyperlinks in Column 1, show the results of the following combination of variables:

- affordable housing at 0%, 20%, 30% and 40% and 50%;
- each of the above with an affordable rent to intermediate housing split of 50%:50%;
- each of the above with affordable unit values as described;
- each of the above with CIL set at rates of between nil and £150 per square metre or any other as required;
- each of the above with Code 4 Sustainable Homes on all units;
- each of the above with profit levels of 17% and 20% on value; and
- each of the above is also compared to a range of Existing Use Values.

3.1.3 **Tables 3.1 to 3.3** present the most useful illustrations of the model outputs showing the impact of imposing CIL levels of between £0 and £150 per square metre for the sales values that most closely reflect local market circumstances, alongside three levels of residential sales values reflecting the differences between the urban and rural areas as described earlier. In all cases the sales values are compared to a Medium/ Low Existing Use Value as we have defined them in **Section 2.4.3**. **Tables 3.4 and 3.5** compare the results in **Tables 3.1 to 3.3**. Note that the results are presented as Residual Values per hectare (that is, the amount the developer could pay the landowner) in excess of the Existing Use Value and premium assumed.

Table 3.1. Summary of Example Model Outcomes at £2,217 per square metre (£206 per square foot) Sales Value and Existing Use Value and Premium of £750,000 per hectare

Assumptions					
<ul style="list-style-type: none"> Sales @ average £2,217 per square metre Density @ 30 units per hectare Affordable housing @ 50%-50% tenure split affordable rent based on £1,100 per square metre capital value and intermediate tenures based on 35% initial equity sale at prevailing market value and 2.75% net rent on unsold equity.. Developer profit @ 20% OMV EUV @ £750,000 per hectare Outputs: With Variable CIL and at Variable Affordable Housing (50%-50% split) with AH % as shown. 					
NB. These Residual Values per hectare, are above existing use value, but are a guide only. Site specific factors will vary outputs.					
Results in black are positive. Results in blue are less than £200,000 in excess of EUV but still positive. Results in red are negative.					
Affordable Housing%	£0 CIL	£50 psm CIL	£100 psm CIL	£150 psm CIL	
0%	331,228	199,003	66,778	-65,447	
20%	116,805	61,025	-94,755	-200,535	
30%	9,593	-82,965	-175,522	-268,080	
40%	-97,619	-176,954	-256,289	-335,624	
50%	-204,832	-270,945	-337,057	-403,170	

It is immediately clear from Table 3.1 that a combination of a modest sales prices and a low to medium Existing Use Value makes delivering affordable housing at a policy compliant level difficult, even with a low CIL over and above a small on site Planning Obligation. However, Table 3.2 puts this in context by highlighting the positive effect of a relatively modest improvement in sales prices on the outputs.

Table 3.2. Summary of Example Model Outcomes at £2,497 per square metre (£232 per square foot) Sales Value and Existing Use Value and Premium of £750,000 per hectare

Assumptions					
<ul style="list-style-type: none"> Sales @ average £2,497 per square metre Density @ 30 units per hectare Affordable housing @ 50%-50% tenure split, affordable rent based on £1,100 per square metre capital value and intermediate tenures based on 35% initial equity sale at prevailing market value and 2.75% net rent on unsold equity.. Developer profit @ 20% OMV EUUV @ £750,000 per hectare Outputs: With Variable CIL and at Variable Affordable Housing (50%-50% split) with AH % as shown. <p>NB. These Residual Values per hectare, are above existing use value, but are a guide only. Site specific factors will vary outputs. Results in black are positive. Results in blue are less than £200,000 in excess of EUUV but still positive. Results in red are negative.</p>					
Affordable Housing%	£0 CIL	£50 psm CIL	£100 psm CIL	£150 psm CIL	
0%	800,263	668,038	535,813	403,588	
20%	524,744	418,964	313,184	207,404	
30%	386,985	294,428	201,870	109,313	
40%	249,226	169,891	90,556	11,221	
50%	111,467	45,355	-20,758	-86,871	

By increasing the sales value to an average of £2,497psm, remaining within the urban house price range albeit at the upper end, but at the lower end of the rural house price range, the results are much more positive. Indeed, a policy compliant position on affordable housing and the small on-site planning obligation, still enables a CIL charge at or slightly above £100psm.

Taken one step further, and applying a residential sales value of £2,777psm, at the high end of the rural range and only very exceptionally achieved in the urban areas, as illustrated in Table 3.3 below, and the results are very much more positive.

The sensitivity of Sales Values is all too clear and this tends to point towards a differential rate.

Table 3.3. Summary of Example Model Outcomes at £2,777 per square metre (£258 per square foot) Sales Value and Existing Use Value and Premium of £750,000 per hectare

Assumptions					
<ul style="list-style-type: none"> • Sales @ average £2,777 per square metre • Density @ 30 units per hectare • Affordable housing @ 50%-50% tenure split, affordable rent based on £1,100 per square metre capital value and intermediate tenures based on 35% initial equity sale at prevailing market value and 2.75% net rent on unsold equity.. • Developer profit @ 20% OMV • EUV @ £750,000 per hectare • Outputs: With Variable CIL and at Variable Affordable Housing (50%-50% split) with AH % as shown. <p>NB. These Residual Values per hectare, are above existing use value, but are a guide only. Site specific factors will vary outputs. Results in black are positive. Results in blue are less than £200,000 in excess of EUV but still positive. Results in red are negative.</p>					
Affordable Housing%	£0 CIL	£50 psm CIL	£100 psm CIL	£150 psm CIL	
0%	1,268,778	1,136,553	1,004,328	872,103	
20%	932,330	826,550	720,770	614,990	
30%	764,105	671,548	578,770	486,433	
40%	595,880	516,545	437,210	357,875	
50%	427,655	361,543	295,430	229,318	

3.1.4 **Tables 3.4 and 3.5** compare the effects of four sample levels of CIL with five levels of affordable housing, three residential sales values figures and two Existing Use Values. This table combines variables to illustrate those circumstances in which residual land values go from positive to negative.

