Horsham DC - CIL Viability – Update Assessment

Executive Summary

CIL background and Horsham District Planning Framework (HDPF)

1. Like many other Local Authorities which are seeking to become Charging Authorities, Horsham District Council (HDC) has for some time been preparing proposals for a Community Infrastructure Levy (CIL).

2. Across most types of developments, a CIL largely replaces s.106 as the main mechanism for securing planning obligations to support community infrastructure provision. The use of s.106 (the established mechanism through which authorities have been securing infrastructure contributions) for pooled contributions is now greatly restricted

3. Once in place, a CIL becomes the main route through which infrastructure contributions can be pooled. Following the introduction of a CIL, however, s.106 will remain as the tool for securing planning-led affordable housing. S.106 will also be used alongside or (in some cases) in place of CIL - for securing planning obligations relating to necessary site-specific development mitigation matters, without which a development could not proceed.

4. The Local Authority (Charging Authority for CIL) must ensure that the CIL payments and s.106 contributions are for distinct items / projects – no overlapping (so called "double-dipping") is permitted. Specifically, a CIL is to support the development of the area through securing funding (on a fixed rate, transparent and consistent basis) for new infrastructure associated with the growth identified in a LA's development plan i.e. 'Local Plan.' Linked to this, a CIL should be based on (set up to support) an up to date Plan.

5. Given this basis, whilst the Council was an early adopter of its Core Strategy and General Development Control Polices related to that (in 2007), work was paused on the HDC CIL pending the adoption of the new Plan – the Horsham District Planning Framework (HDPF) – in November 2015.

6. The basis for CIL charging is prescribed through the regulations. The charge is levied per square metre (sq. m) of new development exceeding 100 sq. m in floor area, but including new dwellings of any size. However, existing floor space on a site being redeveloped may not be liable for the CIL, depending on its occupation status. There

are also a number of set exemptions that are universally applicable through the regulations too, so that affordable housing, development by charities, self-build housing and domestic extensions are not charged.

7. Whilst the Council cannot varying these regulatory matters, informed by the viability and other evidence, in its Local Plan (HDPF) context it decides which types of other development should be charged and at what rate(s). This means the Council considering the relevance of and the viability of various forms of and locations for development in its area, given the local characteristics. Any differentials within its charging set-up (varied rates) should be based on viability evidence.

Viability and Update Assessment Review

8. In parallel with recent progress towards the adoption of the HDPF, forming a clear and up to date basis for the CIL, HDC sought advice from experienced viability consultants Dixon Searle Partnership (DSP) in connection with the scope and level of proposed CIL charges for the district. DSP has many years' experience in both strategic level and site specific viability assessment and has been working with the Council in recent years on case specifics and a range of matters relating to viability and affordable housing.

9. Viability assessment is a key part of the planning policy development process, as set out in the National Planning Policy Framework (the key source of the requirement to consider viability) and the Government's Planning Practice Guidance (PPG) on-line resource. The PPG is now also the source of the national guidance on the CIL.

10. Whilst a LA does not have to follow its viability assessment exactly, this part of its overall evidence base should inform the approach taken to finding the right balance (between the opposing tensions optimising infrastructure funding and maintaining viability).

11. Under the CIL principles it is accepted that not all individual developments will necessarily be viable. However, the CIL charging should be set at levels where development across the area – i.e. the delivery of the Plan (HDPF) as a whole – is not placed at undue risk through the collective costs of policies and obligations (including CIL payments) being too high. CIL rates should not be set to the margins of viability – i.e. the charge needs to be placed at a rates or rates that will not regularly rely on reducing development viability to a marginal level.

12. HDC had full viability assessment work undertaken and in place to inform the previous (first) public consultation stage on its CIL proposals – the Preliminary Draft Charging

Schedule (PDCS). That consultation took place in May and June 2014, with the viability and other evidence pre-dating that.

13. Given the finalisation of the HDPF, the passing of time and associated market movements since the PDCS stage work, DSP's remit was to review and update the Council's understanding of, and evidence on, development viability. Based on an updated test of viability conducted by DSP, the outputs required were a verification of - or any revised proposals for - local CIL charging rate(s) given our review and assessment of latest available information.

