

**Attachment A:  
Response to Stroud  
Local Plan Review  
Submission Draft, May  
2021**

In respect of the:

**Stroud District  
Council Local Plan  
Viability Assessment,  
Working Draft, May  
2021**

Prepared by:

**Pioneer Property Services Ltd**

On behalf of:

**Robert Hitchins Ltd**

Date:

**19<sup>th</sup> July 2021**



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## Summary

- On the 29<sup>th</sup> of April 2021 Stroud District Council approved a Pre-Submission Draft Local Plan for publication. A fundamental part of the evidence base is a Local Plan Viability Study undertaken by HDH Planning and published initially in draft in June 2020 and more recently as a 'Working Draft' in April 2021 and then re-issued with further changes in May 2021 ("WDLPVA"). PPS previously prepared and submitted a consultation response to the Council in respect of the June 2020 draft Local Plan Viability Study (see Appendix 1).
- The WDLPVA (and prior draft LPVA) make various assumptions including of CIL contributions (on non-strategic site typologies) being inclusive of the education requirements of the County Council (see Paragraph 7.44 of the WDLPVA) and the sites put forward for allocation (and the generic sites) are tested against these assumptions. This issue is compounded by a lack of clarity in the wording of Core Policy 6 'Infrastructure and Developer Contributions' of how educational infrastructure will be sought by the District Council.
- In practice, the County Council have been requesting additional payments of up to c.£17k per unit across Gloucestershire, in addition to s106 for other forms of infrastructure (assumed in the WDLPVA at £5k per dwelling, which itself is insufficient even without the County education s106 cost) which together with the WDLPVA s106 costs exceed c.£20k per dwelling.
- Consequently various interested parties have raised concerns on the basis that the evidential foundations of the Draft Local Plan Review are being undermined by the County Council, in terms of viability and deliverability (see paragraph 8.114 of the WDLPVA).
- It is clear that, if the additional County education contributions are to be sought, the Draft Local Plan Review cannot continue without very significant modifications to the Plan. Stroud District Council's position on this matter must be made absolutely clear as part of this consultation process and ahead of submission for Examination: it must be made explicit whether the Draft Local Plan Review policies will, or will not, be imposed in conjunction with a new County s106 education formula and what the resulting costs of this will mean for development.
- The WDLPVA does not provide any certainty around the author's discussions with the Council on this matter and, whilst an Interim Position Statement has been prepared by the Local Education Authority reducing pupil product ratios following the recent Coombe Hill s78 Planning Appeal reference 3257625, this is understood to remain subject to many of the same flaws as the formula

referred to in the Appeal. Critically, there is a lack of clarity in terms of how any County s106 education costs will impact on viability in Stroud.

- If the Draft Local Plan Review policies are to be imposed in conjunction with a new County s106 education formula then it will be necessary to:
  - a) examine the evidential justification for any new formulaic approach (bearing in mind that an iteration of this formula was not supported during a recent s78 Planning Appeal reference 3257625)
  - b) examine its implications on relevant policies of the Development Plan (including on overall housing numbers), and,
  - c) examine the viability impacts on development
- These are matters of critical importance given the likely negative impacts upon Housing Land Supply in the Stroud local authority area and should not be left for determination through a promised 'early review' of the Plan; in terms of the impacts within the Stroud local authority area these issues should be resolved through this Plan preparation process, or if this is impossible then the emerging Local Plan Review cannot reasonably be concluded to be sound.
- The following analysis provides a response to the latest iteration of the Stroud District Local Plan Viability Assessment but, in essence, it is evident that the necessary evidence must be provided to resolve this County s106 issue prior to the Draft Local Plan progressing to the Examination stage.
- Even without having regard to concerns raised in this paper (and previously in response to the June 2020 iteration of the viability evidence) regarding overestimated sales values and underestimated costs (including County s106) the WDLPVA Tables 10.2a, 10.2b, 10.2c and 10.2d suggest that, against the WDLPVA author's own BLV, **the proposed policy and developer contribution requirements cannot be supported by c.73% of the combined non-strategic and 100% of the Strategic Sites tested - ALL of the strategic sites tested fail to achieve a RLV that exceeds the WDLPVA BLV.**
- The WDLPVA presents appraisal summaries in its Appendix 13 which reflect the combined impact of 30% Affordable Housing, CIL, s106 at £20k per unit (which potentially reflects the County Education costs i.e. c.£22k per unit based on the £5k per unit local authority s106 plus a potential c.£17k per unit County s106 cost – NB: updated costs are unclear in the Interim Position

Statement) and the cumulative Draft Plan Policy costs. These confirm that once the combined cost of all these factors are taken into account, and the RLVs are compared to the BLVs set in the WDLPVA, **c.89% of the generic sites tested (56 out of 63) will be unviable**. Only 7 sites out of 63 of the generic sites continue to have RLVs above the WDLPVA BLVs – these are all in the Gloucester Fringe / Cotswolds sub-area and all of the other sub-areas contain nil such sites.

- It is unclear from the information presented in the WDLPVA how / if the County s106 will apply to the Strategic Sites or whether such costs are already reflected in the modelled assumptions. This lack of clarity is further compounded by the IDP failing to set out transparently, on a site by site basis, how all the different infrastructure items required will be funded (i.e. including in respect of s106 and or CIL), the total costs of this, or the timing of these costs. The Infrastructure Funding Statement (which is not included in the evidence base) does not clarify these matters. However, the strategic sites are already suggested to be unviable in the baseline modelling.
- The adjustments to policies suggested in paragraphs 12.70 and 12.92 of the WDLPVA (which include moving the Affordable Housing tenure to a 50:50 rent / sale split) **will not be enough**.
- It must also be noted that, the WDLPVA (and previously the draft LPVA) Greenfield Site BLV of £25k plus £350,000 per gross hectare appears to fail to reflect the WDLPVA author's own evidence of policy compliant land sales suggesting an average land sale value of £761k and a median value of £820k (presumably per gross hectare on the basis that the WDLPVA goes on to refer to a £800k per hectare residential land value in paragraph 6.28 ahead of establishing its per gross hectare BLVs) Gloucestershire wide. The BLVs are arbitrarily set and have no evidential basis – it is a circular argument to refer to BLVs set in a similarly arbitrarily way in Local Plan Viability Assessments elsewhere.
- When land is being marketed on the basis of seeking offers for promotion agreements or options, it is usual that bidders will be required to specify and subsequently negotiate and agree a minimum financial return to the landowner, which, if not achieved, will not be sufficient to persuade the landowner to make the land available for development. The WDLPVA BLV of £25k plus £350,000 per gross hectare **does not** reflect the reality of the landowner position and in fact, based on the experience of Robert Hitchins Ltd in Gloucestershire, minimum financial returns to landowners will range between £450k to £775k per gross hectare. This is direct and relevant evidence of the real-world BLVs.
- Affordable housing is one of the largest cost burdens faced by development, and where other mitigating factors cannot be removed / reduced this is a requirement that will need to flex

downwards. Most sites in the District will struggle to support 30% affordable housing under the current Plan policies, let alone under the emerging Plan policies, and none will be able to do so where significant additional County Council education s106 contributions are imposed and if realistic BLVs are applied.

## 1 Introduction

- 1.1 This paper, prepared by Pioneer Property Services Ltd (“PPS”) on behalf of Robert Hitchins Ltd (“RHL”), provides a response to the Stroud District Council Draft Local Plan Viability Assessment ‘Working Draft’ (“WDLPVA” – published initially on the 20<sup>th</sup> of April 2021 and then re-published on the 28<sup>th</sup> of May 2021) prepared by HDH Planning and Development (“HDH”) on behalf of Stroud District Council (“the Council”).
- 1.2 Whilst the Council have issued a form seeking responses to the Submission Draft Local Plan Review (“SDLPR”) this is somewhat restrictive in formatting terms for providing commentary on elements of the Council’s evidence base for which this consultation provides the first opportunity to respond to. Hence this report has been prepared for consideration in conjunction with the SDLPR response forms prepared by PPS.
- 1.3 The WDLPVA appears to be a replacement to the ‘Pre-Consultation Draft Local Plan Viability Assessment including CIL Review’ (“draft LPVA”) published in June 2020 and which PPS prepared and submitted a consultation response to the Council (July 2020 – see Appendix 1). The WDLPVA states that the current report has been informed by this June 2020 consultation process.<sup>1</sup> No further opportunities for consultation have taken place until now, including in respect of online workshop sessions to further discuss the content and scope of the WDLPVA prior to its publication in April and then May 2021.
- 1.4 The generic and strategic typologies modelled in the WDLPVA appear to remain the same as in the draft LPVA in June 2020,<sup>2</sup> albeit that the net / gross areas and densities have been updated in Table 9.10 of the WDLPVA.<sup>3</sup>
- 1.5 The Appendices to the April 2021 WDLPVA were attached for review mid-way through the consultation period along with a revised May 2021 WDLPVA which resulted in alterations to content and paragraph numbering – this makes it very time consuming for respondents (and particularly members of the public) to be able to follow where changes are made.
- 1.6 The following sections of this paper review the areas of concern raised in the June 2020 draft LPVA consultation and consider whether the concerns raised have been addressed.

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<sup>1</sup> Paragraph 1.4, WDLPVA

<sup>2</sup> See paragraph 1.2 of Appendix 1.

<sup>3</sup> Page 172, WDLPVA

## 2 Residential Market – Sales Values

- 2.1 The WDLPVA presents updated Land Registry data in respect of sold house price data for the District and whilst noting the point made in the PPS draft LPVA response that newbuild average prices decreased between October 2019 and January 2020, whilst existing house prices saw a limited increase, fails to respond on the point that whilst average prices in June 2020 may have increased this was based on a smaller data set due to reductions in the volumes of sales than in October 2019.
- 2.2 As at May 2021 the Land Registry data suggests an even lower volume of sales across Stroud during a February 2020 to January 2021 twelve month period (c.128 per month on average) from that in the February 2019 to January 2020 twelve month period (c. 173 per month on average) broadly covering the most recent period of Land Registry data reported on in the draft LPVA. As such, it remains the position that caution should be applied in any interpretation of the relevance of any value increases. The impacts of the Pandemic and Brexit on the economy are yet to manifest themselves beyond the current potentially short term upticks resulting from backlog of demand due to Covid restrictions, the Government's Stamp Duty holiday and the Help to Buy equity loan scheme (which will end during the emerging Plan period).
- 2.3 It is also considered that the WDLPVA comparison between newbuild and existing property average house sale prices in the District with newbuilds being 38% more than existing prices<sup>4</sup> is of little relevance unless the properties being compared are like for like in terms of condition, specific location and orientation etc. This observation should, therefore, not be inferred (as it is in paragraph 4.55) to suggest that the newbuild development assessed within the WDLPVA will have significantly higher than average existing property sales values. The newbuild market does not operate in a vacuum and purchasers will have the option of purchasing new and existing homes; developers will not look to price themselves out of the market.
- 2.4 Page 49 acknowledges the numerous uncertainties facing the development industry and states in paragraph 4.16 that sensitivity testing is undertaken, although as noted in section 6 below these tend to test variations to individual cost impacts as opposed to testing a combined increased cost / reduced value scenario or to testing the combined impact of 30% Affordable Housing, CIL, s106 that reflects the County Education costs (i.e. c.£22k per unit based on the

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<sup>4</sup> Paragraph 4.10, WDLPVA



£5k per unit local authority s106 plus a potential c.£17k per unit County s106 cost<sup>5</sup>) and the cumulative Draft Plan Policy costs.

- 2.5 Footnote 48 to paragraph 4.22 suggests that the PPS response to the draft LPVA sought that the impacts of the Pandemic be ‘predicted’. This is inaccurate – it was generally noted in the PPS response that the impacts of the Pandemic were as yet unknown and therefore the issues raised in terms of assumptions within the draft LPVA, resulting in an assessment at the margins of viability (and beyond when realistic County Education s106 costs are factored in), were of increased concern.
- 2.6 Whilst the WDLPVA has commented in paragraph 4.24 on the concerns raised by PPS in response to the draft LPVA<sup>6</sup> basing its residential values analysis on settlement wide asking prices, the author maintains that this is a suitable starting point for the research and that the value inputs in the appraisals ‘may or may not’ follow the settlement hierarchy. The concern remains that sub-markets (some with significant value differences) within settlements will not be reflected. The WDLPVA provides no insight into how the actual appraisal inputs have actually been determined having regard to the settlement based research (which is also applied in Table 4.5, Figure 4.6, Table 4.6, and Figure 4.10 in respect of sold prices), given the vague response that a settlement based approach ‘may or may not’ have been used.
- 2.7 The WDLPVA responds to the PPS comment on the draft LPVA,<sup>7</sup> querying why not all of the price paid data is appended, stating that this would make the report too big and it would not be ‘useful or proportionate’ suggesting the data is available on the Land Registry website. Value inputs are one of the single greatest impacts on the outcome of a viability assessment; even just slight increases or decreases can have a huge impact on the assessment outcomes. It is, therefore, simply not good enough to suggest that the evidence informing an assessment which will underpin a 20 year Plan period is too big to include or that requesting this is in some way disproportionate. Whilst data can be downloaded from the Land Registry website this can be subject to revisions and it is reasonable to expect that the WDLPVA author would have a copy of the actual data downloaded to inform the basis of their value input assumptions. The WDLPVA response on this is in direct conflict with the WDLPVA claims in paragraph 4.47 that full data sources should be presented to avoid concerns about transparency.

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<sup>5</sup> The precise cost remains unclear following the publication of an Interim Position Statement by Gloucestershire County Council

<sup>6</sup> See Appendix 1 paragraph 3.5

<sup>7</sup> See Appendix 1 Paragraph 3.6

- 2.8 In paragraph 4.29 the WDLPVA suggests that PPS queried why data from 'other' transactions in the Land Registry data were not presented; this is inaccurate. Paragraph 3.14 of the PPS response (see Appendix 1) notes that such transactions, correctly, are not included in the author's analysis in Table 4.5 of the draft LPVA. However, concerns were raised by PPS<sup>8</sup> about outlier values having been included in the analysis and the WDLPVA has not addressed this concern; the point in paragraph 4.47 of the WDLPVA (i.e. the full data should be presented for transparency) is not a reasoned explanation for why significant outliers have been included in the value analysis – as long as any exclusions are explained and the full data set provided there would be no transparency issues.
- 2.9 In paragraphs 4.47 and 4.57 'L' the WDLPVA author notes the concerns raised by PPS in response to the draft LPVA<sup>9</sup> value analysis not being fine grained enough. The response in the WDLPVA appears to agree, but suggests that small data sizes prevent further disaggregation. However, this fails to grasp the point raised by PPS that, as the Land Registry sold house price data is available to post code level, it could be heat mapped on this basis thus revealing the true geographical distribution of value pockets and patterns within the District – i.e. not value ranges skewed by imposed settlement or ward boundaries.
- 2.10 A point raised by PPS<sup>10</sup> about a 2.5% discount to newbuild asking prices for incentives / discounts being stated within the draft LPVA without any supporting evidence being presented for scrutiny seems to be countered in the WDLPVA paragraph 4.51 on the basis that PPS did not provide alternative evidence. Given that the draft LPVA author was commissioned to prepare the Local Plan viability evidence it is their responsibility to present the evidence that supports their claims, not the responsibility of respondents to disprove their evidentially unsupported claims through the provision of new evidence.
- 2.11 PPS raised several concerns in response to the draft LPVA<sup>11</sup> lack of analysis of existing property sales values for comparable properties that newbuild schemes will have to compete with. The WDLPVA paragraph 4.52 appears to note these points having been made, but again suggests that PPS should have done their job for them and presented existing sales value analysis. It is the responsibility of the commissioned WDLPVA author, not respondents,

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<sup>8</sup> See Appendix 1, paragraphs 3.14 to 3.21

<sup>9</sup> See Appendix 1 paragraphs 3.6 to 3.8

<sup>10</sup> See Appendix 1 paragraph 3.11

<sup>11</sup> See Appendix 1 paragraphs 3.9 to 3.10 (all bullets)

to establish the sales values inputs for the assessment, and explain clearly how this has been done, based on a review of the whole market.