As both Tables demonstrate, the effect of higher Existing Use Value is immediately clear, even with scenarios with little or no affordable housing and very low CIL, which tends to confirm that such sites would not normally come forward for redevelopment. In contrast (Table 3.4 with CIL at £150psm) and lower EUV holds up reasonably well, excluding the lowest sales value modelled.

Table 3.5 then narrows the CIL range to £80psm and £120psm and while this has no effect in the higher EUV model, it does generate some additional residual value (excluding the lowest sales value modelled) including 30% affordable housing.

Table 3.4. Overall Summary of Outputs 1

Assumptions							
<ul style="list-style-type: none"> Sales @ Range from £2,217psm to £2,357 psm Density @ 30 units per hectare Affordable housing @ 50-50% tenure split in favour of affordable rent based on £1,100 psm capital value for affordable rent and Intermediate tenures based on 35% initial equity sale at prevailing market value and 2.75% net rent on unsold equity. Developer profit @ 20% OMV EUV @ Range of £1,500,000 per hectare to £750,000 per hectare Outputs: With CIL at for example £50psm and £150psm and at Variable Affordable Housing (50-50% split) with AH % as shown. <p><u>NB. These Residual Values are above existing use value plus 25% but are a guide only. Site specific factors will vary outputs. Results in black are positive. Results in blue are less than £200,000 in excess of EUV but still positive. Results in red are negative.</u></p>							
Community Infrastructure Levy @ £50psm							
	Existing Use Value @ £1,500,000				Existing Use Value @ £750,000		
Affordable Housing %	Residential Sales Values				Residential Sales Values		
	£2217psm	£2497psm	£2777psm		£2217psm	£2497psm	£2777psm
0%	-550,977	-81,962	386,553		199,003	668,038	1,136,553
20%	-738,975	-331,036	76,550		61,025	418,964	826,550
30%	-832,965	-455,573	-78,453		-82,965	294,428	671,548
40%	-926,954	-580,109	-233,455		-176,954	169,891	516,545
50%	-1,020,945	-704,606	-388,458		-207,945	45,355	361,543
Community Infrastructure Levy @ £150psm							
	£2217psm	£2497psm	£2777psm		£2217psm	£2497psm	£2777psm
0%	-815,447	-346,412	122,103		-65,447	403,588	872,103
20%	-950,535	-542,596	-135,010		-200,535	207,404	614,990
30%	-1,018,080	-640,688	-263,568		-268,080	109,313	486,433
40%	-1,085,624	-738,779	-392,125		-335,624	11,221	357,875
50%	-1,153,170	-836,871	-520,683		-403,170	-86,871	229,318

Table 3.5. Overall Summary of Outputs 2

Assumptions							
<ul style="list-style-type: none"> Sales @ Range from £2,217psm to £2,357 psm Density @ 30 units per hectare Affordable housing @ 50-50% tenure split in favour of affordable rent based on £1,100 psm capital value for affordable rent and Intermediate tenures based on 35% initial equity sale at prevailing market value and 2.75% net rent on unsold equity. Developer profit @ 20% OMV EUV @ Range of £1,500,000 per hectare to £750,000 per hectare Outputs: With CIL at for example £80psm and £120psm and at Variable Affordable Housing (50-50% split) with AH % as shown. <p><u>NB. These Residual Values are above existing use value plus 25% but are a guide only. Site specific factors will vary outputs. Results in black are positive. Results in blue are less than £200,000 in excess of EUV but still positive. Results in red are negative.</u></p>							
Community Infrastructure Levy @ £80psm							
	Existing Use Value @ £1,500,000				Existing Use Value @ £750,000		
Affordable Housing %	Residential Sales Values				Residential Sales Values		
	£2217psm	£2497psm	£2777psm		£2217psm	£2497psm	£2777psm
0%	-630,332	-161,297	307,218		119,668	588,703	1,057,218
20%	-802,443	-394,504	13,082		-52,443	355,496	763,082
30%	-888,499	-511,107	-133,987		-138,499	238,893	616,013
40%	-974,555	-627,710	-281,056		-224,555	122,290	468,944
50%	-1,060,612	-744,313	-428,125		-301,612	5,687	321,875
Community Infrastructure Levy @ £120psm							
	£2217psm	£2497psm	£2777psm		£2217psm	£2497psm	£2777psm
0%	-736,112	-267,077	201,438		13,888	482,923	951,438
20%	-887,067	-479,128	-71,542		-137,067	270,872	678,458
30%	-962,545	-585,153	-208,033		-212,545	164,847	541,967
40%	-1,038,023	-691,178	-344,524		-288,023	58,822	405,476
50%	-1,113,502	-797,203	-481,015		-363,502	-47,203	268,985

3.2 COMMERCIAL ANALYSIS

- 3.2.1 The Study's assessment of commercial developments and their capacity to deliver CIL are based on local research of commercial lettings and available space which show a range of a range of rents within each property sector. The appraisals have therefore been modelled at the lower end of the rental range and capitalised with appropriate yields in order to test the impact of CIL on viability and thus potential contributions. For each sector considered - residential institutions, office, industrial, warehousing, retail, leisure, and hotels – development appraisals have been run with typical rent levels and yields. The results are presented in section 4.3.

