D|S|P Planning & Development Viability Consultants

Purbeck District Council

Purbeck District Council

Purbeck District Partial Review of Purbeck Local Plan Part 1 and revised Community Infrastructure Levy Economic Viability Assessment

Ref: DSP15361

Final Report

April 2016

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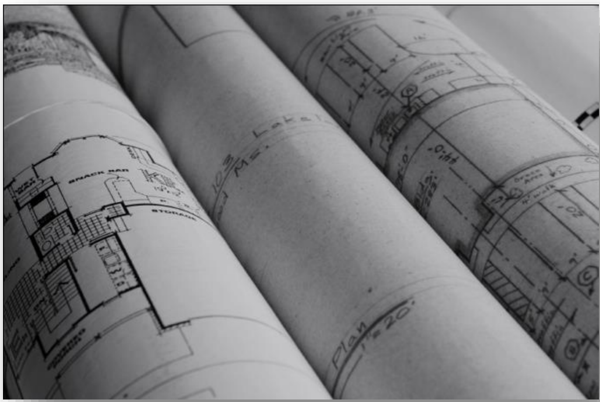

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Executive Summary

Context and purpose

1. Purbeck District Council (PDC) appointed experienced consultancy Dixon Searle Partnership (DSP) to provide development viability advice and evidence. This report sets out the scope of and approach to DSP's resulting assessment work.

2. The purpose of the exercise, responding directly to the requirements of the National Planning Policy Framework (NPPF) and national Planning Policy Guidance (PPG) was to help inform both the Council's work on its Partial review of the Purbeck Local Plan Part 1, and an accompanying Community Infrastructure Levy (CIL) Charging Schedule.

3. This has been undertaken with a view to adding to PDC's wider evidence base, so that it may be considered as part of that. The assessment and this resulting report been prepared through close working with PDC officers, contact with a range of other stakeholders, and put together in the context of latest available information. That is both on development values and costs, and given DSP's review of an up to date picture, so far as possible, on both local and national / emerging planning and housing policy areas.

Assessment approach

4. The assessment involved key aspects of research and information review (which were kept open during the assessment, on a reactive basis as far as was practical), assumptions setting, undertaking a great many appraisal calculations and sensitivity tests, analysis, review and reporting.

5. The approach used was typical to that of DSP's similar studies, as well as those of other specialist consultants, based on a sound methodology found suitable through a wide range of examinations covering local authority areas having very varied characteristics.

6. This wider experience was combined with application to the Purbeck District characteristics and the Council's emerging policy proposals, so that the spread of viability appraisals and resulting findings cover scenarios and policy testing that are relevant to the district and the Council's consideration of its development strategy.

7. The appraisals are formed using the well-established principles of residual valuation. This is so called because the review investigates the scope to support suitable levels of land value (and therefore to help ensure so far as possible the release of sites for development) once all development and policy related costs (including the CIL charges) are deducted from the completed development (sale) value. The result is a 'residual land value' (RLV) which is compared against various levels of benchmark land value representing different potential development scenarios; land value comparisons are made to inform judgements on the strength and meaning of the results.

Viability and Plan making requirements

8. The appraisal and review process is therefore all about the strength of the relationship between development values and costs; and how that varies by location and development type across the district so as to potentially inform the Council's Partial Plan Review and any appropriate updating of its CIL.

9. The aim of national guidance and of this assessment process is to seek to ensure that Plans are deliverable as a whole, and that is the relevant test for CIL rates setting too. Care is to be taken to see that the viability of development is not excessively affected by collective requirements and costs; so that local policies within a Council's control are not set at a level that is too high when all relevant development costs are considered.

10. Within their control and outside the influence of the economy and property market (the most significant factors), the key cost implications for the assessment and the Council to consider are those from affordable housing and the CIL as well as s.106; and how those interact. Affordable housing has a significant viability impact because it costs broadly the same to build as market housing, but produces a much lower level of value/income. CIL typically has a lower impact, but can still be a significant factor as it operates as a fixed (non-negotiable) charge. A carefully assessed balance is required, but the arrival at that will usually depend to some extent on a Council's local needs and priorities, as well as a range of other factors. The assessment considers a wider range of other viability influences too – both existing and potential.