- 2.12 Whilst the WDLPVA presents some additional information in paragraph 4.59 on the extent of the value sub-areas set out in Table 4.11 (which was Table 4.8 in the draft LPVA) it remains the case that the inclusion of a clear map and lists of settlements within the areas is needed. Furthermore, it remains unclear how the author has reached the value conclusions within Table 4.11 that they have i.e. how has the values analysis at a Ward and Settlement level been used, explained step by step, to arrive at the values in Table 4.11 and in respect of the Strategic Sites within Table 4.12. Without this clarity it remains difficult to constructively feedback on the values presented, although where the dataset remains as presented in the draft LPVA the concerns raised in Section 3 of the PPS response to the draft LPVA (see Appendix 1) - suggesting values to be overstated on the basis of the data used once outliers are excluded – remain applicable.
- 2.13 Whilst Table 4.11 includes a reduced £3k per Sqm for Gloucester Fringe (compared to £3.1k in Table 4.8 of the draft LPVA) this remains in excess of the c.£2.9k suggested by the draft LPVA (and within WDLPVA which references the same source in Table 4.6<sup>12</sup>) newbuild sold house price dataset once outliers are removed.<sup>13</sup>
- 2.14 It is noted that the value assumptions for the Rural East and Rural West sub-areas have been increased in Table 4.11 (by c.£100 to £200<sup>14</sup> per Sqm in the Rural East and by a huge £575 to £600<sup>15</sup> per Sqm in the Rural West) without any clear explanation as to why, using the same dataset, these increases are considered to be appropriate. Whilst commentary on value feedback is presented in the WDLPVA (pages 71 to 74) a clear evidential link between this feedback / the dataset and increases of this magnitude is not provided.
- 2.15 As already stated, slight changes in values can impact significantly on viability outcomes and so it is important, even for strategic level assessments, to base assumptions on detailed, evidentially informed and transparently explained analysis.

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<sup>12</sup> Page 61

<sup>13</sup> See Appendix 1 paragraph 3.18

<sup>14</sup> £3,400 to £3,500 and £3,500 to £3,700

<sup>15</sup> £2650 to £3225 and £2750 to £3350

*Affordable Housing Values*

- 2.16 Concerns remain (as raised in response to the draft LPVA<sup>16</sup>) that the blanket affordable housing value assumption approach applied in the WDLPVA will fail to pick up on locational differences.
- 2.17 Whilst stating at paragraph 8.42 that First Homes (the requirement for which has been introduced by way of Written Ministerial Statement on the 24th of May 2021 to take effect from the 28th of June 2021) have been tested within different appraisal iterations, the WDLPVA does not provide commentary on the likely impact of any requirement to provide these on the overall amount Registered Providers are likely to be able to pay for the remaining elements of Affordable Housing.
- 2.18 It is also noted that the summaries of the First Homes iterations tested set out in Appendix 12 to the WDLPVA only test this in conjunction with Affordable Rent as opposed to with Social Rent – the First Homes National Planning Guidance prioritises the provision of Social Rent on the remaining elements of Affordable Housing after the First Homes proportion has been deducted. The September 2020 Local Housing Needs Assessment suggests that Affordable Housing is required in a c.50% Social Rent, c.17% Affordable Rent and c.33% Affordable Home Ownership tenure split in Stroud and as the proposed Affordable Housing Policy CP9 does not specify otherwise the Council could seek to apply this.
- 2.19 There is also the impact that the First Homes requirement could have on the ability of Developers to sell similarly sized open market units if it comes into play within the District during the emerging Plan period – the First Homes requirement may result in a dampening appetite by First Time purchasers for 1, 2 and 3 bedroom open market dwellings – the income caps specified in the First Homes National Guidance issued by the Government in May 2021 (£80,000 or £90,000 in Greater London - Paragraph: 007 Reference ID: 70-007-20210524) governing eligibility mean that some households with savings or family support who would have been able / would have opted to purchase a home on the open market will use the discounted First Homes route instead. This is an impact absent from the Help to Buy Equity Loan scheme given that the relevant homes were purchased as open market (as opposed to Discount Market Sale Affordable Housing) units from developers. This could result in slow sales of similar open market units, increased sales risks and additional planning costs (due

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<sup>16</sup> See Appendix 1 paragraphs 3.25 to 3.28

to a need to re-plan sites with an alternative mix focussed on large open market homes) to developers. This is not tested within the WDLPVA as a sensitivity.

- 2.20 First Homes would not be sold to a Registered Provider, but the requirement for such homes is still likely to impact on the amount Registered Providers can pay for any rented or Shared Ownership Affordable Housing. Furthermore, there will be an increased cost to developers having to sell First Homes in terms of marketing and an increased risk as they will not be able to sell the homes in bulk to a Registered Provider thus obtaining a more reliable up front revenue stream. Both the National and any additional local occupancy requirements applicable to First Homes may result in a delay in the sale of such homes (compared to the sale to a Registered Provider of rented and Shared Ownership housing) which will impact on revenue streams.
- 2.21 Whilst the Stroud Local Plan has reached publication stage (i.e. Regulation 19 consultation) prior to the 28<sup>th</sup> of June 2021 and so is subject to transitional arrangements (i.e. not required to reflect the First Homes policy unless it fails to be submitted for Examination by 28<sup>th</sup> December 2021) Registered Providers operating in Stroud will also operate in other locations where this requirement may apply, and at Examination the Inspector could recommend an early review to introduce the requirement. Either way the introduction of First Homes is likely to impact on Registered Provider overall Business Plans; as First Homes will ultimately reduce the amount of Shared Ownership that will be provided this will reduce the ability of Providers to cross subsidise the rented element of schemes and to borrow funds thus reducing the value of any offers they are able to make more generally. As appraisals are highly sensitive to changes in revenue assumptions this outcome should be reflected through sensitivity testing in the WDLPVA.
- 2.22 Similar concerns exist in respect of the impact of the new Shared Ownership model from the 28<sup>th</sup> of June 2021 (subject to similar transitional arrangements as First Homes) which, among other things, will see Registered Providers footing the cost for non-NHBC warranty repairs and maintenance for a period of 10 years on Shared Ownership homes, initial shares being sold as low as 10% and with the potential for 1% incremental share purchases accompanied by reduced fees to the purchaser.

### 3 Land Values

- 3.1 The WDLPVA draws predominantly on the same datasets within the Land Values section (Chapter 6) as in the draft LPVA.
- 3.2 Some updated information is presented in respect of Residential Land Values based on a more recent 2019 iteration of the Government publication ‘Land Value Estimates for Policy Appraisal’.<sup>17</sup> This suggests that residential land values have increased by c.2.8% from £2.285m per hectare in 2017 to £2.350 per hectare in 2019.<sup>18</sup> Despite this the Benchmark Land Value (“BLV”) assumptions applied in the modelling remain unchanged.<sup>19</sup>
- 3.3 Some additional information provided by a housebuilder on residential land values is presented at paragraph 6.18 of the WDLPVA, although this is not presented on a per net or gross hectare basis (other than a somewhat unclear reference to ‘£521k/NDA’ – it is assumed that this is £521k per Net Developable Acre), nor does it seem to feed into the WDLPVA determination of a suitable BLV. It is noted that two of these suggest a £78k per plot and a £61k per plot land value compared to the £46k per plot and £29k per plot values listed in Table 6.3.
- 3.4 Despite presenting evidence of policy compliant land sales and suggesting an average land sale value of £761k and a median value of £820k (presumably per gross hectare on the basis that the WDLPVA goes on to refer to a £800k per hectare residential land value in paragraph 6.28 although Table 6.4 is unclear) Gloucestershire wide<sup>20</sup> the WDLPVA (and previously the draft LPVA) sets a Greenfield Site BLV of £25k plus £350,000 per gross hectare.<sup>21</sup>
- 3.5 In so far as the underpinning data referred to in the WDLPVA remains substantively as that referred to in the draft LPVA (subject to the increase in land values suggested at paragraph 6.12 of the WDLPVA) all of the concerns raised in the PPS response to the draft LPVA (Section 4 of Appendix 1) remain unaddressed in the WDLPVA including in terms of the responses referencing the PPS representations within the WDLPVA footnotes.
- 3.6 Where the WDLPVA suggests that alternative evidence has not been presented by PPS – a) it is the job of the WDLPVA author, not respondents, to present robust evidence to inform BLVs, and b) the alternative evidence is already presented in the WDLPVA and suggests that

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<sup>17</sup> Paragraph 6.12, WDLPVA

<sup>18</sup> See paragraph 6.13 of the draft LPVA and paragraph 6.12 of the WDLPVA

<sup>19</sup> Paragraph 6.54, WDLPVA

<sup>20</sup> This is referenced as being based on another report although the underpinning research is not appended. Due to the low levels of transactional data at a local authority level a Gloucestershire wide assessment should be referred to.

<sup>21</sup> Paragraphs 6.52 and 6.54, WDLPVA

the arbitrarily set BLVs are significantly below the minimum values that landowners are likely to accept for either brownfield or greenfield land for residential development.

- 3.7 The question, therefore, remains: where is the Council's evidence to support the WDLPVA Greenfield Site BLV of £25k plus £350,000 per gross hectare?
- 3.8 Many housing sites are promoted and gain permission via promotion agreements or options which have been exposed to open market tender and subsequent negotiation, and it is almost always the case that the legal provisions of these agreements specify a minimum landowner financial return, being a figure below which the land will not be released and available for development.
- 3.9 Evidence of these real world values can readily be found within promotion agreements; in the experience of Robert Hitchins Ltd, when the required landowner returns are taken into account, the gross per hectare land value for such sites will lie in the range of c.£450k to £775k in Gloucestershire.
- 3.10 This is based on real-life figures. The arbitrarily set WDLPVA Greenfield BLV of £25k plus £350,000 per gross hectare **does not** reflect the reality of the values which will be required to persuade landowners to make their land available for development in Gloucestershire.
- 3.11 If conclusions about the release price for, particularly Greenfield, land are to be drawn on the basis of the commentary presented in the draft LPVA / WDLPVA this will not be linked to evidence and does not, therefore, appear to adhere to the principles established within the National Planning Policy Guidance ("NPPG").
- 3.12 Whilst the revised NPPF has altered a part of how land is considered in the context of viability it still requires a judgment to be made to establish the landowners release price for various types of land. The land value threshold / BLV, or release price, is a critical component of the overall appraisal model and must be suitably identified and evidenced. A failure to do this in the context of the market will potentially jeopardise the timely release of sites over the plan period.

## 4 Development Costs

### *Construction and Abnormals*

- 4.1 As noted in the PPS response to the draft LPVA (paragraph 5.3 at Appendix 1) the WDLPVA, whilst referring to an allowance being made for ‘other normal development costs’ (paragraph 7.9), remains unclear on whether the allowance applied in the modelling is intended to be sufficient to cover only on-plot externals or on-plot and other site infrastructure and site opening up costs (except in respect of strategic sites where it is stated that a separate strategic infrastructure allowance is applied<sup>22</sup>).
- 4.2 Appendix 10 suggests that the same approach applies in the WDLPVA as in the draft LPVA – as such the comments in paragraphs 5.4 to 5.7 of the PPS response to the draft LPVA (see Appendix 1) would still apply.
- 4.3 As previously stated at paragraph 5.12 of the PPS response to the draft LPVA (Appendix 1): the WDLPVA should at least undertake sensitivity testing with a 20% uplift over baseline build costs as a minimum starting point plus additional opening up costs to reflect the impact on more complex Greenfield sites / plus an additional brownfield site allowance.
- 4.4 It is noted that the WDLPVA references a number of respondent concerns regarding the draft LPVA approach to abnormal costs in paragraphs 7.25 to 7.31 (in respect of Greenfield and Brownfield land), but simply responds by stating the PPG has been followed.<sup>23</sup> This disregards the actual fact that, regardless of the suggestions within the PPG, not all abnormal costs will be absorbed by a landowner. If the WDLPVA is to bear any resemblance to the reality of how land is actually transacted and what landowners will and will not accept and what will and will not be viable then such theoretical positions should be applied with a degree of independent thought (and at the least sensitivity tested) with appropriate allowances made for both brownfield and larger greenfield sites.

### *Fees*

- 4.5 It remains our position<sup>24</sup> that including professional fees at 8% of build costs is at the lower end of what can apply and it is noted that it is a reduced assumption compared to that which has been applied previously within the 2016 Stroud CIL Viability Assessment by the same author

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<sup>22</sup> Paragraph 7.13, WDLPVA

<sup>23</sup> Paragraph 7.32, WDLPVA

<sup>24</sup> As cited in paragraph 5.16 of the PPS response to the draft LPVA – see Appendix 1



(at 10% excluding planning fees at 1%). The response provided by the WDLPVA in paragraph 7.14 to this point does not robustly address the concern raised – where all cost inputs are at the lower end of what is likely the assessment outputs will be pushed to the margins of viability as opposed to providing a balanced view on likely viability outcomes for a Plan period.

#### *S106 Costs and Infrastructure*

- 4.6 The WDLPVA continues to apply a £5k per unit s106 cost assumption for non-strategic sites in the baseline appraisals and states that ‘we understand that CIL is the main tool for funding infrastructure’<sup>25</sup> (the acknowledgement in paragraph 7.46 of the April 2021 iteration that large sites (excluding strategic sites which are not subject to CIL) will be subject to both CIL and s106 costs whilst infrastructure for smaller sites will be funded by CIL is removed from the May 2021 iteration). In paragraph 7.45 the WDLPVA notes the PPS response to the draft LPVA stating that £5k per unit for s106 is too low, but still fails to present the evidence underpinning the ‘discussions’ with the Council on which this cost is based.
- 4.7 Crucially, despite acknowledging both in the draft LPVA and the WDLPVA that increased education s106 contributions are being sought by the County Council,<sup>26</sup> these costs remain untested in the baseline appraisals even against typologies (i.e. larger residential developments) to which they are routinely being applied across Gloucestershire (to the tune of a further c.£17k per unit in costs – so £22k per unit in conjunction with the £5k per unit local authority s106 cost assumption). This is despite these concerns previously having been raised by PPS in response to the draft LPVA (see paragraphs 5.10 to 5.31 in Appendix 1) regarding these additional costs being imposed on residential development, and whilst not subject to CIL, the impact of any increased s106 education costs to those assumed for the strategic sites based on the May 2021 work by Arup (as set out in Tables 7.3 /12.5 of the WDLPVA).
- 4.8 In so far as it is intended to provide an updated assessment of viability in Stroud the WDLPVA s106 analysis should clearly reflect the s106 contributions sought on sites including any new County formulaic approach (the resulting cost of which during the life of the Plan is now subject to a further lack of clarity following the publication of an Interim Position Statement by the County Council which refers to a reduction in pupil product yields albeit the resulting average per unit education s106 cost is unclear). To do otherwise will fail to assess the impact of the new formulaic approach on the deliverability of the Development Plan. In Appendix 13 to the

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<sup>25</sup> Paragraph 7.44, WDLPVA

<sup>26</sup> Paragraphs 8.93 to 8.94, draft LPVA and Paragraphs 8.111 to 8.112, WDLPVA

WDLPVA varied developer contributions are tested in conjunction with a 33% 'Intermediate' / 67% Affordable Rent Affordable Housing tenure split tested at varied levels, full emerging policy costs (or at least the costs deemed to apply by the WDLPVA to achieve compliance with these policies), and CIL.