4.0 ADVICE ON SETTING COMMUNITY INFRASTRUCTURE LEVY RATES AND AFFORDABLE HOUSING LEVELS

4.1 INTRODUCTION

- 4.1.1 As noted earlier, Regulation 14 of the CIL Regulations requires the Council, when setting rates of CIL, *‘to aim to strike what appears to be an appropriate balance between the desirability of funding (the total costs of infrastructure) from CIL’* taking into account other actual and expected sources of funding and *‘the potential effect (taken as a whole) of the imposition of CIL on the economic viability of development across its area’*.

In this Section, we set out our advice to the Council, based on the viability assessment and other considerations, as to appropriate rates of CIL that could be charged. The Preliminary Draft Charging Schedule and the supporting evidence will be subject to public and stakeholder consultation and the Council will consider any responses before publishing the Draft Charging Schedule, which will be subject to independent examination. The final decision on recommended levels of CIL will depend on a balance of overall infrastructure costs, levels of public funding and the chosen policy position in relation to affordable housing.

- 4.1.2 It is noteworthy when considering the recommended rates, that CIL is calculated on the gross internal area of all buildings, but is only chargeable on the net increase in floor space on a site. Chargeable development, as defined in Regulation 9 is development for which planning permission is granted, but there is an exemption for minor development less than 100 square metres, in Regulation 42. Development for Charitable Institutions and Social Housing are also exempt from CIL, which means that CIL is only chargeable on Open Market Housing. Since many schemes in SDC will be redevelopments of existing space, the impact of CIL on viability will be reduced.

ACHIEVING A BALANCE BETWEEN AFFORDABLE HOUSING PROVISION AND YIELD FROM CIL

- 4.1.3 Recent changes to the grant regime for affordable housing, in particular, the introduction of the Affordable Rent target and related changes to housing benefits, have altered the likely cost to developers and Registered Social Landlords of meeting the requirements of affordable housing policies set out in development plans.

The effects of the new funding regime are still emerging and individual Registered Social Landlords/ Registered Providers have commercial decisions to make about future procurement of affordable housing. In our viability assessments, we have worked with Officers and local affordable housing providers to take a view about the emerging financial arrangements for affordable housing. Since these arrangements are still evolving, our advice may need to be reviewed in due course once these arrangements have settled down.

- 4.1.4 We have examined, in the viability assessments, a range of affordable housing policy options. These were distilled, after discussion with SDC, to target rates of 20%, 30%, 40% and 50% affordable housing provision, with the expectation that a 20% rate could potentially be applied to smaller schemes. The Council's present policy is for 30% affordable housing provision on sites of 15 or more dwellings. In exceptional circumstances, a commuted payment in-lieu of on-site provision is accepted by the Council.

When setting rates of CIL, the Council can, provided that the test in Regulation 14 is met, make its own judgment about the effect that any given level of CIL will have on the viability of housing development, including any requirement for affordable housing. Meeting affordable needs is likely to be a high priority, in policy terms, and CIL should not be set at levels which prejudice the Council's ability to meet affordable housing needs.

THE LEGAL BASIS FOR THE APPLICATION OF DIFFERENTIAL RATES OF CIL

- 4.1.5 Regulation 13 of the CIL Regulations allows for the adoption of differential rates of CIL for (a) different geographical zones and (b) for '*different intended uses of development*'. There is also the provision in Regulation 13(2) for '*supplementary charges, nil rates, increased rates or reductions*' to be set.

- 4.1.5.1 The Government's Community Infrastructure Levy Guidance on Charge Setting and Charging Schedule Procedures advises that, when setting differential CIL rates, charging authorities should seek to avoid undue complexity and limit the permutations of different charges that they set within their area. The guidance advises that charging authorities should not exempt or set a zero rate of CIL for a particular zone or category of development, unless they can demonstrate that this is justifiable in economic viability terms. Punitive rates of CIL should not be applied to particular locations where the Council wishes to discourage development.

In considering whether to set differential rates, it is necessary to have regard to the powers that SDC has expressly or implicitly granted to it. The only express power to differentiate is in Regulation 13, which states that a charging authority may set differential rates for different zones in which development would be situated or by reference to different intended uses of development. The Regulations do not define the word '*uses*' and there is a continuing national debate about whether differential rates can be applied to different scales of development within the same geographical zone, where these are distinguishable in practice as different '*intended uses*' and such an approach can be justified by reference to viability evidence.

- 4.1.5.2 A number of local authorities have set differential rates, supported by planning and viability arguments, which are defined in terms of the scale of development. For example, Newark and Sherwood, Portsmouth and Huntingdonshire apply different rates to large and small retail developments. While Newark and Sherwood CIL rates have been fully tested through independent examination, any attempt to use such an approach remains open to potential challenge. The recommendation of the

Examiner's Report ¹ was to remove the separate rate for small retail schemes of less than 500 square metres. The Report says that *"the proposed division in CIL rates between new retail buildings at 500 square metres appears somewhat arbitrary and lacks a convincing evidential justification in relation to a serious risk of deterring new development"*

When considering whether using a size differential within a broad use is appropriate, the test to be applied is whether this is a reasonable interpretation of the Regulations and can be justified through evidence on viability. Our view is that it would be difficult to justify a differential between large and small housing developments, based, for example, on affordable housing thresholds, even though this might be supported by the viability evidence.