Findings – brief outline

11. Through the assessment and this report, DSP puts forward a range of findings for PDC's consideration. While it should be noted that these are to inform PDC's Partial Plan and

CIL Review steps, there is no requirement for the findings to be followed exactly in all respects. As above, there will be a range of other evidence and influences for the Council to take into account.

12. The report covers the detail, but a brief outline of main findings is as follows:

Viability in Purbeck

a. In considering proposals for an updated development strategy, there is scope to identify a range of site and location types which should prove to be viable, distributing new development and producing a balance between larger and smaller sites.

b. Whilst the development scope related to the coastal area is unavoidably relatively limited, a variety of other locations provide significant opportunities for more sustainable development that can often take place at mid-range to higher values for the district, helping to underpin viability. A necessary and reasonably prominent use of greenfield land for a range of relatively small scale settlement extensions to strategic developments will contribute positively to the approach - from our viability perspective.

Affordable housing (AH) policy

c. Recognising also the severe housing needs, the results suggest that from a viability viewpoint the Council should if possible keep open its review of affordable housing considerations and policy until more is known about current Government policy developments; including on Starter Homes. This means a potential dual approach at this stage.

d. This is because the current PDC affordable housing policies, at 40% and 50% based on a low threshold of 2 or more dwellings, have been found to be quite onerous in viability terms given the range of values available to support such policies on a regular basis.

e. In the event of the Starter Homes initiative having the effect of boosting the viability of affordable housing within an adjusted mix relative to the current position, we suggest that the Council’s ambitious needs based targets could be continued; as targets for practical implementation depending on circumstances (i.e. continued to be operated as currently).

f. However, if there is going to be no such effect in the Purbeck context as result of national policy developments (subject to further review) then DSP recommends consideration of reduced affordable housing policy targets by PDC. A key point again is the phrasing and operation of these policies as targets, and not as minimums (or similar) or for fixed interpretation. Our reporting covers a range of other points around the potential use of sliding scale principles (consideration of reducing AH% requirements with falling dwelling numbers / site size) and financial contributions as part of an overall housing enabling strategy.

g. Through our research we have been able to recognise in general the policy areas and differentiation that the Council has been operating for affordable housing and CIL residential charging rates. However, we have suggested that this picture could now be simplified to some extent – for example with similar values and viability anticipated for new-build housing between the Upton and Purbeck Rural Centre existing differentiated charging zones.

CIL charging rates review and strategic scale development

h. At this stage, with the exception of the potential to look again at the existing CIL charging rates in the lower residential zones (at £10 and £30/sq. m) and for retail development (to not more than £100/sq. m chargeable on the larger formats), we have not identified scope to increase the adopted charging rates from a viability viewpoint. Those lower rates could now be placed at £50/sq. m (unified), but not suggested for a higher rate at this stage.

i. DSP has undertaken appropriate scenario based review of strategic scale development in the Purbeck context (sites providing up to around 1,000 new dwellings). For PDC's consideration, where larger sites are going to require significant specific infrastructure (for example related to new schools or other community provision, significant highways works or similar) secured through a continuation of existing s.106 arrangements we recommend that a differential / zoned approach to CIL charging for residential development is part of the review approach.

j. In those scenarios, a nil or significantly lower CIL charging rate is considered appropriate for overall viability; avoiding high fixed charges and providing delivery flexibility, including on the provision of the directly required / facilitating infrastructure itself. Sensitivity testing on affordable housing proportion and using varying values has been included, enabling PDC to consider potential implications and any relevant differentials for various locations under review for larger scale development. In any event, the findings suggest a lower CIL rate or rates than that put forward at £50/sq. m as a potential adjustment to the current lower rates as noted at point h above.

k. Otherwise, looking at viability, we have found that the CIL charging rates should remain as existing or in any event should not be increased at this stage.