- 4.9 The testing summaries in Appendix 13 of the WDLPVA suggest that, assuming 30% affordable housing, CIL, s106 at £20k per unit and in the context of the emerging policies for which costs have been assumed, 31 of the 38 of the generic sites tested fail to achieve a RLV that exceeds the BLV. The Gloucester Fringe and Cotswolds sub-area is suggested to have the most viable sites against the WDLPVA BLVs, but still contains 7 out of the 14 sites tested (50%) that have RLVS below the BLVs. These outputs also do not test all of the generic sites within each sub-area – the sites that are indicated to be unviable in the baseline testing (i.e. at £5k s106 per unit) are excluded.<sup>27</sup> Once these sites are factored in c.89% (56 out of 63) of the generic sites tested fail to achieve a RLV that exceeds the BLV.
- 4.10 It is unclear whether County education s106 costs are already reflected in the WDLPVA modelled assumptions for the strategic sites tested or not. The Local Plan Review Infrastructure Delivery Plan (May 2021 – “IDP”) suggests that:

*“It is recommended that GCC Education is consulted on all major residential applications (over 10 dwellings) to provide site-specific commentary and engage with developers in mitigating the impacts of developments.”*

(Page 62, IDP, May 2021)

and that:

*“It is expected that all strategic development sites of around 500 homes and above will provide a primary school onsite, unless site-specific constraints or local needs require otherwise. S.106 contributions will be sought on strategic development sites allocated in the plan, whilst smaller sites and windfall development would provide infrastructure funding for education via CIL.”*

(Page 62, IDP, May 2021)

- 4.11 The IDP lists education related demand and cost expectations for site allocations, but it is unclear whether or not these costs (along with any other specific costs identified in the IDP for

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<sup>27</sup> i.e. 21 sites per sub-area

other infrastructure items) are fully reflected in Table 12.5 of the WDLPVA for the strategic sites as this does not breakdown the strategic infrastructure costs on an elemental basis. However, these strategic sites are already suggested to be unviable in the baseline modelling.

- 4.12 It is also unclear how the costs listed in the IDP correlate with the overall £5k per unit s106 costs assumed in the WDLPVA in respect of the generic site typologies. The IDP wording suggests that smaller and windfall sites will only be required to fund education through CIL. However, this is not how the County have been approaching matters across Gloucestershire in practice.
- 4.13 The above lack of clarity is further compounded by the IDP failing to set out transparently, on a site by site basis, how all the different infrastructure items required will be funded (i.e. including in respect of s106 and or CIL), the total costs of this, or the timing of these costs. The Infrastructure Funding Statement (which is not included in the evidence base) does not clarify these matters.
- 4.14 Notwithstanding the above, assessing the viability impact of any new County formulaic approach is the last step: ahead of that the evidential basis of the formula (i.e. which underpins the assumptions on pupil places etc) must be demonstrated, then the impact of this on other Development Plan policies must be examined (i.e. such as increased housing requirements etc), and then the viability of the requirement should be tested – this all needs to take place as part of the current Local Plan examination.
- 4.15 It should be noted that having had regard to a critique of the new County formulaic approach and existing pupil capacity undertaken by the appellant in the Coombe Hill Appeal in Tewkesbury Borough (appeal reference 3257625 – 1<sup>st</sup> June 2021) the s78 Planning Appeal Inspector concurred with the Appellant and was ‘not convinced by the County Council’s calculations’ of pupil demand.<sup>28</sup> Notwithstanding that the approach has been successfully challenged elsewhere, it remains essential that the viability of any County education contribution (including any revisions through the Interim Position Statement or later reviews) be tested as part of this Local Plan process unless absolute clarity is provided by the Council that any such new formulaic approach will not be sought from planning applications in Stroud. The WDLPVA response in paragraph 8.114 is simply not good enough.

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<sup>28</sup> First paragraph top of page 21 Inspector’s report - appeal reference 3257625

- 4.16 As a result of an unrealistically low average s106 costs being applied sites will be concluded to be viable despite that this is completely inaccurate. In the real world these sites will remain unviable and homes will remain undelivered as a result further restricting the planned housing supply in the local authority area.
- 4.17 These points must be borne in mind when considering the average s106 that is being assumed on sites in the baseline testing – given its routine application across Gloucestershire, County education s106 costs should not be considered to be a potential additional cost, but something being applied in practice.

#### *Developer Return*

- 4.18 Whilst it is noted that the WDLPVA increases the developer return assumption to 17.5% across all tenures,<sup>29</sup> the points made in the PPS response to the draft LPVA (see paragraphs 5.34 to 5.39 of Appendix 1) remain applicable.
- 4.19 Notwithstanding guidance within the National Planning Policy Guidance (“NPPG”), unless / until real world impacts such as this are taken into consideration the exercise of viability testing Plan policies will be of limited use in providing a robust view on the extent of any burdens that development can bear.

#### *Site Holding Costs and Receipts*

- 4.20 The WDLPVA does not address the concerns raised in paragraphs 5.42 to 5.43 of the PPS response to the draft LPVA (see Appendix 1). The exclusion of any holding cost assumptions within the WDLPVA for any of the typologies tested will result in unrealistic viability outcomes.

## **5 Local Plan Policy Requirements**

- 5.1 The WDLPVA has a habit of suggesting it is the respondent’s responsibility to present the evidence to support or disprove the assumptions within their own assessment. This is demonstrated in the response in paragraph 8.16 of the WDLPVA to the PPS concern raised in respect of a lack of evidence being presented in the draft LPVA to support the Core Policy 5 cost assumptions (see paragraph 6.2 in Appendix 1). The evidence requested has not been presented and instead the author continually retorts that the respondent has not evidenced their position – the point is being raised in respect of the lack of evidence presented by the

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<sup>29</sup> Paragraph 7.66, WDLPVA

WDLPVA author to support the claims they have made as opposed to saying that they are wrong or right; in the absence of their own evidence being provided it is impossible to know.

- 5.2 It is surprising that the costs assumed in the WDLPVA for minimising water consumption in line with enhanced building regulations (i.e. in excess of standard Building Regulation requirements and ahead of new Regulations coming into force) have reduced from c. £100/dwelling in the draft LPVA based on a 2014 study<sup>30</sup> to an indexed £6/dwelling in the WDLPVA based on a 2015 Study.<sup>31</sup> Even when the updated Building Regulations come into force the additional costs will take some time to filter through to the BCIS index and ahead of that realistic cost assumptions should be applied.
- 5.3 The costs assumed by the WDLPVA against Core Policy CP7 (Lifetime Communities) for Category 2 and 3 (Approved Document M) standards whilst now subject to indexation in the WDLPVA,<sup>32</sup> still fail to reflect the impact of larger floor area requirements on land take and masterplanning, all of which have impacts on scheme viability. This policy burden is now sought through Policy DCP2, but the viability concerns remain as stated.
- 5.4 When considering Core Policy 8 the WDLPVA refers to a 2019 iteration of the Gloucestershire Local Housing Needs Assessment (“LHNA”) and confirms that the modelling is based on the housing mix in this (set out in Table 8.2 of the WDLPVA). The LHNA has since been finalised and published in September 2020 – the WDLPVA modelled mix still reflects this iteration (Figure 91 of the September 2020 LHNA).
- 5.5 In respect of Core Policy 9 the WDLPVA refers to testing a 67% Affordable Rent and 33% ‘Intermediate’ Affordable Housing tenure split in line with the ‘emerging’ LHNA.<sup>33</sup> The September 2020 LHNA, whilst including this broad rented /sale Affordable Housing tenure split further splits the rented element into Social Rent and Affordable Rent tenures.<sup>34</sup> If the Council are proposing to apply the LHNA tenure split with regards to Social Rent then this is the tenure split that should be tested in the WDLPVA. Paragraph 8.42 of the WDLPVA refers to iterations of appraisals testing First Homes – please see the comments on the potential viability impacts of these homes in Section 2 above. The WDLPVA does not refer to the new Shared Ownership model – also commented on in Section 2 above.

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<sup>30</sup> Page 105, draft LPVA

<sup>31</sup> Paragraph 8.17, WDLPVA

<sup>32</sup> Pages 141 to 143, WDLPVA

<sup>33</sup> Paragraph 8.39, WDLPVA

<sup>34</sup> Figure 91 of the September 2020 LHNA

- 5.6 The WDLPVA states that the delivery of Policy HC3, which seeks 2% of housing on Strategic Sites for self or custom build, has been tested.<sup>35</sup> However, there is no explanation of what the cost has been assumed to be, or on how it is applied within the modelling (including in terms of timing and delivery mechanisms) and the Appraisal sheets are not appended for consideration that may shed light on this. Concerns were raised about this in response to the draft LPVA – see paragraph 6.6 of Appendix 1.
- 5.7 It remains unclear that the potential cost of Policy HC1<sup>36</sup> is robustly tested. Concerns were raised about this in response to the draft LPVA – see paragraph 6.7 of Appendix 1.
- 5.8 It remains unclear that the potential cost of Policy DHC5<sup>37</sup> (which is suggested to have costs up to £4k per unit) is robustly tested. Concerns were raised about this in response to the draft LPVA – see paragraph 6.8 of Appendix 1.
- 5.9 It remains unclear that the potential cost of Policies CP13, EI12, DEI1, and EI16<sup>38</sup> is robustly tested within the scope of the £5k s106 contribution. Concerns were raised about this in response to the draft LPVA – see paragraph 6.9 of Appendix 1.
- 5.10 It remains unclear that the potential cost of Policies CP14 and CP15<sup>39</sup> are robustly tested. Concerns were raised about this in response to the draft LPVA – see paragraph 6.10 of Appendix 1.
- 5.11 It remains unclear that the potential cost of Policy ES1<sup>40</sup> (particularly in respect of electric car charging points) is robustly tested. Concerns were raised about this in response to the draft LPVA – see paragraph 6.14 of Appendix 1. The WDLPVA reasoning that it should not assume the worst case cost scenario can equally be applied to call into question the approach it has taken; i.e. to assume the best case scenario. Clearly, this is unlikely to apply to sites which need significant electrical capacity reinforcements – the WDLPVA has not presented any evidence to confirm that this will not apply to the typologies tested.

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<sup>35</sup> Paragraph 8.49, WDLPVA

<sup>36</sup> Paragraph 8.46, WDLPVA

<sup>37</sup> Paragraph 8.58, WDLPVA

<sup>38</sup> Paragraphs 8.64 to 8.66, WDLPVA

<sup>39</sup> Paragraphs 8.69 to 8.73, WDLPVA

<sup>40</sup> Paragraph 8.85, WDLPVA

- 5.12 It remains unclear that the potential cost of Policies DES3<sup>41</sup>, ES6<sup>42</sup>, ES12<sup>43</sup> and ES16<sup>44</sup> are robustly tested. Concerns were raised about this in response to the draft LPVA – see paragraphs 6.16 to 6.21 of Appendix 1.
- 5.13 The commentary in respect of Strategic Sites in paragraph 8.103 of the WDLPVA remains insufficient to confirm how the actual costs of the listed policies will apply (or not) to these sites. Concerns were raised about this in response to the draft LPVA – see paragraph 6.22 of Appendix 1.
- 5.14 In terms of floor areas the draft LPVA stated that Nationally Described Space Standards sizes were assumed in the modelling.<sup>45</sup> Concerns were raised about this in response to the draft LPVA – see paragraph 6.23 of Appendix 1. The WDLPVA does not now state that NDSS floor areas are tested when referencing NDSS in paragraph 8.105. The WDLPVA confirms that NDSS are not being sought through the Draft Local Plan.

## **6 Appraisal Outcomes – Conclusion**

- 6.1 Many of the concerns raised in the PPS response to the Residential Values section of the draft LPVA (see Appendix 1) remain unaddressed in the WDLPVA. Crucially:
- The Appendices to the WDLPVA were attached for review mid-way through the consultation period
  - It remains the case that outliers in the newbuild sold house price dataset have not been disregarded resulting in artificially inflated value assumptions based on the dataset used across many of the value sub-areas and strategic site locations.
  - The decision-making process and assumptions which inform the final model inputs in the WDLPVA are not set out in a logical, detailed or transparent way. The draft LPVA section on sales values requires restructuring to explain step by step how conclusions have been drawn and to draw on a detailed review of second-hand market sales data. At present the report jumps from values at a Ward and Settlement level to assumptions at a sub-area / strategic site location with no clear explanation of how the final values are derived.

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<sup>41</sup> Pages 153 to 154, WDLPVA

<sup>42</sup> Pages 154 to 155, WDLPVA

<sup>43</sup> Page 155, WDLPVA

<sup>44</sup> Page 156, WDLPVA

<sup>45</sup> Pages 118 and 119, draft LPVA

- The analysis of new-build properties should be developed to ensure that quality, site setting and location are considered as these will need to be appropriately factored into any figures relied upon.
- Significant £ per Sqm value increases in the WDLPVA compared to the draft LPV in the Rural East and particularly West sub-areas are not explained despite that the dataset used appears to remain as appended to the draft LPVA.
- There is no consideration of how the introduction of First Homes / the new Shared Ownership model may impact on Registered Providers and the amount that they can pay for Affordable Housing across the board (i.e. given likely reductions in Shared Ownership homes which would normally cross-subsidise the rented elements and increased costs to the Provider due to the new Shared Ownership model). Whilst the Stroud Local Plan Review will be subject to transitional arrangements Registered Providers are likely to operate across other areas where the requirements may apply and this will impact upon their Business Plans.

- 6.2 It remains the case that the Policy Requirements section of the WDLPVA would benefit from improved clarification on how cost assumptions (or nil cost assumptions) are arrived at and by the presentation of additional evidence to support where cost (or nil cost) input assumptions are made. Many of the cost assumptions seem likely to underestimate the costs that development will actually face as a result of the proposed policies. Currently, it is unclear how or if many of the policy costs are accounted for by the WDLPVA either within developer contributions or through uplifts to the base build cost, although the separate sensitivity testing of these elements in Section 10 (i.e. to vary Affordable Housing or to vary s106 or to vary draft Policy costs) suggests that these costs are separate to these elements. Underestimating policy costs will artificially improve viability outcomes - these are concerns that were raised in response to the draft LPVA (see Appendix 1 Section 6).
- 6.3 The outcomes of the WDLPVA modelling are set out within Section 10 with conclusions and recommendations in Section 12.
- 6.4 The WDLPVA suggests within paragraph 10.4 that viability is 'marginal' where the Residual Land Value ("RLV") exceeds the EUV but does not achieve the BLV. The WDLPVA suggests that whilst such sites are not viable, they may still come forwards. This issue was commented



on in response to the draft LPVA.<sup>46</sup> It remains the position that the WDLPVA approach renders the process of setting a benchmark in the first place against which policy / developer contribution burdens upon development are to be tested meaningless. The NPPG does not advocate setting a BLV and then ignoring it. See also comments in paragraph 4.9 of Appendix 1. The WDLPVA response in paragraph 10.6 does not address these concerns.