- 4.1.5.3 There will be a better case to be argued in relation to retail, leisure and hotel development, where there are clearly different business models in operation within the same broad use. Even then, any size thresholds used will remain open to debate. It appears to us to be reasonable to argue that a supermarket and/or superstore are distinctly different uses of land to a development of small unit shops. The same logic may be applied to the hotel sector where there is a clear distinction between the business models and the viability of larger chain hotels and smaller 'family' concerns. If SDC wishes to set differential rates in this way, the case for this needs to be fully set out.

THE CONCEPTS OF 'MAXIMUM AND RECOMMENDED' CIL RATES

- 4.1.6 There is a distinction between these concepts, although it is only of limited practical application. The 'maximum' rate of CIL is the highest rate of CIL that a particular type of development could afford, taking into account the likely costs of on-site services and infrastructure on a 'clean' site and the Council's other achievable planning policies and environmental standards. For residential developments there is a theoretical maximum CIL rate with no requirement for affordable housing (which we have modelled in this Study, but only as a benchmark), but this is not a policy stance which is likely to be taken.
- 4.1.6.1 Where we are proposing 'recommended' rates of CIL, the overall variability of development values and costs within each type of development (and geographical area) has to be taken into account. There will also be significant variations in the actual costs of developing particular sites, for example, arising from demolition, contamination, ground conditions or drainage, as well as any site specific transport or environmental measures. There are also other important sources of variation to be taken into account. These have been assessed, as far as is possible, in the viability assessment for residential development under the heading Existing Use Values. These have two components, the potential market value of the land and buildings in that existing use and a nominal 'landowner premium'. Even where the residential value of the site appears to be positive, taking into account Existing Use Values, individual landowners may still be unwilling to release land for development unless it meets their price or other aspirations.

¹ Report on the Examination Into The Newark And Sherwood Community Infrastructure Levy Charging Schedule

Our 'recommended' rates of CIL are therefore intended to answer the second part of the Regulation 14 test. At this stage, the infrastructure information is not sufficient to address formally the 'appropriate balance' test in full.

4.1.6.2 The Council will, in the Preliminary Draft Charging Schedule, have to consider all forms or types of development, except those exempted under Regulation 42 for minor development, Regulation 43 for Charitable Institutions and Regulation 49 for Social Housing, and resolve whether each should be subject to a positive or a 'nil' rate of CIL. We have only considered in this Study those types of development which can be subjected to conventional valuations and were agreed to have the economic potential to carry a positive requirement for CIL. The Council could still, if it chose to do so, set a positive rate of CIL for these other often 'non-commercial' forms of development after considering available evidence on economic viability for those uses. At least one local authority, LB Redbridge, in its Preliminary Draft Charging Schedule has set a flat rate of CIL on all qualifying development and this has been endorsed by the independent examiner.

RECOMMENDED LEVELS OF CIL FOR RESIDENTIAL DEVELOPMENT

- 4.2.1 As the principal form of development and, in many ways, the most complex in terms of affordable housing requirements, the provision of both on and off site facilities and the geographical variation in residual values, settling the recommended rates of CIL requires careful consideration.
- 4.2.2 SDC has the power to set differential rates based on location and can, therefore, set differential rates between rural and urban housing schemes so long as this can be justified on viability grounds. Evidence from sales values shows that while new build values in the urban and rural areas overlap in their range to an extent, on average, the rural areas of SDC achieve 15%-20% higher sales values. There are however variations. The other important factor to consider is the likely mix of existing uses of land likely to come forward for development in different areas. In particular, some sites being brought forward for development, outside the existing built up areas, will be on greenfield sites, where Existing Use Values, as we have defined them, are likely to be distinctly lower than previously developed sites, which are likely to form the predominant source of development sites within the built up areas.
- 4.2.3 The scale of any development can have an impact on viability as there is a value premium on smaller sites but the build costs are also likely to be higher on smaller schemes. Our analysis has considered whether different scales of residential development would justify different levels of CIL based purely on viability and the conclusion is that it would not.