Assessment principles

14. This Updated Assessment (the subject of this report – with full details within the main report body and Appendices) uses residual valuation principles. This is an established and common approach, consistent with all other Local Plan and CIL viability assessments by DSP; and also with the earlier HDC viability work together with most other similar studies.

15. This is all about the strength of the relationship between the development values and costs - based on appropriate available information and researched assumptions.

16. The methodology revolves around an appraisal structure that deducts all development costs (including build costs, finance, professional fees, sales costs, HDPF policy costs, etc.) from the estimated completed development (sales) value (i.e. the gross development value or 'GDV') so that we can explore whether there is a viability scope to support a CIL charge. This is considered by reviewing whether a surplus exists for CIL, and if so how much, after realistic land value and developer's profit expectations have been taken into account too. Sufficient profit and land value are key ingredients of the market-led process of development, as the national policy and guidance outlines, and other guidance such as by the Royal Institution of Chartered Surveyors (RICS) also puts forward.

17. We test the potential capacity for CIL charging by starting with a nil (£0/sq. m) CIL scenario and then adding in and increasing the charge in small steps. The residual land value (RLV) outputs from the appraisal scenarios are seen to reduce as the CIL "trial rates" increase.

18. A large number of appraisals (several thousand all together) are run, so that these effects can be considered across an appropriate range of development scenario types and new-build property sales values – all representative of the variety of development expected to come forward through the HDPF. For this strategic overview suitable for CIL

informing purposes, however, it is not necessary or appropriate to appraise and review all conceivable development types and variations.

Relevant Horsham district characteristics & Findings

Residential

19. Residential property values are high across the district. There is variation between settlements and individual locations, as is always the case. However, and in comparison with many areas that we have assessed, we have found a high level of consistency between the values when looking at the overview level appropriate to a CIL; particularly when new-build housing of the type most relevant to the HDPF delivery overall is concerned.

20. This means that, while we set out potential alternative options for HDC to consider, we are of the view that a simple Charging Schedule with a single CIL charging rate for residential development in the district remains a suitable approach; in our view that might be considered the main option.

21. Previously (at PDCS consultation stage) a single residential charging rate proposal was put forward at £125/sq. m.

22. Our focus is on latest available information – a fresh look at values and development costs etc. Overall we have found that the additional development revenue from market housing sales value increases over the period from the earlier preparatory work has generally more than compensated for the updated view on development costs (including significant rises in the build costs). This means that in general the underlying viability positions that are seen by the Council through a strong rate of housing delivery (including a very positive track record on affordable housing as part of that) have consolidated and viability has improved to some degree.

23. On review of the latest information and in our experience the upper parameter for realistic potential CIL charging in Horsham district is approximately £200/sq.m, however at the current time a potential rate at that or approaching that level is likely to be suitable only in the typically higher value smaller settlements within the rural areas.

24. Looking at the HDPF overall, a relatively small scale although nevertheless important amount of development is set to come forward in those areas. At least some of this will probably be through the Neighborhood Planning process. Combined with the possibility of adding too much pressure to the affordable housing delivery / contributions coming

from those typically smaller developments, these reasons in our view favour a single district-wide CIL charging approach on balance.

25. This would respond to the more typical relevant development locations and types, and would be at £125-150/sq. m without going to the margins of viability.

26. It follows that HDC could either set a rate at not exceeding say £150/sq. m (district-wide) or continue to run with the £125/sq. m level supported by the information gathered prior to the mid-2014 consultation. A district-wide charging rate within the range £125-150/sq. m is our key recommendation for application to residential development (falling under Use Class C3).

27. We consider that, if relevant to the latest local circumstances, retirement housing that is not for affordable tenure, as a part of the wide spectrum of market housing provision could bear CIL at a similar rate to, but not exceeding, the residential rate(s) considered in this Update Assessment review.

28. As above, other options would include potential upwards differentiation outside the main settlements and a significantly more complex set-up with a small level of differentiation between larger settlements / key HDPF locations and again the possibility of additional differentiation for the rural area covering the smaller settlements (overall range £125/150 – 200/sq. m).

29. According to our current stage calculations and in our experience, a single notable exception to a district-wide “wash over” charging rate would need to be made for genuinely strategically scale development. The only development of this nature relevant for considering this first charging schedule is that proposed at ‘North of Horsham.’ Prior to a fully detailed picture emerging on the high development costs and levels of site-specific s.106 there, we have found that after including typical strategic site development costs assumptions there remains no headroom for fixed CIL charging at this time.