- 6.5 Tables 10.2a, 10.2b and 10.2c of the WDLPVA provide separate baseline appraisal summaries (in terms of the Residual Land Values – “RLV”) for the generic sites tested in the ‘Gloucester Fringe and Cotswolds’, the ‘Rural West’, and the ‘Cam Stonehouse Stroud Stroud Valleys and Sharpness’ sub-areas respectively.
- 6.6 Tables 10.2a, 10.2b and 10.2c suggest that, assuming 30% affordable housing, CIL, s106 at £5k per unit and in the context of the emerging policies for which costs have been assumed, **73%<sup>47</sup> of the generic sites tested fail to achieve a RLV that exceeds the BLV.** The Gloucester Fringe and Cotswolds sub-area is suggested to have the most viable sites against the WDLPVA BLVs, but still contains 10 out of 21 sites (almost 50%) that have RLVS below the BLVs.
- 6.7 Table 10.2d of the WDLPVA suggests that, assuming 30% affordable housing, CIL, s106 and strategic infrastructure / mitigation costs and in the context of the emerging policies for which costs have been assumed, **ALL of the strategic sites tested fail to achieve a RLV that exceeds the BLV.**
- 6.8 Therefore, even without having regard to the concerns regarding overestimated sales values and underestimated costs raised throughout this paper this suggests that, against the WDLPVA author’s own test, **the proposed policy and developer contribution requirements cannot be supported by c.73% of the non-strategic and 100% of the Strategic Sites tested.**
- 6.9 A significant concern in respect of the Development Costs section of the WDLPVA remains the failure to clearly acknowledge the full extent of s106 costs which have been routinely sought from sites across the County as a result of a new County formulaic education approach. County Council s106 requirements for education alone are likely to result in an additional £17k per unit cost to development (based on recent practices) on top of the £5k per unit tested in

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<sup>46</sup> See Appendix 1 Paragraph 4.9

<sup>47</sup> 46 out of 63

the baseline WDLPVA appraisals. It is unclear how the County s106 education cost will be impacted by the County Interim Position Statement.

- 6.10 In Appendix 13 to the WDLPVA varied developer contributions are tested in conjunction with a 33% 'Intermediate' / 67% Affordable Rent Affordable Housing tenure split tested at varied levels, full emerging policy costs (or at least the costs deemed to apply by the WDLPVA to achieve compliance with these policies), and CIL.
- 6.11 The testing summaries in Appendix 13 of the WDLPVA suggest that, assuming 30% affordable housing, CIL, s106 at £20k per unit and in the context of the emerging policies for which costs have been assumed, 31 of the 38 of the generic sites tested fail to achieve a RLV that exceeds the BLV. The Gloucester Fringe and Cotswolds sub-area is suggested to have the most viable sites against the WDLPVA BLVs, but still contains 7 out of the 14 sites listed in the Appendix (50%) as having RLVS below the BLVs. These Appendix 13 outputs do not test all of the generic sites within each sub-area – broadly speaking the sites that are indicated to be unviable in the baseline testing (i.e. at £5k s106 per unit) are excluded.<sup>48</sup> **Once these sites are factored in c.89% (56 out of 63<sup>49</sup>) of the generic sites tested fail to achieve a RLV that exceeds the BLV.**
- 6.12 Notwithstanding that the approach has been successfully challenged at a s78 Planning Appeal elsewhere, it is essential that the viability of any County education contribution be tested as part of this Local Plan process unless absolute clarity is provided by the Council that a new formulaic approach **will not be sought** from planning applications in Stroud. The NPPF does not support policy making through the planning appeal process: it requires that viability is robustly tested at the Plan making stage.
- 6.13 It is also unclear whether or not this additional s106 cost would apply to the Strategic Sites or whether contributions are already factored to some extent into the £25k per unit s106 and Strategic infrastructure / mitigation cost assumption, but it would apply to the generic sites tested and would render almost all of them unviable (or even more unviable) against the WDLPVA BLVs and the Strategic Sites, in any event, are suggested to have RLVs below the BLVs in the baseline testing.

### *Summary*

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<sup>48</sup> i.e. 21 sites per sub-area

<sup>49</sup> Only 7 sites out of 63 continue to have RLVs above the WDLPVA BLVs – these are all in the Gloucester Fringe / Cotswolds sub-area and all of the other sub-areas contain nil such sites.

- 6.14 The WDLPVA presents a variety of 'sensitivity' appraisal summaries in addition to the baseline iterations – these test some, but not all, of the 1 to 21 generic sites tested in the baseline appraisals for each sub-area and all Strategic Sites. The WDLPVA also presents appraisal summaries in Appendix 13 which reflect the combined impact of 30% Affordable Housing, CIL, s106 at £20k per unit (which reflects the County Education costs i.e. c.£22k per unit based on the £5k per unit local authority s106 plus a potential c.£17k per unit County s106 cost - NB: updated costs are unclear in the Interim Position Statement) and the cumulative Draft Plan Policy costs. These confirm that once the combined cost of all these factors are taken into account, and the RLVs compared to the BLVs set in the WDLPVA, c.89% of the generic sites tested will be unviable.
- 6.15 It is unclear how / if the County s106 will apply to the Strategic Sites or whether such costs are already reflected in the modelled assumptions. This lack of clarity is further compounded by the IDP failing to set out transparently, on a site by site basis, how all the different infrastructure items required will be funded (i.e. including in respect of s106 and or CIL), the total costs of this, or the timing of these costs. The Infrastructure Funding Statement (which is not included in the evidence base) does not clarify these matters. However, the strategic sites are already suggested to be unviable in the baseline modelling.
- 6.16 Not all of the policy requirements proposed in the Stroud Draft Local Plan will be able to be sought even without factoring in: the concerns raised in this paper regarding the WDLPVA modelling, any additional s106 burdens being sought by the County Council, reduced revenues from Registered Providers as a result of First Homes and the new Shared Ownership model and how economics may worsen as a result of the Pandemic. As stated in response to the draft LPVA: emerging policies must be revisited, with wish list policies removed and cost burdens reduced (including through looking at existing Plan policy burdens) to ensure the Plan is deliverable.
- 6.17 The adjustments to policies suggested in paragraphs 12.68 and 12.88 of the WDLPVA (which include moving the Affordable Housing tenure to a 50:50 rent / sale split) will not be enough.
- 6.18 Affordable housing is one of the largest cost burdens faced by development, and where other mitigating factors cannot be removed / reduced this is a requirement that will need to flex downwards. Most sites in the District will struggle to support 30% affordable housing under the current Plan policies, let alone under the emerging Plan policies, and none will be able to

do so where additional County Council education s106 contributions are imposed and if realistic BLVs are applied.

- 6.19 In this regard it must be noted that, the WDLPVA (and previously the draft LPVA) Greenfield Site BLV of £25k plus £350,000 per gross hectare appears to fail to reflect the WDLPVA author's own evidence of policy compliant land sales suggesting an average land sale value of £761k and a median value of £820k (presumably per gross hectare on the basis that the WDLPVA goes on to refer to a £800k per hectare residential land value in paragraph 6.28 ahead of establishing its per gross hectare BLVs) Gloucestershire wide.
- 6.20 When land is being marketed on the basis of seeking offers for promotion agreements, it is usual that all bidders need to include in their offers, the minimum landowner return figure being proposed. The market is competitive. If realistic offers are not made land **will not** be secured. The WDLPVA BLV of £25k plus £350,000 per gross hectare **does not** reflect the reality (based on the experience of Robert Hitchins Ltd) that in Gloucestershire values will range between £450k to £775k per gross hectare.

## 7 Appendix 1

# Response to Stroud District Council

In respect of the:

## **Stroud District Council Local Plan Viability Assessment**

Prepared by:

**Pioneer Property Services Ltd**

On behalf of:

**Robert Hitchins Ltd**

Date:

**9<sup>th</sup> July 2020**



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## 1 Introduction

- 1.1 This paper, prepared by Pioneer Property Services Ltd (“PPS”) on behalf of Robert Hitchins Ltd (“RHL”), provides an initial response to the Stroud District Council Draft Local Plan Viability Assessment (“draft LPVA” – published on the 9<sup>th</sup> of June 2020) prepared by HDH Planning and Development (“HDH”) on behalf of Stroud District Council (“the Council”). Whilst the Council have issued a questionnaire seeking responses this is somewhat restrictive and hence this response has been prepared in report format.
- 1.2 The draft LPVA models 21<sup>1</sup> generic Greenfield and Brownfield site typologies ranging in size from 3 units up to 400 units alongside 10 typologies<sup>2</sup> based on ‘potential’ Strategic Sites<sup>3</sup> (identified within the draft Stroud Local Plan review) ranging in size from 180 units up to 2,400 units. Currently, only the baseline residential appraisals are summarised and attached within the Appendix 11 to the draft LPVA. In brief, these assume 30% affordable housing, CIL at the current indexed rate and £5k per unit Section 106 for generic site typologies with site specific estimates of s106/strategic infrastructure and mitigation costs for the Strategic Site typologies.
- 1.3 In summary, this paper concludes that the preparation of the draft LPVA appears to have been prepared over an unfeasibly short timescale and, perhaps as a result, requires significant further amendment in terms of its approach to costs and values within the assessment of viability for the District. Whilst the draft LPVA is a high-level assessment these inputs are of crucial importance and the outcomes of viability modelling will be very sensitive to even minor differences.
- 1.4 It is clear that in Stroud District not all of the proposed Plan policy requirements will be viable even without factoring in the concerns raised in this paper regarding the draft LPVA cost and value assumptions (including in respect of any additional s106 burdens being sought by the County Council or in excess of the draft LPVA assumed £5k per unit for generic sites), and how economics may worsen as a result of the Pandemic. Emerging policies must be revisited, wish list policies removed and cost burdens reduced. Affordable housing is one of the largest cost burdens faced by development and it is apparent that the viability of development in the District will be highly marginal at 30% affordable housing under current Plan policies, let alone under emerging ones, and where additional County Council education s106 contributions /

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<sup>1</sup> Table 9.7, draft LPVA

<sup>2</sup> Table 9.9, draft LPVA

<sup>3</sup> Paragraph 2.19, draft LPVA and Table 3.1



s106 contributions in excess of £5k per unit are imposed housing targets within the current and emerging Plan will become undeliverable.

## **2 Consultation**

- 2.1 The draft LPVA has been circulated for comment (to selected consultees only) ahead of finalisation, but it is strongly recommended that wider consultation should be facilitated ahead of finalising the document. Some of the modelling referred to in the draft LPVA is not yet available; the commentary in this consultation response is, therefore, confined to the information as presented to date in the draft LPVA.
- 2.2 Having only been appointed in March 2020, the publication of the draft LPVA suggests that not only have HDH already been able to undertake all the necessary background research, but also to draft this large document even though the contract overview on the Council's website suggests that it is not due for completion until March 2021. Many assumptions could alter between now and March 2021 and the draft LPVA is likely to have to be updated more than once prior to completion.
- 2.3 It is of significant concern that the duration of the consultation period provided to review the draft LPVA, circulated by the Council via email on the 9<sup>th</sup> of June 2020 requesting consultation responses by the 26<sup>th</sup> of June 2020, is limited to less than a 3 week period. Even outside of Pandemic circumstances this would be an inequitably short consultation period for a document that extends over 150 pages and is accompanied by several detailed appendices. The Council has been contacted on this point<sup>4</sup> and has responded stating that the matter will be discussed with HDH.<sup>5</sup>
- 2.4 As noted at paragraph 1.7 of the draft LPVA; the impacts facing development as a result of current Pandemic will not yet have fed through into the April 2020 cost and value data that this draft LPVA relies upon. The draft LPVA states that the degree of these impacts is not predicted in the assessment; whilst this approach is to be expected the draft LPVA should also include rigorous sensitivity testing to demonstrate the combined impacts of falling values and increasing costs at varying degrees of change. The draft LPVA refers to sensitivity testing

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<sup>4</sup> Email from Pioneer to Stroud District Council, 10<sup>th</sup> June 2020

<sup>5</sup> Email from Stroud District Council to Pioneer, 15<sup>th</sup> June 2020

having been undertaken in paragraph 'i' (page 10), paragraph 3.28 and paragraph 4.14. However, the outputs of this are not yet presented within the draft LPVA.

- 2.5 Paragraph 1.3 of the draft LPVA suggests that the viability assessment has been undertaken in conjunction with 'a consultation process' with the 'main developers', 'landowners', 'agents', 'consultants' and 'housing providers' (see also paragraphs 2.17, 2.23 and 3.21 of the draft LPVA). However, this comprises solely of this current single, very short, consultation event without the opportunity for wider public participation beyond those the Council has sought to contact (the consultation is not published for wider consultation on the 'Have Your Say' page of the Council's website). Without any subsequent meaningful discussion through workshops / consultation sessions or follow up meetings with individual respondent organisations (both in respect of windfall and strategic<sup>6</sup> site testing) it is unclear how the assumptions within the draft LPVA can be robustly arrived at.
- 2.6 The National Planning Policy Guidance section on Viability considers how plan makers and site promoters should ensure that policy requirements for contributions from development are deliverable:

*"It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers."*

(Paragraph: 002 Reference ID: 10-002-20190509, NPPG)

This makes it clear that the onus is on plan makers to engage fully with developers, landowners and infrastructure / affordable housing providers in such a way that enables an iterative approach to policy drafting. If meaningful engagement is not sought the resulting viability assessment is unlikely to reflect reality.

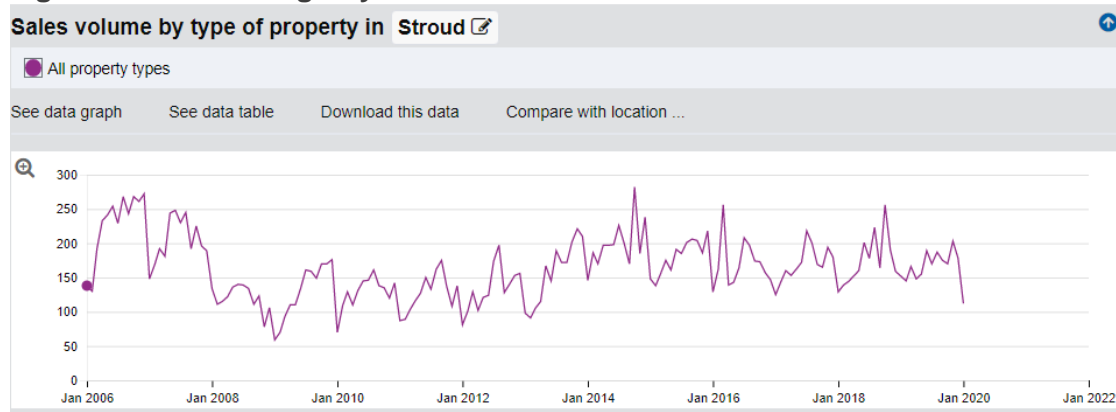
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<sup>6</sup> Paragraph 2.19 of the draft LPVA suggests that further engagement with site promoters will be sought in respect of Strategic sites

### 3 Residential Market – Sales Values

- 3.1 Section 4 of the draft LPVA considers residential market values ‘providing the basis for the assumptions on house prices’.<sup>7</sup> This section starts by considering Land Registry sold house price data as published at April 2020, although the draft LPVA charts suggest that in April 2020 Land Registry outputs only extended up to October 2019.<sup>8</sup>
- 3.2 A review of Land Registry average house price data as at June 2020 provides outputs up to March 2020 and whilst this suggests a slight uptick in the average house price in Stroud this output is based on a much lower sales volume than in October 2019 (i.e. sales volumes are suggested to have dropped by c.33% in Stroud<sup>9</sup> - the lowest figure since February 2013) and as such caution should be applied in any interpretation of the relevance of any value increases.