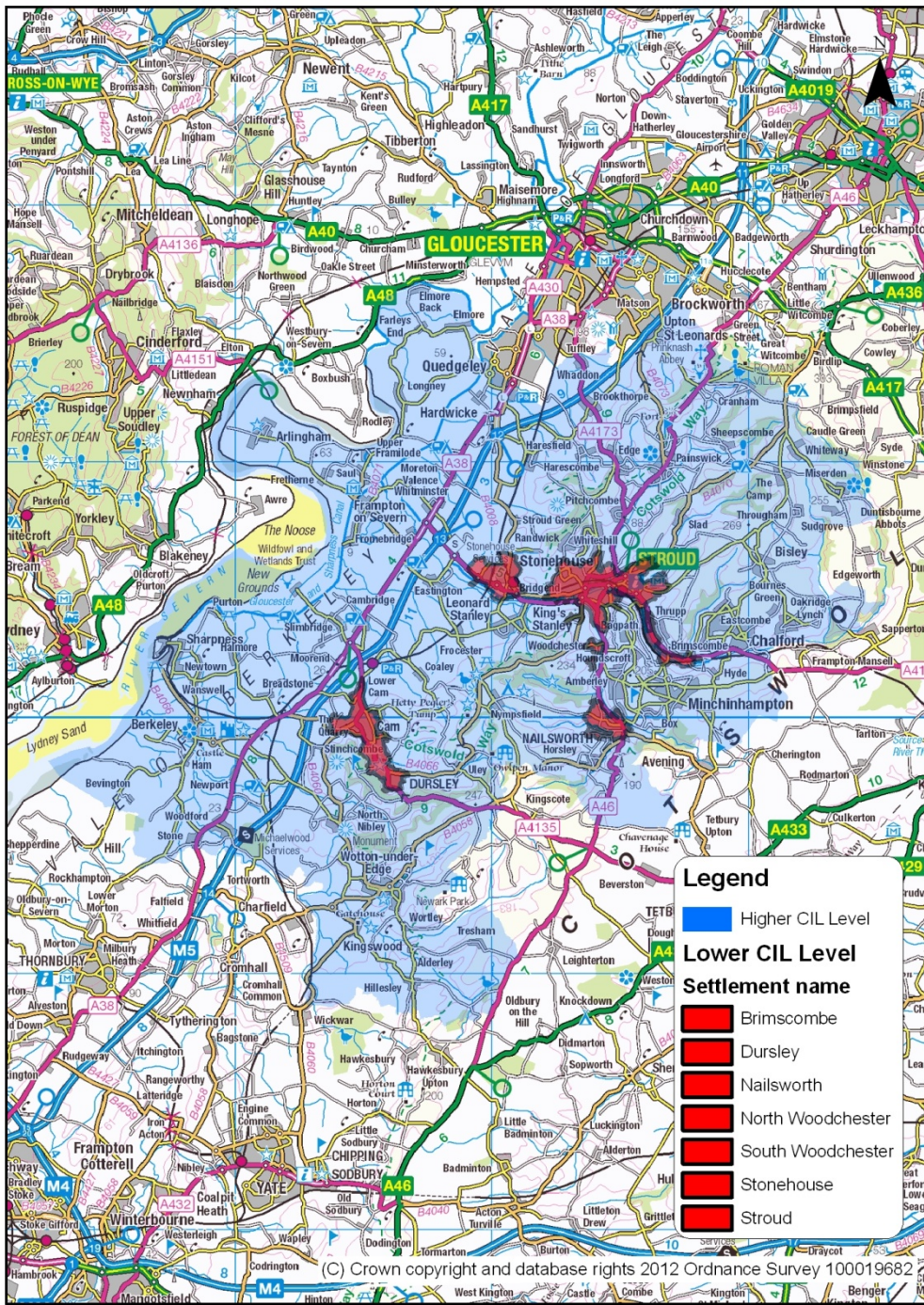
Maximum Level Achievable

4.2.4 As Summary Tables 3.4 and 3.5 demonstrate, the sales value range is crucial to viability without taking account of affordable housing. Where Existing Use Values are modest, and sales value are in the middle of the range considered, rates of CIL above £140 per square metre or between £10,000 and £13,000 per Open Market dwelling might be viable. We do not consider that this theoretical maximum has much relevance in policy terms as SDC will be looking to secure a reasonable contribution to affordable housing. More realistically, in normal circumstances, 30% affordable housing is likely to be required, which reduces this theoretical maximum to something in the region of £70 to £130 per square metre, depending on the existing uses. Above these levels, depending on locations, higher Existing Use Values could push a significant number of otherwise desirable developments into negative residual values.

Recommended Level and Justification

4.2.4.1 The Council will need to consider the viability of development taking first account of its affordable housing policy aspirations. The appraisals suggest that 30% affordable housing is viable on all scales of development subject to site specific circumstances, but on small sites, as defined in policy terms, 20% is more realistic where Existing Use Values are at the lower end; this would not be the case where Existing Use Values are higher.

4.2.4.2 We have considered a wide range of geographical zoning options for setting CIL as well as the proportions of affordable housing the Council is likely to seek to secure. The rates we recommend are derived from professional judgments, taking account of the viability and development evidence. The Council and developers are both well aware of the need for the timely provision of adequate infrastructure and of the importance of CIL as a major source of funding. In consultation with officers, we are therefore recommending an 'urban' rate in defined areas of £80psm and a 'rural' rate outside those defined areas of £120psm. We accept that there will be particular circumstances where the Council will have to consider relief as described elsewhere in this report. The defined areas are delineated on the following map.



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 STROUD DISTRICT COUNCIL www.stroud.gov.uk	CIL Areas	
	23/03/2012	Scale -1:193,663

4.3 RECOMMENDED LEVELS OF CIL FOR COMMERCIAL PROPERTY DEVELOPMENT

4.3.1 RECOMMENDED LEVELS OF CIL FOR RESIDENTIAL INSTITUTIONS, NURSING AND SHELTERED HOUSING

The viability of residential institutions and sheltered housing is broadly similar to the standard residential market and tends to reflect local value. There are however two main reasons for not adopting the same CIL rate. Firstly, the sales rate on sheltered schemes, because it is a niche market, is usually slower than general housing developments and thus borrowing costs will increase. In addition, they tend to include much more communal space within the scheme and therefore the gross to net floor space ratio is lower than conventional developments. It is therefore recommended that a CIL rate of £50psm is applied.

4.3.2 RECOMMENDED LEVELS OF CIL FOR OFFICE, INDUSTRIAL AND WAREHOUSING DEVELOPMENTS

The viability of B1, B2 and B8 developments, with some exceptions where for example, sites have either historic or real low land values, requires rental growth to justify development. With office rentals ranging between £95psm and £150psm (£9psf - £14psf), and industrials / warehousing between £55psm and £85psm (£5psf and £8psf), such schemes will generally not generate sufficient positive land values to justify a CIL rate and it is therefore recommended that they are nil rated until the first CIL review.