30. In such a scenario, s.106 is considered likely to offer a more adaptable and practical route to delivering infrastructure, and working with phase by phase variations on requirements / priorities and viability.

31. Accordingly, at this time we consider that there would need to be a nil £0/sq. m charging rate for residential development within a mapped area aligned to that site; a map clearly showing the area subject to this differential CIL charging would need to form part of the next stage Charging Schedule consultation document.

32. In terms of general patterns and principles, this is consistent with the earlier (PDCS) stage view on strategic scale residential development and takes the consideration further with a latest high level look at viability.

33. Using appropriately updated assumptions within sample comparison appraisals results, we generate residual land value (RLV) results that are improved from previous, and often significantly so. As a worse case overview we are able to say that, looking at what has happened to typical costs and values, we would not expect to see viability outcomes reduced from the 2014 assessment levels.

34. **In summary on residential (meaning development uses falling with Use Class C3), from a viability perspective the updated review and findings point to HDC as a minimum being able to progress at a CIL Charging Rate of £125/sq. m; with looking up to say £150/sq. m district-wide also now within the scope of viability assessment recommendations (except for strategic development North of Horsham suggested at £0/sq. m).**

<u>**Commercial / non-residential development use – HDC CIL charging**</u>

35. Informed by a parallel and equivalent process, using the same principles as for residential, a range of commercial and non-residential development types have also been considered.

36. The full report text explains the detail. In brief summary, from this refreshed exercise **DSP has found that at the current time (i.e. for the likely life of a first HDC Charging Schedule) the viable charging scope beyond residential is limited to any larger format retail development only.**

37. **That scope would be to approximately £100/sq. m, which as an indicative rate is consistent with the previous findings and also with the PDCS stage consultation.**

38. Having reviewed various potential forms of development in the HDPF context, however, our view from our findings and experience is that consideration should be given by HDC to differentiating on retail. Owing to potential undue added viability pressure on small shops provision and development, which is part of the HDPF strategy in supporting sustainable communities, we consider that a nil rate (£0/sq. m) charge should be applied to shop developments other than for larger shops – including supermarkets, superstores and retail warehousing. These would be described as development use types within the Charging Schedule, including with reference to a secondary criterion on

sales floor area in excess of 280 sq. m - in accordance with the Sunday Trading legislation. Again, the full report sets out the detail on these considerations.

39. Likewise, and **again consistent with the PDCS, we have found that at this stage all other forms of development should be nil-rated (at £0/sq. m) as a wide range of tests shows them to be insufficiently viable to support fixed (non-negotiable) charging alongside other development costs.**
40. **This means that, as before, development for business (B) uses would at this stage also be nil-rated; as would any developments for care homes, hotels, leisure and community uses, etc.**

41. Nil-rating does not mean that developments of these types will not come forward or will consistently be undeliverable as land owners and developers may be able to take particular decisions and reduce scheme costs or compromise in other ways in order to progress developments. Any significant developments are more likely to be for particular occupiers than speculative in the HDPF context. Whilst delivering some types of commercial floorspace will often remain relatively challenging with the still mixed economic backdrop, setting a nil-CIL is not a tool to aid economic development but the approach is the most that an LA can do on CIL in recognition of what is at best going to continue to be a mixed viability picture on such schemes.

CIL review

42. Finally, it is important to recognise that inevitably a CIL Charging Schedule will have a short lifespan relative to the HDPF.

43. Currently there are no set criteria on review, but from emerging experience it is likely that Charging Authorities will review and potentially amend their Schedules at between say 2 to 4 years from inception (a rough guide only). This would fall in line with the review of the HDPF that commences in 3 years in accordance with the Local Plan Inspector's final report findings.

44. Rather than review at fixed points, monitoring will be necessary and it is envisaged that a range of factors including HDPF delivery progress, economic climate and property market, development costs, national policy positions, relationship with s.106 and the like would all need to be considered as a part of taking a further updated look at the context for CIL and at viability; one again to inform decisions about the setting of any revised Charging rates or amended forms of development / locations relevant to the local CIL regime.

45. DSP is happy to assist HDC with any enquiries or further information required on any of these or other aspects, as further progress is made with its CIL.