**Figure 3.1 – Land Registry Sales Volumes - Stroud**



Source: Land Registry House Price data and chart as at June 2020

- 3.3 The draft LPVA paragraph 4.10 refers to newbuild sales values recovering from the 2009 ‘bottom of the market’ position faster than existing housing sales values and to newbuild values being c.35% higher than existing values.
- 3.4 However, it should be noted that, whilst existing houses sold have seen a very small increase (+0.186%) in values between October 2019 and January 2020 (the latest data available for sales values by dwelling status – i.e. newbuild versus existing), newbuild values are suggested to have decreased by a very small amount (-0.134%).

<sup>7</sup> Paragraph 4.1, draft LPVA

<sup>8</sup> Based on Figures 4.1 to 4.3, draft LPVA

<sup>9</sup> From 170 in 2019-10 to 112 in 2020-01

- 3.5 The draft LPVA sets out that it has reviewed asking prices across the District based on online research and that this information has been analysed on the basis of the 'Council's settlement hierarchy'.<sup>10</sup> However, it is unclear whether or not this represents an appropriate basis for assessing values as settlements, whilst included within the same tier of the settlement hierarchy established by the Council for Plan making purposes, may be subject to entirely different local market forces and are not even necessarily geographically linked. The median asking prices / values / £ per sqm set out in Figures 4.4 and 4.5 on the basis of settlements within Tiers 1 and 2 (settlement Tiers 3 to 5 do not appear to be represented) are of questionable relevance outside of the settlements to which they relate. Furthermore, sub-markets within settlements may not be reflected.
- 3.6 The draft LPVA also summarises analysis of Land Registry recorded sales (newbuild and existing) within Table 4.4 and sorts these on the basis of 'post town' based solely on transactions occurring within the District (i.e. as it is stated that some post town areas fall across local authority boundaries). Whilst newbuild sales Land Registry sales data is presented in Appendix 6 to the draft LPVA, the overall Land Registry sales data for existing and newbuild does not appear to be appended for consideration.
- 3.7 It is unclear that analysing the data on the basis of 'post towns' or 'wards'<sup>11</sup> will be fine grained enough to pick up on sub-market house price differences which can occur even within a single settlement or Ward. Whilst the draft LPVA author may seek to counter this feedback on the basis that the draft LPVA is a broad brush high level assessment, it must be borne in mind that the sales value input within any appraisal is of crucial importance and the outcomes of modelling will be very sensitive to even minor differences in values.
- 3.8 Therefore, even at a strategic level, the level of research in respect of sales values should be fine grained, avoiding sweeping conclusions or lumping together of data within convenient existing defined boundaries such as towns or Wards where this may result in conclusions that fail to reflect actual value patterns on the ground. The Land Registry data is available to full post code level and could be heat mapped enabling a more accurate identification of high and low value pockets within the district.
- 3.9 Paragraph 4.23 of the draft LPVA appears to suggest that the value inputs in the modelling are largely informed by analysis of solely newbuild sales values, albeit it is not entirely clear

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<sup>10</sup> paragraph 4.18, draft LPVA

<sup>11</sup> Paragraph 4.20, Table 4.4, Figures 4.6 to 4.9, draft LPVA

on this point. Sold house price data for 661 newbuild homes (with EPC data used to estimate floor areas for 646 of these) is presented within Appendix 6. This is the only sold house price data analysed based on £ per Sqm suggesting that limited consideration has been given to the existing property sales values for comparable properties that newbuild schemes will have to compete with.

3.10 There are several concerns with the approach to setting the sales values which inform the modelling within the draft LPVA. The newbuild market does not operate in a vacuum and the lack of analysis of non-newbuild transactions means that sales values assumptions based on this data alone will negate to reflect underlying market trends and constraints on values set by existing stock availability etc (i.e. which influence price points for dwelling types within locations). Further points in this regard include:

- New-build sales are intrinsically linked to the second-hand market. Housebuilders are 'price takers' and not 'price makers' and therefore pitch prospective values based on how their product compares to what is available in the local second-hand market. Whilst a premium for new-build accommodation will typically be achievable this must be carefully and realistically considered otherwise prospective buyers will revert to the second-hand market to resolve their housing needs.
- On this basis housebuilders do not and cannot 'set' the price of their new-build products without careful analysis of the second-hand offer. The draft LPVA does not fully consider the influence of the second-hand market and appears to focus only on the new-build sales for value inputs within the modelling with these not being analysed and adjusted as appropriate for the key factors of property type, size and specification (i.e. are bungalows included within detached / semidetached typologies or do terraced houses include higher end multi-floored town houses).
- Where sites are brought forwards concurrently with other newbuild sites and existing stock sales they may struggle to secure and maintain price points should the delivery rate exceed the local demand which supports those prices. Inevitably sales rate, incentives, specification and price will need to adjust to maintain a consistent delivery rate against sites (and second-hand sales) competing in the same market. On this basis a more considered review of price points is necessary to have regard to the likely buying decisions of incoming purchasers.

- It should be typical for a report such as the draft LPVA to consider the second-hand market in detail and set a range of price points for various types of property including by bedroom number. Only very limited commentary is providing on the sale of existing housing stock and it is unclear how or if this feeds into the sales values applied in the modelling.

- 3.11 The draft LPVA author dismisses concerns raised by 'HBF Guidance' regarding the reliability of EPC floor area estimates (paragraphs 4.25 to 4.30) and suggests that, through contact with sales offices and agents, it has addressed concerns regarding Land Registry newbuild sales data failing to reflect the level of sales incentives which will be included, at cost to the developer, within the newbuild sold prices recorded. This latter point is commented on further in paragraph 4.35 but the evidence supporting claims that such incentives are only likely to equate to 2.5% of the sales price is not presented for scrutiny and as such cannot be verified.
- 3.12 The level of incentive packages applied to new-build units will vary and is often difficult to explicitly identify given these will not necessarily appear as part of the sale price (or build cost). An example of this is part exchange products offered by many housebuilders which involve attractive prices on the second-hand property in return for a close to asking price position on the new property. The sale of the new-build attracts a cost to the developer but because this appears against the part exchanged property and not the new-build one it is to an extent a hidden subsidy within the scheme. A further example is where Stamp Duty costs being borne by the developer which is not going to show up in the Land Registry data.
- 3.13 The newbuild sales data, again, seems to be broken down on a settlement by settlement basis in Table 4.5 with no clear evidence that this is an appropriate approach to the aggregation of the data (i.e. that will result in accurate value estimates for areas within settlements / avoid overlooking actual high or low value pockets that may exist). That this may be a problem becomes apparent when the data in Appendix 6 of the draft LPVA is sorted based on low to high £ per Sqm. This process reveals, for example, that 'Stonehouse' has newbuild sales for detached homes both at the highest and the lowest end of the value range suggesting different markets and / or specification homes within this single settlement.
- 3.14 Whilst 'other' dwelling types (included in Land Registry sales data) appear to have been excluded from the HDH value analysis summarised within Table 4.5, other issues with the data are that it includes a number of other high outlier values (some suggesting over £6k per Sqm) which seem at odds with the general pattern for the District for the sort of newbuild

homes that the draft LPVA is seeking to assess. Again, if these have been included (which based on a review of the HDH Appendix 6 data they appear to have been) they will skew value outputs.

- 3.15 This is the case for Great Oldbury, for example, where a £6,739 per Sqm value is suggested for a semi-detached property. There is also a £4,412 per Sqm value for a detached home. Both values appear out of kilter with the other £ per Sqm values suggested for this settlement using the Land Registry / EPC data. Without the inclusion of these outliers the value per Sqm for all property types reduces to £3,161 compared to the £3,225 included in Table 4.5. Such reductions will have a significant impact on viability outcomes.
- 3.16 Outliers also fall within the Stonehouse settlement category within the Land Registry data and so, if they have been included in any values analysis for that location (NB: Stonehouse is not presented in Table 4.5 despite being a settlement analysed in Table 4.4 and despite being the location of one of the Strategic Sites tested), they will impact on the £ per Sqm values there also. Analysis of the Appendix 6 data for Stonehouse (excluding outliers) suggests average sold newbuild values of £3,137 per Sqm for this location, and yet the modelling (summarised in Appendix 11 of the draft LPVA) assumes a £3,300 per Sqm for the Northwest of Stonehouse Strategic Site. This makes a huge difference to the viability outcome for the site and, if the £3,137 per Sqm value is applied to the 49,509 sqm of market housing floor area assumed for this site appraisal it will see a c.£8m reduction in the Gross Development Value of the market housing element compared to the assumed £3,300 per sqm. The affordable housing revenue would also decrease.
- 3.17 It is unclear how the author has reached the value conclusions within Table 4.8 that they have. These £ per Sqm values are broken down by site typology and across four areas, although the geographical extent of these areas and the settlements that they contain are not clearly identified within the draft LPVA – the inclusion of a clear map and lists of settlements within the areas is needed.
- 3.18 For 'Gloucester Fringe' a single value of £3,100 per Sqm is suggested. A review of Appendix 6 data for 'Gloucester' (but within Stroud District) suggests a £ per Sqm average of £2,912, but this includes an outlier £ per Sqm value of £7,387 for a semi-detached home. If this is excluded a £2,893 per Sqm value is suggested.
- 3.19 For Rural East and South (suggested based on Table 4.7 to be likely to include Wotton under Edge, Nailsworth and Minchinhampton) values of £3,400 and £3,500 per Sqm are suggested

in Table 4.8 of the draft LPVA. This is right at the upper range of £ per Sqm values suggested by the Appendix 6 data for Wotton under Edge – the average is suggested to be £3,190. There is only very limited data for Nailsworth and nil data for Minchinhampton in Appendix 6.

- 3.20 The ‘West’ designation is not clear from information in the draft LPVA but seems likely to include Berkeley. The draft LPVA Table 4.8 suggests £ per Sqm values of £2,650 to £2,750. Data in Appendix 6 for the Berkeley location is limited but based on 14 newbuild transactions suggests an average sold value of £2,573 per Sqm.
- 3.21 Again, the areas included by the author within the ‘Stroud Valleys’ designation in Table 4.8 and how the values suggested (at £2,750 to £3,000) are linked to the data within Appendix 6 are not identified so the validity of these values is unclear.
- 3.22 The basis of the values ascribed to the Strategic Sites in Table 4.9 (ranging from £2,650 per Sqm in Sharpness to £3,300 per Sqm in Stonehouse North West) and the process by which these have been arrived at is not transparently presented. However, it is apparent that these differences in values, coupled with the longer timescales over which some of the larger sites are to be delivered, make a significant difference to the viability outcomes for the Strategic Sites (i.e. see the RLV differences between Site 1 (Draycott) and Site 10 (Grove End)). The whole viability assessment exercise for the Strategic sites will, therefore, be rendered meaningless if careful and detailed consideration is not given to the value assumptions applied and if these are not reflective of reality.
- 3.23 Currently, without a clear step by step explanation of how the values for Strategic Sites have been arrived at it is difficult to feedback, although the general impression of the draft LPVA having reviewed the data provided in Appendix 6 is that the £3k / £3k+ per Sqm values applied for generic and strategic sites in the draft LPVA modelling look to be in excess of the values likely to be achieved in many locations.
- 3.24 Regardless of the values set out in Tables 4.8 it is noted that the values applied in the modelling (Appendix 11 to the draft LPVA) differ to those presented. For generic site typologies values of £3,000 per Sqm are applied to Greenfield sites and £2,750 per Sqm to Brownfield sites. This seems extremely broad brush given that the draft LPVA suggests values to differ widely across the District. As already stated, slight changes in values can impact significantly on viability outcomes and so it is important, even for strategic level assessments, to base assumptions on detailed analysis.



### *Affordable Housing Values*

- 3.25 The draft LPVA presents information on how affordable housing values have been derived for inclusion within the modelling. Social Rent is applied at £1,280 per Sqm across the District<sup>12</sup> based on the capitalisation of Social Rents as set out in the Social Housing Statistical Data Return (2019) for 1, 2, 3 and 4 bedroom homes and then using the suggested average £ per Sqm.<sup>13</sup> This equates to between 43% to 47% of the values applied to generic site modelling for the various locations across the District and between 39% to 48% of the values applied to the strategic sites within the draft LPVA. HDH claim that ‘there seems to be relatively little difference in the amounts paid by RPs...across the area’<sup>14</sup> but the background evidence for this is not provided / referenced. However, open market rents in an area are likely to be a factor when RPs calculate how much they will pay and this is not reflected in the draft LPVA approach.
- 3.26 For Affordable Rent a similar process is followed as for Social Rent resulting in a £1,900 per Sqm District wide value that equates to between 63% to 69% of the values applied to generic site modelling and between 58% to 72% of the values applied to the strategic sites within the draft LPVA. The same concerns apply as raised in respect of the draft LPVA Social Rent calculations – the blanket approach applied will fail to pick up on locational differences. The draft LPVA Affordable Rent value assumptions that result in RPs being assumed to be prepared to pay 70%+ of open market values within some locations are questionable for being over optimistically high. RPs are unlikely to pay as much for Affordable Rent as for a Shared Ownership product.
- 3.27 In respect of ‘intermediate products for sale’<sup>15</sup> the draft LPVA assumes sales at 70% of market value District wide and claims that demand for such products has lessened ‘nationally’, although proof of this claim is not presented. Exactly how the information within Table 4.21 of the draft LPVA (which calculates a £ per Sqm value based on a sold equity share plus a capitalised element of equity rent) results in a 70% of open market value conclusion needs further explanation. However, the proportion of open market values that RPs will pay is unlikely to be the same for the whole of the District and for every site typology. A 70% proportion may be over optimistic in certain locations / sites within the District.

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<sup>12</sup> Paragraph 4.61, draft LPVA

<sup>13</sup> Table 4.17, draft LPVA

<sup>14</sup> Paragraph 4.60, draft LPVA

<sup>15</sup> as defined by the author, although the National Planning Policy Framework – “NPPF” - no longer includes an ‘intermediate’ sub-category of affordable housing outside of a rent to buy scenario

3.28 Additional work should be undertaken by HDH with RPs in the District to provide a more fine-grained analysis of the level of revenue that affordable housing is likely to raise. The current approach is too broad brush even for a high-level study as small changes in overall site revenue can have significant impacts on viability outcomes.

Summary

3.29 Based on an analysis of the newbuild data in Appendix 6 to the draft LPVA, and even without regard to the wider context provided by values in the second hand market, the £3k / £3k+ per Sqm values applied for generic and strategic sites in the draft LPVA modelling look to be in excess of the values likely to be achieved in many locations (NB: this is also without taking into account any value impacts which will already be being felt by developers as a result of the Pandemic, but which are yet to be reflected within Land Registry transaction data).

3.30 The draft LPVA applies too broad a brush to values in respect of Greenfield sites (at £3k per Sqm across the board); Appendix 6 data suggests values significantly below £3k per Sqm being achieved in many locations, particularly after outlier values have been appropriately excluded. The assumptions applied in the draft LPVA will result in artificially inflated viability outcomes.

3.31 The decision-making process and assumptions which inform the final model inputs in the draft LPVA are not set out in a logical, detailed or transparent way. The draft LPVA section on sales values requires restructuring to explain step by step how conclusions have been drawn and to draw on a detailed review of second-hand market sales data. The analysis of new-build properties should be developed to ensure that quality, site setting and location are considered as these will need to be appropriately factored into any figures relied upon.

3.32 How sales value inputs are arrived at is of significant concern given that viability modelling is extremely sensitive to changes in sales value assumptions; even small adjustments will make the difference between typologies tested being viable or unviable. This is particularly pertinent in Stroud where values may differ within settlements let alone across the wider District. Given the increased current NPPF emphasis placed upon getting viability assessment right at the Plan making stage, as opposed to having to continually test policy on a site by site basis when decision making, it is crucial that sales values are reflective of reality and not applied on a broad brush basis.