4.3.3 RECOMMENDED LEVELS OF CIL FOR RETAIL DEVELOPMENT

Planning policy strongly points new development toward Stroud town centre and existing centres in the shopping hierarchy. While some retail warehouses have been permitted, this policy approach is likely to remain in place. Retail residual values vary considerably although town centre rents and retail warehouse rents are comparable (albeit the latter with markedly lower constructions costs). Our appraisals suggest that any new development proposals in the town centre and new retail warehouses, should SDC permit such uses, should contribute a CIL rate of £120psm but outside those categories, not least to encourage small units in existing centres, there should be nil rate. This is particularly relevant in the villages and rural areas where Local Plan Policy SH15 seeks to maintain small shops, but should also be applied in secondary town centre locations. We suggest a floor space threshold of 1000m² above which total retail developments will contribute CIL.

4.3.4 RECOMMENDED LEVEL OF CIL FOR LEISURE DEVELOPMENTS

Leisure development is not common and when arising often part of a mixed use scheme. There is insufficient evidence at present to justify setting a positive rate.

4.3.5 RECOMMENDED LEVEL OF CIL FOR HOTEL DEVELOPMENTS

Hotel developments in the right location and pitched at the right operator remains quite a strong albeit discriminating market. Should new schemes arise, the appraisals suggest a CIL rate of £80psm would be sustainable.

4.3.6 RECOMMENDED LEVEL OF CIL FOR 'OTHER DEVELOPMENT'

Developments falling outside the listed uses above could, according to the Regulations, be subject to a CIL rate for 'other chargeable development'. While few schemes would fall into this category, we remain concerned that this element in other charging schedules would be challengeable and thus potentially undermine the schedule as a whole. We would therefore recommend a nil rate.

5.0 POLICY AND PROCEDURAL MATTERS AFFECTING VIABILITY TO BE CONSIDERED IN THE DISTRICT PLAN AND PDCS

INTRODUCTION

5.1 In this Section we consider briefly certain other policy and procedural matters, with the potential to affect Viability, which the Council will need to consider in creating a robust District Plan and Preliminary Draft Charging Schedule for CIL.

5.1.1 In order to provide the infrastructure need and cost evidence that is required so that the Council can *'strike an appropriate balance'* between the desirability of funding infrastructure through CIL and the viability of development, the Council is involved in the joint preparation of a county-wide Strategic Infrastructure Delivery Plan. Although not explicitly stated in the CIL Regulations, it would be difficult for the Council to justify imposing rates of CIL which, once the expected rates of development within the plan area are applied, is predicted to produce a yield from CIL which exceeds *'the actual and estimated total cost of infrastructure required to support the development of its area'* less the other actual and expected amount of funding likely to be received from other sources.

The SIDP is in preparation as is the work to provide the infrastructure cost evidence for CIL and this Study can only draw on the information that is currently available.

DEVELOPING AN OVERARCHING POLICY FRAMEWORK

5.1.2 The District Plan and the Preliminary Draft Charging Schedule are being taken forward in parallel. It will be important to ensure that the District Plan sets out clearly the Council's 'Strategy' for infrastructure provision and the evidence that supports it. The Council's headline policies for development standards and the on-site provision for infrastructure will need to be included. Where the Council intends to continue to use s106 obligations and/or conditions to deliver on-site infrastructure and other mitigation, this needs to be set out in policy.

The District Plan will need to set out the Council's policy towards affordable housing on mixed tenure and mixed use development sites. The Council is considering applying a 20% affordable housing requirement (or potentially commuted payments) on small sites under four units. Such an approach will not be an infrastructure contribution under CIL as affordable housing has been expressly excluded from the list of infrastructure in the 2010 Regulations. Therefore, provided that there is appropriate policy in place, an in-lieu payment for affordable housing on small sites is lawful.

TYPES OF INFRASTRUCTURE TO BE FUNDED BY CIL

5.1.3 The Council may, if it chooses, use CIL to fund any type of infrastructure, where infrastructure is defined to include any infrastructure listed in s216(2) of the Planning

Act 2008, as modified by Regulation 63. These are roads and other transport facilities, flood defences, schools and other educational facilities, medical facilities, sporting and recreational facilities and open spaces. The Council does not have to define a narrower list of 'relevant infrastructure' used to justify the CIL charge, but there are good reasons to do so, because of the provisions of Regulation 123(2). The Council will draw together a preliminary list of relevant infrastructure to be funded through CIL.

5.1.3.1 The intention of Regulations 123(2) and (3) is to restrict the continued use of planning obligations under s106 of the Town and Country Planning Act 1990 once the charging schedule takes effect, or if no charging schedule is put in place, in any event, as of 6 April 2014. It does this in two ways. Firstly, it prohibits the use of s106 agreements to fund any infrastructure which is included in a list of relevant infrastructure, ie. one which is published on the Council's website under Regulation 123. Secondly, in relation to any other infrastructure type or project, after the Charging Schedule takes effect¹ it prevents any more than four further separate planning obligations agreements being entered into '*which provide for the funding or provision of that project, or type of infrastructure*'. It does this by prohibiting such obligations from being "a reason for granting planning permission". However, it is worth bearing in mind that Regulation 123 does not stop such an obligation from being a material consideration in any decision.