## 4 Land Values

- 4.1 The draft LPVA tests the viability modelling outcomes within the context of benchmark land values<sup>16</sup> (“BLV”) set at £375,000 per hectare for greenfield sites as set out in paragraph 6.37 and based on Table 6.7. This is based on an agricultural land value of £25k per hectare (set out in Table 6.7) with a £350,000 per hectare uplift. For brownfield sites benchmark land values set at £650k per hectare plus 20% are assumed.<sup>17</sup>
- 4.2 The draft LPVA does not clarify whether these values are per net or gross hectare. However, it appears based on the Residual Values set out in Tables 10.1 / 10.2 and in Tables 10.3 and 10.4 in comparison with the BLV that it is per gross hectare.
- 4.3 Reference is made to brownfield land value assumptions drawing on ‘Land Value Estimates for Policy Appraisal’ (published by the DCLG in May 2018) and COSTAR data (appended at Appendix 10 of the draft LPVA). Appendix 10 includes a total of 10 sold land values (one other value is provided but is an asking price) only one of which falls within Stroud District (suggesting a £1,099,505 per hectare sold value which presumably underpins the draft LPVA ‘average’ in paragraph 6.26 for Stroud District). One of the values, Chepstow, lies within Monmouthshire.
- 4.4 It is unclear how the draft LPVA Gloucestershire average of £1,062,000 is calculated based on the Appendix 10 data; presumably some values have been excluded as outliers but this process is not clearly explained. In any event, the conclusion that previously developed land value can be assumed at £650k per hectare (presumably gross) is unexplained and is substantially lower than the average values reported in the draft LPVA.
- 4.5 The approach to setting the Greenfield BLV (using the £25k per hectare plus an uplift of £350k per hectare) is similarly unexplained beyond the author making reference to the BLVs applied in other Viability Assessments ‘elsewhere’ in Table 6.8. It is unclear how these other locations are comparable to Stroud District, how the other BLVs have been derived or whether the values are per net or gross hectare. As such, Table 6.8 is of little use in understanding the evidential basis for the draft LPVA Greenfield BLV. It is also unclear why the BLV for agricultural land is considered to have reduced from £380k per gross hectare in

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<sup>16</sup> See pages 91 – 93, draft LPVA

<sup>17</sup> Table 6.7 and paragraph 6.37, draft LPVA

the 2016 Stroud CIL Viability Update<sup>18</sup> (by the same author) to £375k per gross hectare in the draft LPVA.

- 4.6 Overall, the draft LPVA BLV assumptions for Greenfield and Brownfield land appear to be largely arbitrarily set. If conclusions about the release price for, particularly Greenfield, land are to be drawn on the basis of the commentary presented in the draft LPVA this will not be linked to evidence and does not, therefore, appear to adhere to the principles established within the National Planning Policy Guidance (“NPPG”).
- 4.7 Whilst the revised NPPF has altered a part of how land is considered in the context of viability it still requires a judgment to be made to establish the landowners release price for various types of land. The land value threshold / BLV, or release price, is a critical component of the overall appraisal model and must be suitably identified and evidenced. A failure to do this in the context of the market will potentially jeopardise the timely release of sites over the plan period.
- 4.8 Even where the BLV identified in a model is based on evidence and due consideration of the market dynamics of an area it can only ever be an indicator of the release value of sites. Land sales represent a very personal decision for landowners who will make decisions based on a broad range of factors. It is important that decisions on policy which reference a particular threshold do not make the incorrect assumption that a given site WILL come forward at that particular level. It is for this reason that a degree of headroom is important when drawing policy conclusions linked to modelled scenarios.
- 4.9 Thus it is of concern that in Section 10, despite setting a benchmark land value and stating in paragraph 10.2 that:

*‘for the proposed development to be viable, it is necessary for this Residual Value to exceed the EUV by a satisfactory margin, being the Benchmark Land Value (BLV)’*  
(emphasis added)

(paragraph 10.2, draft LPVA)

the draft LPVA then suggests within paragraph 10.4 that viability is ‘marginal’ where the Residual Land Value (“RLV”) exceeds the EUV but does not achieve the BLV.

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<sup>18</sup> Tables 7.1 and 7.3, 2016 Stroud District CIL Viability Update, March 2016

- 4.10 The draft LPVA suggests that whilst such sites are not viable, they may still come forwards. The evidential basis of this claim is not presented and such an approach renders the process of setting a benchmark in the first place against which policy / developer contribution burdens upon development are to be tested meaningless. The NPPG does not advocate setting a BLV and then ignoring it. Furthermore, as stated in the Harman Viability guidance:

*“Local Plan policies should not be predicated on the assumption that the development upon which the plan relies will come forward at the ‘margins of viability’.”*

(page 16, Viability Testing Local Plans, June 2012)

The Harman Guidance clarifies that the whole point of setting a BLV (or Threshold Land Value) is to provide a ‘cushion’ to assist with ‘guarding against’ small changes in ‘external circumstances’ rendering sites unviable.<sup>19</sup> If this cushion is eroded or ignored then Plan housing delivery targets are unlikely to be met. Whilst the Harman guidance was drafted in 2012 this logic remains relevant within the context of the current NPPF and NPPG.

## 5 Development Costs

### *Construction and Abnormals*

- 5.1 The draft LPVA uses the BCIS re-based to Gloucestershire as at April 2020 to inform baseline build costs<sup>20</sup> – it should be noted that BCIS data includes costs for prelims but excludes externals and site ‘opening up’ and infrastructure costs.
- 5.2 A review of Appendix 11 to the draft LPVA confirms that median BCIS build costs are applied to the generic sites tested (a blended figure appears to be used based on the draft LPVA housing mix assumptions and BCIS median prices for 1-2 storey flats and general median prices for terraced, detached and semi-detached homes). This blended figure feeds into the modelling assumptions listed on the ‘For Apps’ sheet (included at Appendix 11 of the draft LPVA) as a baseline build cost (i.e. not uplifted to reflect external works and excluding any site opening up or infrastructure costs). For Strategic Sites Lower Quartile BCIS costs are used in the same process.

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<sup>19</sup> Viability Testing Local Plans, Local Housing Delivery Group Chaired by Sir John Harman, June 2012

<sup>20</sup> Table 7.1 and paragraph 7.4, draft LPVA

- 5.3 The draft LPVA, whilst referring to an allowance being made for 'other normal development costs' is unclear in paragraph 7.5 on whether the allowance applied in the modelling is intended to be sufficient to cover only on-plot externals or on-plot and other site infrastructure and site opening up costs (although reference to 'substantial expenditure on bringing mains services' to large Greenfield sites in paragraph 7.6 suggests the author assumes the allowance covers opening up costs as well as all site infrastructure and externals).
- 5.4 The allowances are suggested in paragraph 7.7 of the draft LPVA to range from 5% to 15% for larger Greenfield schemes, but Appendix 11 suggests a 16% uplift to be applied to the base build cost for larger Greenfield sites (40 to 400 units), Strategic sites and brownfield sites of 20 to 100 units. This is reduced to 11% for Greenfield sites of less than 20 units and 10-unit brownfield sites and reduced again to just 6% for high density brownfield sites with 20 or less units (although brownfield sites are provided with a 5% abnormalities allowance).
- 5.5 The uplifts applied to the BCIS baseline build costs for the 40 to 400 unit generic Greenfield site typologies tested in the draft LPVA are unlikely to be sufficient for anything beyond on-plot external costs. There does not appear to be any other allowance made for on-site infrastructure or site opening up costs for these sites.
- 5.6 For the smaller Greenfield sites a 11% uplift to the base build cost seems a low estimate for on-plot externals, and such sites will also have other off-plot and, potentially, even opening up costs. For high density brownfield sites external costs may indeed be reduced, but for smaller Brownfield non-high density sites a 11% uplift to the base build cost similarly seems a low estimate even only for on-plot externals.
- 5.7 Uplifts of 20% are often used as a proxy to allow for services / externals on small to medium sites which do not involve extensive site service costs on the basis that the development plot is essentially serviced. Town centre apartment schemes could be potentially lower subject to design and layout of the external spaces although below ground parking solutions will significantly alter this position.
- 5.8 The Strategic Sites appear to have other lump sum costs included amounting to c.£25k per unit on average<sup>21</sup> for strategic infrastructure and mitigation costs. Whilst the draft LPVA 16% uplift to the base build costs on Strategic Sites may be sufficient to cover on-plot external costs in conjunction with a median BCIS build cost, the draft LPVA is using it in conjunction

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<sup>21</sup> Based on Table 7.2, draft LPVA

with lower quartile BCIS build cost assumptions. The evidential basis of the economies of scale referred to as being achieved by volume house builders<sup>22</sup> to justify the use of a lower quartile BCIS build cost is not clearly referenced or provided.

- 5.9 Furthermore, breaking the BCIS sample down further between large and small schemes may result in unreliable results where this results in limited samples; the BCIS does not provide a breakdown in its estate housing build costs query between large and small schemes. Using such an approach to justify the imposition of lower quartile BCIS build costs to schemes provided by volume house builders would, therefore, be questionable.
- 5.10 Without robust evidence of build cost savings being achieved on Strategic Sites assuming the lower quartile BCIS build cost in a high-level study such as this (which has not yet looked at detailed costings for proposed allocations) is inappropriate.
- 5.11 Furthermore, for the generic Greenfield sites tested no allowance appears to have been made for opening up / infrastructure costs pushing cost assumptions on such sites right down (i.e. contributing to an assessment that is right at the margins of viability).
- 5.12 Given the generic approach taken within the draft LPVA and the lack of detailed understanding of the actual infrastructure costs that any proposed allocations will incur, and the unknown circumstances that could face any large windfall or brownfield sites, the draft LPVA should at least undertake sensitivity testing on this point with a 20% uplift over baseline build costs as a minimum starting point plus additional opening up costs to reflect the impact on more complex Greenfield sites / plus an additional brownfield site allowance (currently assumed in the draft LPVA as an abnormal cost at 5% of base build). This is before getting to any additional requirements sought based on policies proposed in the review of the Stroud District Local Plan.
- 5.13 The 5% abnormal cost assumption for Brownfield sites is not based on any clear evidence presented within the draft LPVA – the author appears to suggest these costs are largely absorbed within the land value and therefore it is not the role of the draft LPVA to ‘standardise land prices across an area’.<sup>23</sup> However, the draft LPVA sets a standardised BLV for brownfield land which does not consider different circumstances facing different sites in respect of abnormal or other costs so the reasoning regarding the approach to the 5% allowance for abnormal costs on brownfield sites is unclear. There is a lack of any allowance

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<sup>22</sup> Paragraph 7.2, draft LPVA

<sup>23</sup> Pages 97 to 98, draft LPVA

for any level of abnormal costs on Greenfield sites; a situation which is unlikely to reflect reality.

- 5.14 The timing of all of these costs is similarly critical - as much of the site servicing (or remediation for brownfield sites) will be necessary ahead of unit completions this adds significantly to the borrowing requirement on the project which further affects viability.
- 5.15 Given the NPPF objective of significantly boosting housing supply, and the housing requirement numbers included in plans being a minimum rather than a capped position, windfall sites are likely to come forwards and these may include sites with more complex infrastructure / remediation costs than the minimum assumptions in the draft LPVA allows for.

#### *Fees*

- 5.16 The draft LPVA includes professional fees at 8% of build costs (and excluding planning fees which are included at 1% of build)<sup>24</sup> – this is at the lower end of what can apply and it is noted that it is a reduced assumption compared to that which has been applied previously within the 2016 Stroud CIL Viability Assessment by the same author (at 10% excluding planning fees at 1%).

#### *Contingency*

- 5.17 The allowance relied upon for contingency is low at 2.5% even for previously undeveloped sites - particularly in the context of a market where cost inflation is significant due to ongoing materials cost rises.
- 5.18 It would be normal for a differential to exist between project types and for infrastructure items / brownfield site remediation to carry more contingency than property superstructure. The report should reflect this with 5% general contingency and it may be prudent to undertake sensitivity testing applying higher levels of contingency on infrastructure / brownfield site remediation elements.

#### *S106 Costs and Infrastructure*

- 5.19 The draft LPVA states in paragraph 7.17 that, as a result of discussions with the Council, a total s106 cost of £5k per unit (excluding affordable housing) has been applied to the

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<sup>24</sup> Paragraph 7.14, Appendix 11, draft LPVA



modelling of generic site typologies. Evidence supporting this assumption is not presented and it is far too low; notwithstanding that the County Council are seeking to introduce an education s106 cost of c.£17k per unit, even prior to this a full education contribution has been in the region of £8,500 per house.

- 5.20 Further information set out in respect of developer contributions within Section 8 of the draft LPVA (paragraph 8.91) references a 2017 Planning Obligations SPD and notes headings within this under which developer contributions may be sought. No evidence of the cost of these contributions is presented; it is stated that different sites will be subject to different requirements and that ‘a range of contributions are tested’. At this stage, the draft LPVA does not appear to have undertaken this sensitivity testing, with just the £5k per unit cost having been assessed against the generic site typologies.
- 5.21 It is not immediately obvious from paragraph 7.17, but paragraph 10.6c and Appendix 11 appear to clarify that the £5k per unit cost is for s106 alone as opposed to including any allowance for infrastructure (despite the draft LPVA sub-section heading).
- 5.22 However, as set out in paragraph 5.5 above, the concern is that uplifts applied by the draft LPVA to BCIS base build cost assumptions for larger generic Greenfield sites (40 to 400 units) are insufficient (at 16% of base build) to cover site infrastructure / opening up costs / off-plot externals on top of the additional on-plot externals costs excluded from the BCIS baseline build costs. As such, the draft LPVA should include cost assumptions to reflect site infrastructure / opening up costs / off-plot externals in addition to developer contribution costs (through either s106 or CIL) for the generic sites tested.
- 5.23 In addition to the above concerns paragraph 7.19 of the draft LPVA should be amended to reflect the reality that following the abolition of Regulation 123 it is no longer accurate to assume that CIL will be the ‘principal source of infrastructure funding’ sought from ‘smaller sites’.
- 5.24 The deletion of CIL Regulation 123 appears to have been intended by the Government to enable both CIL and s106 payments to fund the same piece of infrastructure (i.e. ‘double dipping’). However, the changes to CIL Regulations are not intended to allow local authorities to charge for the same piece of infrastructure twice. Doing so is unlikely to accord with CIL Regulation 122. Hence the CIL Regulation 121(A) requirement for local authorities to prepare Infrastructure Funding Statements (“IFS”).