5.1.3.2 In our view, the formulation of the Council's Regulation 123 Relevant Infrastructure Schedule is an important part of the process of formulating a robust charging schedule. The Council has considerable discretion about how it formulates its Relevant Infrastructure Schedule. It can, for example, include a certain type of infrastructure but exclude particular projects or localities, where those projects may be better delivered, subject to Regulation 123(3), through s106 obligations. It can add or subtract types of infrastructure at a later date without great difficulty. Under Regulation 59, the Council can still apply CIL to fund infrastructure of any type, even if that type of infrastructure is not listed in the Relevant Infrastructure Schedule.

5.1.3.3 The intended approach to the Relevant Infrastructure Schedule is important to this Study when it comes to considering both the rates of CIL and the geographical areas to which it should apply. Where the Council intends, for example, to continue to use s106 obligations to fund a particular project, this will be relevant to consideration of the viability of those developments that will be subject to those obligations.

5.1.3.4 Our advice is that the Council should adopt a Relevant Infrastructure Schedule which is reasonable but fairly tightly drawn, to make best use of the Council's powers under both the CIL Regulations and the continued limited use of s106 obligations in particular circumstances.

¹ Or in any event, on or after 6 April 2014

PAYMENT IN KIND

5.1.3.5 The CIL Regulations, in Regulation 73, allow the Council to offset the value of land (but not generally the value of any works carried out by the Developer on that land) against the chargeable amount of CIL where land for community facilities is transferred to the Council. Developers and landowners, particularly of larger sites, will be keen to understand whether the Council intends to do this and how the valuation is to be done. This is an issue which has been a problem elsewhere under the s106 obligations regime, not least because of its impact on Viability, and should be considered as part of the drafting of the Preliminary Draft Charging Schedule.

EXCEPTIONAL RELIEF AND PAYMENT BY INSTALMENTS

5.1.3.5 The Council should, in our view, offer Relief, since it provides some flexibility under CIL to deal with individual sites where development is desirable, but which have exceptional costs or other requirements which make them unviable. This would need to be set out clearly in policy in the Preliminary Draft Charging Schedule and the District Plan. If SDC wishes to activate the exceptional circumstances procedure for its area, it will need to specify a date from which Exceptional Relief procedures will come into force. The powers to offer Relief can be activated and deactivated at any point in time after the Charging Schedule is approved. The Council will have to consider, on a case by case basis, whether the Exceptional Circumstances Relief constitutes 'state aid' and follow the notification procedures for 'state aid'.

5.1.3.6 Although Regulation 55 allows for discretionary relief for exceptional circumstances this is limited in that it can only be applied where there is also a s106 obligation in place, the value of which exceeds the value of the CIL which is payable for that development and that the requirement to pay would have an unacceptable impact on the economic viability of the development. The Regulations state that the maximum Exceptional Relief that can be allowed is the cost attached to the obligation. Based on our appraisals, this should be sufficient for the Council to offer Exceptional Relief up to the total CIL chargeable, except possibly where there are no affordable housing obligations.

5.1.3.7 In the Preliminary Draft Charging Schedule, the Council will need to state the basis on which it will charge administrative expenses for CIL.

5.1.3.8 Regulation 69B, introduced in the CIL Regulations 2011, allows the Council to permit payment of CIL by instalments, which are more flexible than those originally prescribed in the 2010 Regulations. If SDC wishes to allow payment by instalments, Regulation 69B requires that the Council publishes an 'instalment policy', which can be reviewed at any time. The policy would need to include the number of instalment payments, the amount or proportion of CIL payable in any instalment, a payment timetable and a monetary threshold for CIL below which CIL may not be paid by instalment. The Regulations give the Council clear powers to enforce the collection of CIL through the courts. Where there is an instalment policy in place, if a developer does not pay the required instalment on or before the day on which it is due the full unpaid balance of CIL for the whole development becomes payable in full immediately.

5.1.3.9 An instalment policy will give the Council valuable flexibility in dealing with individual applications, at no greater risk of non-payment of CIL, and is essential if the intention is to allow developers to provide works and transfer land to the Council. The effect of the instalment policy on developer cashflow could be critical in cases where development viability is marginal.

CONTINUED USE OF S106 OBLIGATIONS AND AGREEMENTS

5.1.3.10 SDC can still use s106 agreements to secure infrastructure as long as the infrastructure project or type of infrastructure in the s106 agreement is not the same as the infrastructure project or type in the published Regulation 123 list and if five or more agreements are already in place in order to secure the funding for or delivery of that infrastructure project or type.

5.1.3.11 SDC may want to preserve the flexibility offered by s106 agreements for securing major infrastructure on certain sites; indeed, this may be the preferred approach for some applicants. If so, as well as carefully drafting the Regulation 123 list, it should ensure that appropriate planning policies are in place.

6.0 CONCLUSIONS

AFFORDABLE HOUSING LEVELS

- 6.1 The analysis shows that development in Stroud DC would support a requirement of 30% affordable housing on all size of schemes above four units and 20% below four units, whilst achieving a reasonable level of CIL to help fund infrastructure requirements in the District. In setting the affordable housing level a balance has had to be struck between meeting the need for affordable housing in the District and the need to contribute to the infrastructure required to support new residential development without having a negative effect on the economic viability of development across Stroud.