- 5.25 National Planning Policy Guidance (“NPPG”) makes it clear that whilst local authorities can pool funding from different routes to fund the same infrastructure, they need to set out in the IFS which infrastructure is expected to be funded by the levy and ‘detail’ the different funding sources. The NPPG also states that the ‘total impact of such requests’ should be considered ‘so they do not undermine the deliverability of the plan’ (paragraphs 003 and 006, Planning Obligations, NPPG).
- 5.26 The responsibility for undertaking these actions lies with local authorities as opposed to planning applicants / stakeholders. The Stroud Regulation 123 list, whilst setting out which s106 funded items CIL will not be spent on, provides no clarity on how the infrastructure to be funded / part funded by CIL may or may not also draw on other funding sources (i.e. such as s106).
- 5.27 Crucially, the existing Regulation 123 list does not provide sufficient detail to enable the local authority to keep an appropriate audit trail of contributions received and how they are spent under s106 or through CIL. This level of detail is necessary to accurately assess whether seeking s106 and CIL for the same infrastructure item will result in double charging or not. Furthermore, without an understanding of how these funding sources will interact there cannot be a clear assessment of what the cumulative costs to development will be or, therefore, an ability to undertake viability testing at a strategic level of the potential impacts on planned housing delivery.
- 5.28 Any scaled up s106 costs will need to be demonstrated by the Council (in collaboration with the County Council<sup>25</sup>) to be viable in conjunction with existing CIL and s106 cost burdens so that the deliverability of Plan policies is not compromised. Ahead of an IFS or sufficiently detailed alternative being put in place in Stroud District it is impossible for the draft LPVA to assess viability as the true extent of developer contribution costs to development are not known.
- 5.29 That the situation is not yet fully understood is reflected in a further section within Section 8 of the draft LPVA in respect of developer contributions (page 121). In this section no clear costings are presented for District level s106 (as already noted above) and, whilst the topic of the increases in s106 now being sought by the County Council<sup>26</sup> is introduced, the per unit

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<sup>25</sup> Paragraph: 014 Reference ID: 25-014-20190901, Community Infrastructure Levy Section, NPPG

<sup>26</sup> The contributions are the subject of consultation ending on the 19th of June 2020, but anecdotal evidence suggests that the County Council is already seeking to apply the education s106 requirements to sites, even where these have advanced substantially through the planning system.

cost impact of this that developments are likely to have to bear is not stated (only per education place costings are set out). However, it is understood that for education alone the County Council s106 could result in an additional £17k per unit cost to development. This has not been tested in the draft LPVA.

- 5.30 For Strategic Sites it is acknowledged in paragraph 7.18 of the draft LPVA that the Council is yet to engage with site promoters to obtain more detailed assumptions on infrastructure / developer contributions. So far the draft LPVA appears to be basing its conclusions on 'Strategic Infrastructure and Mitigation' cost assumptions provided by Arup as at May 2020 (Table 7.2 of the draft LPVA) which suggest such costs at c.£25k per unit. However, paragraph 10.6c later on in the draft LPVA (and which is supposed to summarise key inputs ahead of presenting the modelling outputs) should clarify that the Strategic Site cost estimates listed are for s106 *and* strategic infrastructure.
- 5.31 As with the generic sites tested, it is unclear how the additional County Council s106 costs may impact on the Strategic Sites where on-site education provision is not already included within the Arup May 2020 cost estimates for example (the lack of any detailed breakdown of the Arup estimates makes it impossible to comment meaningfully on this point). However, where these costs are additional then this needs to be reflected within the draft LPVA modelling.
- 5.32 For all sites it is noted that an indexed CIL payment cost is applied within the base modelling in line with the Council's instalment policy.<sup>27</sup> The indexed rate will have to be kept under review as the draft LPVA progresses and updated accordingly.

#### *Finance*

- 5.33 Funding of development is a complex area which typically involves a number of different parties (including the developer) committing funds to support the development. The cost of these funds will not consistently lie at or below the 6% allowance (plus the 1% of peak borrowing arrangement fee) identified in the draft LPVA<sup>28</sup> and the interest costs for many scenarios will be above this allowance. This is particularly pertinent when considering phased longer timescale or complex schemes.

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<sup>27</sup> Pages 119 to 120, draft LPVA

<sup>28</sup> paragraph 7.23, draft LPVA

*Developer Return*

- 5.34 The LPVA assumes 17.5% on Gross development Value for market housing and 6% on transfer values for affordable housing.<sup>29</sup> The level of appropriate developer return will vary by project and any single assumption which is applied across all typologies will be a significant simplification of the real position.
- 5.35 The level of return being applied in the draft LPVA is less than the 20% of total Gross Development Value applied by the same author in the 2016 CIL Viability Assessment for Stroud District (Appendix 6). It is unclear why it is considered that in June 2020 project risks (something referred to in paragraph 7.26 of the draft LPVA as a driver of developer return levels) have decreased compared to March 2016; the new approach seems to have been set arbitrarily and without explanation. The approach is at odds with the current economic outlook; the proposed assumption is insufficient.
- 5.36 Notwithstanding guidance within the National Planning Policy Guidance (“NPPG”), applying return assumptions at the levels used within the draft LPVA across every project tested, regardless of complexity, risk or wider economic market challenges will fail to reflect the reality of the greater level of return that will be needed to enable residential development to take place.
- 5.37 The fact is that a return range of 15-20% of GDV, whilst set out in the NPPG viability section, is already lower than the up to 30% that Housebuilders will require in the real world. Ignoring this fact devalues the whole viability exercise and renders it meaningless. Furthermore, reductions below 20% risk jeopardising the ability to secure finance for schemes (something which will become even more prevalent in the current economic climate) and are not a realistic assumption for inclusion within either a high level plan making or a decision-taking FVA. It is also realistic to suggest that developer return should be significantly increased where risks are greater than average; this would be a normal expectation in any sphere of investment and it is unclear why development would be any different.
- 5.38 Unless / until real world impacts such as this are taken into consideration the exercise of viability testing Plan policies will be of limited use in providing a robust view on the extent of any burdens that development can bear.

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<sup>29</sup> Paragraph 7.31, draft LPVA

5.39 Furthermore, for longer term projects it is unrealistic in modelling terms to assume that the developer will defer all profit to the end of the scheme. The ‘single phase’ appraisal approach that appears to have been run in the draft LPVA on the larger projects will fail to reflect the commercial reality that profit will need to be recovered from the scheme as it progresses rather than deferred entirely to the end of the scheme. Whilst there are only a limited number of such typologies tested these sites will provide significant chunks of housing land supply and it is crucial that viability testing at the Plan making stage reflects the real world viability challenges that these schemes will face.

*Phasing and Timetable*

5.40 The draft LPVA assumes sales of market housing will occur at a rate of 35 units per annum on larger sites (i.e. Greenfield sites of 100 or more units) where affordable housing is provided at 30% (therefore giving an overall delivery rate for sales income of 50 units per annum).<sup>30</sup> Slower rates are assumed on smaller sites and faster rates on high density flatted schemes.

5.41 Whilst the 35 per annum market sales rate is reasonable there is a concern that where economic circumstances deteriorate between now and the adoption of emerging Plan policies much slower rates may transpire to be achievable. Whilst this cannot be predicted sensitivity testing of this alongside reduced values and increased costs should be undertaken.

*Site Holding Costs and Receipts*

5.42 No allowance is made for holding costs; as with the point made in respect of phasing above, we are now entering unknown territory in economic terms and it seems reasonable to suggest that many sites will accrue holding costs where it has become economically impossible to develop them under the weight of the current planning gain expectations placed upon them.

5.43 It is not as simple as saying that this should be reflected in the land value as sites may already be subject to purchase contracts / have been purchased. Where it remains the Government’s objective to boost housing supply it will be necessary for local authorities to incentivise the development of such sites by ensuring that unaffordable developer contribution expectations / policy burdens are not placed upon them and this will necessitate a realistic assessment of viability.

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<sup>30</sup> Paragraph 7.35, draft LPVA

### *Summary*

- 5.44 Many of the assumptions applied in terms of Development Costs are at the low end of what will be applicable in reality. Assuming development costs for key elements, particularly such as construction, that will contribute to an assessment that is right at the margins of viability is of significant concern, even before any potential cost increases as a result of the Pandemic (which will take time to feed through into available data).
- 5.45 Cost savings are assumed on Strategic Sites with the draft LPVA applying the lower quartile BCIS build cost without robust evidence of how such savings are being achieved; this is inappropriate in a high-level study such as this which has not yet looked in detail at costings for proposed allocations. Coupled with the lower quartile BCIS base build cost the draft LPVA is applying cost assumptions for Strategic Sites (as with the generic sites) right at the lower end of the scale of what could be assumed. For the generic Greenfield sites tested no allowance appears to have been made for site opening up / infrastructure costs / off-plot externals pushing cost assumptions on such sites right down.
- 5.46 In addition, the outputs of the draft LPVA as currently presented only test a £5k per unit s106 cost in respect of the generic site typologies. County Council s106 requirements for education alone are likely to result in an additional £17k per unit cost to development. The impact of this upon development viability is not tested in the draft LPVA. It is also unclear how the additional County Council s106 costs may impact on the Strategic Sites where on-site education provision is not already included within the Arup May 2020 cost estimates relied upon by the draft LPVA.

## **6 Local Plan Policy Requirements**

- 6.1 Section 8 of the draft LPVA considers Local Plan Policy requirements and how these will impact in terms of the cost to development. Unfortunately, a clear summary of the policies (i.e. in a table form) identifying whether or not additional costs have been assumed is not presented. This would be a useful executive summary to the section ahead of the more detailed commentary.
- 6.2 In respect of Core Policy 5 the draft LPVA suggests that whilst costs have been included for SUDS (Sustainable Urban Drainage Systems) for brownfield sites, no additional cost is assumed for larger Greenfield sites with the assumption being that the drainage will be

incorporated into green spaces within the site.<sup>31</sup> The evidence supporting that this incorporation of SUDS into greenspaces will be at nil additional cost to the developer is not presented and it is unrealistic to suggest that such factors would be assessed within cost plans to have nil impact.

- 6.3 The costs assumed in the draft LPVA for minimising water consumption in line with enhanced building regulations (i.e. in excess of standard Building Regulation requirements) are based on a 2014 publication by EC Harris.<sup>32</sup> There is no consideration of whether not costs have increased since this time.
- 6.4 The costs assumed by the draft LPVA against Core Policy CP7 (Lifetime Communities) for Category 2 and 3 (Approved Document M) standards are based on a 2015 Government impact assessment.<sup>33</sup> These cost estimates are now several years old and fail to reflect the impact of larger floor area requirements on land take and masterplanning, all of which have impacts on scheme viability.
- 6.5 Affordable housing is stated to have been applied in the draft LPVA baseline modelling in line with Core Policy CP9: i.e. 30% affordable housing in a 70% Affordable Rent and 30% affordable housing for sale tenure split.<sup>34</sup> The draft LPVA refers to having tested a range of affordable housing 'policy requirements' / tenure mixes although the outputs of these additional scenarios is not yet presented in the draft report. Two private rented sector schemes containing affordable housing have been tested.
- 6.6 The draft LPVA states that the delivery of Policy HC3, which seeks 2% of housing on Strategic Sites for self or custom build, has been tested.<sup>35</sup> However, there is no explanation of what the cost has been assumed to be, or on how it is applied within the modelling (including in terms of timing and delivery mechanisms) and these matters are not evident from the Appraisal sheets included at Appendix 11.
- 6.7 Policy HC1 sets out detailed criteria for new housing developments, but the draft LPVA refers to it as a high level policy without any costs above requirements set out elsewhere in the draft Plan.<sup>36</sup> However, any design requirements that are in excess of non-optional Building Regulation requirements will have an associated cost to developers, so the draft LPVA

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<sup>31</sup> Page 105, draft LPVA

<sup>32</sup> Page 105, draft LPVA

<sup>33</sup> Pages 106 to 107, draft LPVA

<sup>34</sup> Pages 109 to 110, draft LPVA

<sup>35</sup> Paragraph 8.41, draft LPVA

<sup>36</sup> Paragraph 8.44, draft LPVA

explanation for nil additional costs being assumed is insufficient and requires further evidence to be provided.

- 6.8 Policy DHC5, which is summarised by the draft LPVA as requiring 3.22ha of open space per 1,000 residents, is suggested to have been assumed (as a base position) to be provided on-site by developers and ‘embedded within the modelling, as far as possible’.<sup>37</sup> This is extremely vague and the potential cost impacts of including this requirement (either on or off site) need to be fully considered and the approach to how these impacts have been applied within the modelling transparently identified. Having acknowledged that where off-site provision is needed it will cost £4k per unit the draft LPVA then states that as the need for this will vary site by site a ‘range of contributions are tested’.<sup>38</sup> The commentary in the draft LPVA for the provision of ‘internal sports pitches’ is even more vague and again it is stated that a ‘range is tested’.<sup>39</sup> However, currently a £5k s106 contribution is the only scenario modelled (as noted in this section above) and which obligations are included in this is not clearly set out.
- 6.9 The impacts of Policies CP13, EI12, DE11, and EI16 (largely all related to travel) are similarly suggested to have been tested on the basis of a range of developer contributions having been appraised.<sup>40</sup> As already stated, currently a £5k s106 contribution is the only scenario modelled and which obligations are / are not included in this is not clearly set out.
- 6.10 Core Policies CP14 and CP15 (which relate to ‘sustainable development’ and ‘quality living’) are suggested not to add any costs on the basis the policies ‘build on design policies set out earlier in the plan’.<sup>41</sup> However, any design requirements that are in excess of non-optional Building Regulation requirements will have an associated cost to developers, so the draft LPVA explanation for nil additional costs being assumed is insufficient and requires further evidence to be provided.
- 6.11 Policy ES1 which relates to sustainable construction and seeks to introduce standards in excess of Building Regulations in respect of energy use. There is a clear conflict in this approach with the NPPG Housing Optional Technical Standards which states that:

*“Local planning authorities have the option to set additional technical requirements exceeding the minimum standards required by Building Regulations in respect of*

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<sup>37</sup> Paragraph 8.48, draft LPVA

<sup>38</sup> Paragraph 8.50, draft LPVA

<sup>39</sup> Paragraph 8.51, draft LPVA

<sup>40</sup> Paragraphs 8.54 to 8.58, draft LPVA

<sup>41</sup> Paragraphs 8.59 and 8.60, draft LPVA



*access and water, and an optional nationally described space standard. Local planning authorities will need to gather evidence to determine whether there is a need for additional standards in their area, and justify setting appropriate policies in their Local Plans.”*

(Paragraph: 002 Reference ID: 56-002-20160519, NPPG)

6.12 The accompanying Written Ministerial Statement clarified:

*“From the date the Deregulation Bill 2015 is given Royal Assent until 30 September 2015: The government’s policy is that planning permissions should not be granted requiring, or subject to conditions requiring, compliance with any technical housing standards other than for those areas where authorities have existing policies on access, internal space, or water efficiency.”*

(‘Steps the government are taking to streamline the planning system, protect the environment, support economic growth and assist locally-led decision-making’, Written Ministerial Statement, 25<sup>th</sup> March 2015)

6.13 The Government has not updated the NPPG to alter this position at the present time. Notwithstanding the appropriateness of including Policy ES1 in the draft Plan, the evidential basis of the draft LPVA cost assumption (at 2.5% to 3.1% of base build costs depending upon how the policy is applied<sup>42</sup>) is unclear. It is noted that the draft LPVA appraisals include a 9% of build cost assumption under the CfSH (Code for Sustainable Homes) category in Appendix 11, although it is unclear what this is based on and which policy requirements it is supposed to cover.