RECOMMENDED LEVELS OF CIL

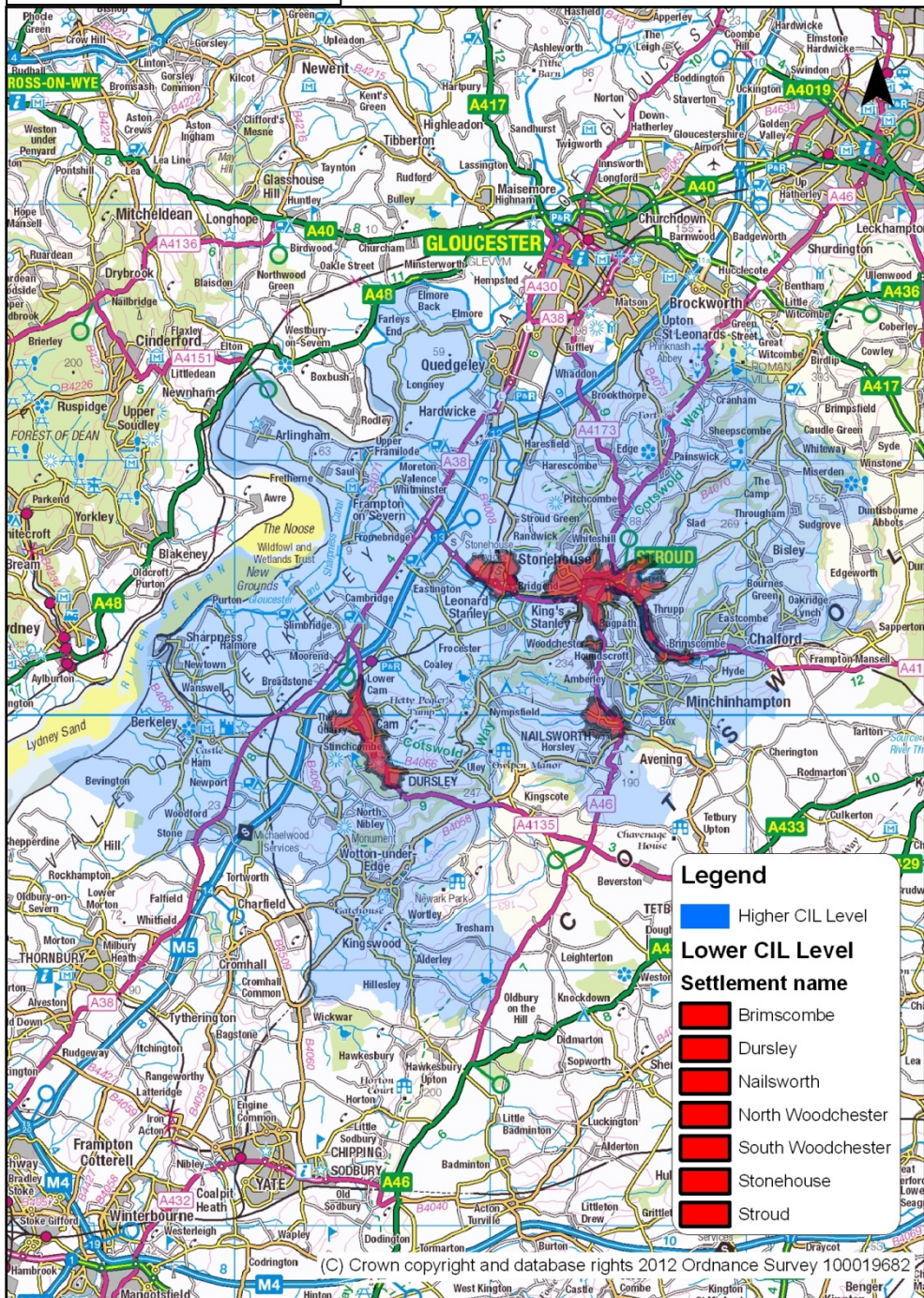
- 6.2 **Table 7.1** summarises the recommended levels of CIL for the principal forms of development in Stroud, subject to the caveats in **Section 5**.

Table 7.1: Recommended Levels of CIL for Principal Types of Development in Stroud

Type of Development	CIL Rates £ per square metre New additional floorspace
Open Market Residential in Defined urban areas (See Map overleaf)	£80
Open Market Residential in Rural Areas	£120
Residential Institutions	£50
Office, Industrial and Distribution	£0
Retail developments above 1000m ² gross internal area	£120
Small retail developments below 1000m ² gross internal area	£0
Leisure [selected types]	£0
Hotel [1,000 m ² and above]	£80
Other development	£0

- 6.3 At this stage the infrastructure information is not sufficiently advanced to address the 'appropriate balance' test in Regulation 14 in full. The recommended rates of CIL are based on answering the second part of the Regulation 14 test on the potential effect of the imposition of CIL on the economic viability of development across Stroud and should be reviewed against the final assessment of infrastructure required and any funding gap is available.

Residential CIL Areas



 STROUD DISTRICT COUNCIL www.stroud.gov.uk	CIL Areas	
	23/03/2012	Scale -1:193,663

- 6.4 Whilst it is recognised that the recommended levels of CIL may make some individual developments unviable where there are significantly higher costs associated with bringing a particular site forward, they have been set to ensure that the economic viability of development generally within Stroud as a whole is not jeopardised. Nevertheless, the recommended rates should be index linked to the Retail Price Index and reviewed periodically.
- 6.5 It is intended that this Report will be published as part of the evidence for the District Plan and the Community Infrastructure Levy (CIL) Preliminary Draft Charging Schedule and it should be reviewed for consistency with those documents before publication.