6.14 The draft LPVA states that Policy ES1 also requires the provision of electric car charging points and states that this has been included as a £976 per unit cost.<sup>43</sup> This is referenced as being based on a Government document ‘Electric Vehicle Charging in Residential and Non-Residential Buildings’ published in July 2019. However, this same document cautions that:

*“However, we recognise that the cost of installing chargepoints can be high in areas where significant electrical capacity reinforcements are needed. To mitigate any potential negative impact on housing supply as a result of these regulations, this consultation seeks views on an appropriate exemption from the chargepoint installation*

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<sup>42</sup> Paragraph 8.64, draft LPVA

<sup>43</sup> paragraph 8.69, draft LPVA

*requirement based on the grid connection cost. The consultation proposes the threshold for the exemption is set at £3600, which is three times the high scenario cost of the average electrical capacity connection required for one chargepoint.”*

- 6.15 On this basis, it is clear that the cost assumed in the draft LPVA is at the very low end of what may be the true cost to developers where significant infrastructure installation is needed to support the additional electrical capacity needed as a result of the installation of electric vehicle charging points on new-builds. It is also unclear where the additional cost is factored into the modelling – is it also within the 9% CfSH cost assumption listed in Appendix 11?
- 6.16 Policy DES3 relates to heat supply and is acknowledged by the draft LPVA to be costly; possibly to the tune of c.£3k to £7k per unit, although these costs are based on informal discussions with suppliers. The cost of this policy is confirmed to not have been tested in the baseline appraisals<sup>44</sup> as such the inclusion of any such policy within the draft Plan has not been demonstrated to be viable. The policy wording suggests the requirement will only be sought on sites where it is viable, but for the policy to be sound it must first be tested within the Plan viability assessment – not left to be tested on an ad-hoc basis essentially resulting in every development proposal having to be accompanied by a viability assessment and in an approach that is contrary to National Planning Policy and Guidance.
- 6.17 For Policy ES6 (biodiversity) paragraph 8.79 the draft LPVA suggests an average cost of £20k per hectare and suggests this equates to an increase of 5% to ‘site costs’ and that the site costs have been increased to reflect this. Site costs in Appendix 11 are set at 16% (or less) and, as explored in section 5 of this report above, are also suggested to cover uplifts to base build costs for on-site infrastructure, externals etc. As already set out in this report at 16% the uplift to base BCIS build costs will only be sufficient to cover on-plot externals for Greenfield or low density brownfield sites as opposed to extending to other site infrastructure, off-plot externals or additional burdens introduced by Policy ES6.
- 6.18 It is also suggested in paragraph 8.80 that ‘fees’ have been increased from 8% of base build to 9%. However, Appendix 11 suggests fees to remain at 8% (the planning fee being confirmed in paragraph 7.14 to be a separate cost) for all sites tested.

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<sup>44</sup> Pages 115 to 116, draft LPVA

- 6.19 Policy ES12 (which relates to 'better design of places') is suggested not to add any costs on the basis that it is a 'general policy that concerns designs'.<sup>45</sup> However, any design requirements that are in excess of non-optional Building Regulation requirements will have an associated cost to developers, so the draft LPVA explanation for nil additional costs being assumed is insufficient and requires further evidence to be provided.
- 6.20 Various policies listed (such as, for example, Policy DES2 at paragraph 8.82) are described by the draft LPVA as being dealt with under other policy headings suggesting they generate no additional costs themselves. This is not fully explained or evidenced and it is unclear why no additional costs will arise.
- 6.21 The commentary in the draft LPVA for Policy ES16 (public art) is very vague and again it is stated that a 'range' of developer contributions are tested.<sup>46</sup> However, currently a £5k s106 contribution is the only scenario modelled and which obligations are included in this is not clearly set out.
- 6.22 Strategic sites are noted as having had specific policies drafted by the Council and it is stated that the cost of these is reflected in the modelling.<sup>47</sup> However, what exactly these costs are and how they are included (perhaps within the Arup estimates?) is not explained.
- 6.23 In terms of floor areas the draft LPVA states that Nationally Described Space Standards sizes are assumed in the modelling.<sup>48</sup> However, no other cost assumption has been made to reflect how this may impact on land take, masterplanning and therefore overall site viability. Such costs are not necessarily recoverable through sales values from prospective purchasers which are likely to be set at price points within the context of property types / location / specification rather than wholly on a £ per Sqm basis.

### Summary

- 6.24 Overall, it is apparent that the Policy Requirements section of the draft LPVA would benefit from improved clarification on how cost assumptions (or nil cost assumptions) are arrived at and by the presentation of additional evidence to support where cost (or nil cost) input assumptions are made. Including a clear summary of the policies (i.e. in a table form)

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<sup>45</sup> Paragraph 8.81, draft LPVA

<sup>46</sup> Paragraph 8.83, draft LPVA

<sup>47</sup> Paragraph 8.85, draft LPVA

<sup>48</sup> Pages 118 and 119, draft LPVA

identifying 'at a glance' whether or not additional costs have been assumed would be a useful executive summary to the section ahead of the more detailed commentary.

- 6.25 Many of the cost assumptions seem likely to underestimate the costs that development will actually face as a result of the policies tested, and some (like DES3 heat supply at potentially £3k to £7k per unit) are not even applied in the modelling at all. Currently, it is unclear how or if many of the policy costs are accounted for by the draft LPVA either within developer contributions or through uplifts to the base build cost. Underestimating policy costs will artificially improve viability outcomes.

## **7 Appraisal Outcomes - Conclusion**

- 7.1 Key concerns raised within this paper regarding the approach taken by the draft LPVA include:
- a) Consultation – so far this comprises solely of this single, very time limited, consultation event without the opportunity for wider participation beyond those the Council has sought to contact. Without any subsequent meaningful discussion through workshops / consultation sessions or follow up meetings with individual respondent organisations (both in respect of windfall and strategic site testing) it is unclear how the assumptions within the draft LPVA can be robustly arrived at and / or reflect reality.
  - b) Sales Values - based on an analysis of Appendix 6 to the draft LPVA, and even without regard to the wider context provided by values in the second hand market, the £3k / £3k+ per Sqm values applied for generic and strategic sites in the draft LPVA modelling look to be in excess of the values likely to be achieved in many locations even prior to any Pandemic impacts.

The draft LPVA applies too broad a brush to values in its modelling of Greenfield sites (at £3k per Sqm across the board) given that its own data suggests values significantly below £3k per Sqm being achieved in many locations. For Strategic Sites similar concerns apply; for example, examination of the values applied to Stonehouse and the underlying draft LPVA Appendix 6 data suggest that these are being overstated within the modelling resulting in a Strategic Site is being concluded to be viable which would otherwise be unviable.

The decision-making process and assumptions which inform the final model sales value inputs are not set out in a logical, detailed or transparent way. The analysis of new-build

properties should be developed to ensure that quality, site setting and location are considered and factored into any figures relied upon. Additional work should also be undertaken by HDH with RPs in the District to provide a more fine-grained analysis of the level of revenue that affordable housing is likely to raise.

Viability modelling is extremely sensitive to changes in sales value assumptions; even small adjustments will make the difference between typologies tested being viable or unviable. This is particularly pertinent in Stroud where values may differ within settlements let alone across the wider District. It is crucial that, even in high level studies, sales values are reflective of reality and not applied on a broad-brush basis.

- c) Land Values - the draft LPVA BLV assumptions for Greenfield and Brownfield land appear to be largely arbitrarily set with reference to BLVs used in high level viability assessments elsewhere without any investigation of how or why these are comparable in terms of location, policy context or being applied on a net or gross per hectare basis. The draft LPVA suggestion that sites with RLV below the BLV are marginal in viability terms renders the process of setting a benchmark in the first place against which policy / developer contribution burdens upon development are to be tested meaningless. The NPPG does not advocate setting a BLV within high level studies and then ignoring it – if policies cannot viably be delivered against the BLV they will not be sound.
- d) Development Costs - Many of the assumptions applied in terms of Development Costs are at the low end of what will be applicable in reality. Assuming development costs for key elements, particularly such as construction and developer return, that will contribute to an assessment that is right at the margins of viability is of significant concern, even before any potential cost increases as a result of the Pandemic and which will take time to feed through into available data.

Cost savings are assumed on Strategic Sites with the draft LPVA applying the lower quartile BCIS build cost without robust evidence of how such savings are being achieved. These are coupled with other cost assumptions right at the lower end of the scale of what could be assumed. For the generic Greenfield sites tested no allowance appears to have been made for site opening up / infrastructure costs / off-plot externals pushing cost assumptions on particularly larger sites right down.

The developer return assumed in the draft LPVA, regardless of being set out in the NPPG viability section at a range of 15-20% of GDV, is lower than the up to 30% that

Housebuilders will routinely require in the real world. Ignoring this fact devalues the whole viability exercise and renders it meaningless. Anything below 20% risks jeopardising the ability to secure finance for schemes (something which will become even more prevalent in the current economic climate) and is not a realistic assumption for inclusion within either a high level plan making or a decision-taking FVA.

- e) S106 - the outputs of the draft LPVA as currently presented only test a £5k per unit s106 cost in respect of the generic site typologies – this is far too low. County Council s106 requirements for education alone are likely to result in an additional £17k per unit cost to development and, even prior to this proposed level of County Council education s106, a full education contribution has been in the region of £8,500 per house. The impact of such costs upon development viability is not tested in the draft LPVA. It is also unclear how the additional County Council s106 costs may impact on the Strategic Sites where / if on-site education provision is not already included within the Arup May 2020 cost estimates relied upon by the draft LPVA.
- f) Local Plan Policy Requirements - the draft LPVA would benefit from improved clarification on how cost assumptions (or nil cost assumptions) are arrived at and by the presentation of additional evidence to support where cost (or nil cost) input assumptions are made. Including a clear summary table of the policies identifying where additional costs have been assumed would be a useful executive summary to the section eight.

Many of the cost assumptions seem likely to underestimate the costs that development will actually face as a result of the policies tested, and some (like DES3 'heat supply' at potentially £3k to £7k per unit) are not even applied in the modelling at all – such policies need to be tested at the Plan making stage and demonstrated to be viable to be sound. Currently, it is unclear how or if many of the policy costs are accounted for by the draft LPVA either within developer contributions or through uplifts to the base build cost.

- 7.2 In terms of the overall outputs of the modelling undertaken by the draft LPVA so far the 'Findings and Recommendations' section 12 of the draft LPVA has not yet been completed and so cannot be commented upon - the author states that this will be done following consultation although it is strongly urged that wider consultation is undertaken following this. Whilst the non-residential appraisal outcome section 11 is also yet to be completed, Section 10 presents the baseline modelling outputs for the residential appraisals.

- 7.3 Whilst there are clear concerns regarding the way in which the draft LPVA BLV has been set and whether it is sufficient to secure the release of land for housing delivery, where sites tested in the draft LPVA fall short of the BLV it should be made clear that such site typologies are not marginal in terms of their viability; they are simply unviable. The cost of the proposed policy and developer contribution requirements upon such sites cannot be supported.
- 7.4 Sensitivity testing, considering the potential impacts of increased cost / decreased revenue scenarios, is not yet presented although the body of the draft LPVA suggests there is an intention to test some different scenarios. Whilst baseline outputs should reflect current costs and values sensitivity testing should be undertaken to provide an indication of how project viability could vary across the plan period, particularly given the economic uncertainty now facing the country and the world.
- 7.5 Table 10.3 of the draft LPVA suggests that, assuming 30% affordable housing, CIL, s106 at £5k per unit and in the context of the emerging policies for which costs have been assumed, only one out of twenty-one of the generic sites tested achieves a RLV that exceeds the BLV. Table 10.4 of the draft LPVA suggests that, assuming 30% affordable housing, CIL, s106 and strategic infrastructure / mitigation costs at c.£25k per unit and in the context of the emerging policies for which costs have been assumed, only four of the Strategic sites tested out of ten achieves a RLV that exceeds the BLV.
- 7.6 Therefore, even without having regard to the concerns regarding overestimated sales values and underestimated costs (summarised above) this suggests that, against the draft LPVA author's own test, the proposed policy and developer contribution requirements cannot be supported by c.95% of non-strategic sites and by 60% of Strategic Sites.
- 7.7 If the cost and value concerns raised are taken into account, including the additional policy costs which have not been factored in or have been underestimated by the draft LPVA, RLVs will be lower than those stated for generic and Strategic sites resulting in worse viability outcomes. This is broadly illustrated in the figure below by a quick comparison of the 'headroom' between RLVs and the BLVs for the Strategic Sites suggested by the draft LPVA and the suggested cost of one of the policies that has not been factored into the baseline modelling (Policy DES3 heat supply):

Figure 7.1

	Site Name	Site Location / Type	units	Gross Area (Ha)	Site RLV	Site BLV	Site 'Headroom'	Policy DES3 (@ £3k per unit)	Remaining Site 'Headroom'
Site 1	PS24 West of Draycott	Cam NW / Green / Agricultural	700	31.25	£ 13,513,685	£11,718,750	£1,794,935	£2,100,000	-£305,065
Site 2	PS25 East of River Cam	Cam NE Ext / Green / Agricultural	180	7.5	£ 2,980,413	£ 2,812,500	£ 167,913	£ 540,000	-£372,087
Site 4	PS30 Hunts Grove Ext	Hunts Grove / Green / Agricultural	750	33.48	£ 14,352,834	£12,555,000	£1,797,834	£2,250,000	-£452,166
Site 7	PS19a Northwest of Stonehouse	Stonehouse NW / Green / Agricultural	650	29.02	£ 18,835,345	£10,882,500	£7,952,845	£1,950,000	£6,002,845

NB: market housing GDV overestimated by c.£8m based on analysis of Appendix 6 data for Stonehouse

Source: Pioneer Analysis June 2020, Draft LPVA NB: further explanation of the point made in the yellow box is provided in Paragraph 7.8 below.

- 7.8 Whilst Stonehouse (Site 7) is suggested to have sufficient headroom to accommodate this additional cost this is based on a £3,300 per Sqm sales value which does not appear to be supported by the evidence provided in draft LPVA Appendix 6 which suggests a value of £3,137 per sqm when outlier values are removed.<sup>49</sup> Over a market housing floor area of 49,509 sqm on this draft LPVA<sup>50</sup> appraisal the lower value equates to a reduction of c.£8m in revenue<sup>51</sup> suggesting that the above 'headroom' between the RLV and BLV for Site 7 is unlikely to exist.
- 7.9 The above figure applies just one policy cost that has not been assessed, but the draft LPVA also appears to underestimate construction costs for Strategic Sites,<sup>52</sup> to exclude or underestimate costs for a number of the other proposed policy areas, and, based on a review of the draft LPVA evidence, to apply values that appear to overestimate those suggested as being achieved across the District resulting in artificially inflated viability outcomes.
- 7.10 The viability outcomes summarised in the draft LPVA are also prior to factoring in the impact of increased County Council s106 contributions,<sup>53</sup> which for education alone are suggested to equate to c.£17k per unit. It is unclear whether or not this cost would apply to the Strategic Sites or whether contributions are already factored to some extent into the £25k per unit s106 and Strategic infrastructure / mitigation cost assumption, but it would apply to the generic sites tested and would render all of them unviable (or even more unviable) against the draft LPVA BLVs.

<sup>49</sup> Even with the outlier the average value is suggested to be £3,155 per sqm and the median £3,159 per sqm

<sup>50</sup> See Appraisal for Strategic Site 7 at Appendix 11

<sup>51</sup> i.e. 49,509 Sqm multiplied by £3,300 = £163,379,700 and 49,509 Sqm multiplied by £3,137 = £155,309,733; £163,379,700 minus £155,309,733 = £8,069,967

<sup>52</sup> applying lower quartile BCIS for the base build despite being a high-level study and not presenting evidence to demonstrate the economies of scale claimed

<sup>53</sup> The contributions are the subject of consultation ending on the 19th of June 2020, but anecdotal evidence suggests that the County Council is already seeking to apply the education s106 requirements to sites, even where these have advanced substantially through the planning system.



- 7.11 Clearly, in Stroud, not all of the policy requirements proposed will be able to be sought even without factoring in: the concerns raised above regarding the draft LPVA modelling, any additional s106 burdens being sought by the County Council, and how economics may worsen as a result of the Pandemic. Emerging policies must be revisited, with wish list policies removed and cost burdens reduced (including through looking at existing Plan policy burdens) to ensure the Plan is deliverable.
- 7.12 Affordable housing is one of the largest cost burdens faced by development, and where other mitigating factors cannot be removed / reduced this is a requirement that will need to flex downwards. In any event, it is apparent that most sites in the District will struggle to support 30% affordable housing under the current Plan policies, let alone under the emerging Plan policies, and none will be able to do so where additional County Council education s106 contributions are imposed.