Other considerations

l. The report also provides commentary on a range of other matters, some of which again may need further consideration or review as the Council's Plan proposals develop; in respect of various forms of housing, accessibility, self-build, Special Protection Area (SPA) mitigation, nitrates and other matters relevant in Purbeck.

m. At the point of finalising this report, there remains a possibility that national level minimum affordable thresholds may be re-introduced. This is a further uncertainty around which PDC may need to consider a dual/potential contingency approach. A reversion to the scenario introduced following the Ministerial Statement made in November 2014, and consequent changes to the PPG, could remove considerable affordable housing (AH) enabling scope in the district. DSP has appraised a wide range of test scenarios and sensitivities. Amongst those, this assessment considers on-site AH at various test proportions (%s) in conjunction with the low existing local thresholds; effectively a maximum viability impact scenario in terms of the potential mix of market and affordable homes within smaller schemes.

n. Under a reversion of the previously introduced and withdrawn national criteria, our understanding is that across the majority of Purbeck District (classified as rural areas for the purpose) the Council would have the scope, for example, to seek financial contributions towards its AH enabling strategy from schemes providing 6 to 10 dwellings. Assuming an operational context as previous, this would apply to all PDC areas except for Wareham and Upton. The assessment provides viability information that would underpin such an approach, if necessary and relevant; and if taken-up in principle by PDC. The aim in such a scenario would be to seek equivalent financial contributions, i.e. sums not exceeding levels equivalent to the developer subsidy associated with supporting on-site AH at the relevant proportions. The same principles as those discussed with regard to viability as impacted by on-site affordable housing would apply. These would include, for example, the suggested consideration of the use of sliding scale principles (increasing AH % or contribution with scheme size) and a flexible/practical operation of policies that also acknowledge the need to consider viability.

Next steps

13. Dixon Searle will be pleased to provide support together with any necessary further sensitivity testing and review as PDC progresses its further Part 1 Plan Partial Review and CIL Updating development work, consultations and the consideration of feedback received in due course.

Executive Summary Ends
Main report follows.
DSP ref. 15361
Final Report April 2016 (Client issue v4)

1 Introduction

1.1. Introduction to the Study

1.1.1 The purpose of this report is to provide viability advice to support the Partial Review of the Purbeck Local Plan Part 1 (PRPLPP1) and potential revised Community Infrastructure Levy (CIL) for the District.

1.1.2 The study feeds into the development of a partially revised Local Plan Part 1 in terms of testing its viability and identifying a viable level of affordable housing and other Plan policy requirements, as well as reviewing the level of CIL currently adopted.

1.2. Background to the Study – Partial Review of the Purbeck Local Plan Part 1

1.2.1. Purbeck District Council (PDC) is currently in the process of carrying out a Partial Review of its adopted Purbeck Local Plan Part 1. The emerging document will be referred to as 'Partial Review' within this report and the adopted Local Plan will be referred to as Purbeck Local Plan Part 1 or just PLP1.

1.2.2. Purbeck District Council adopted the PLP1 in November 2012. The plan provides for 2,520 dwellings (120 per annum) between 2006 and 2027. This number will be met through infill development and settlement extensions to Bere Regis, Lytchett Matravers, Swanage, Upton and Wareham. The PLP1 allocates settlement extensions at Lytchett Matravers, Upton and Wareham, but the others will be allocated through neighbourhood plans and the Swanage Local Plan

1.2.3. The Partial Review is a requirement of the independent Planning Inspector that carried out the Examination into the PLP1. The Purbeck Local Plan Partial Review Issues & Options consultation document[1] explains: "*Purbeck District Council's local plan was agreed in 2012. This laid out how and where development would be permitted over the next 15 years, as well as specifying that 120 new dwellings per year would be our planned target the government inspector, who appraised our plan, only agreed it on the understanding that the Council would review the plan to see whether more development was possible*".

[1] Purbeck District Council: "Reviewing the Plan for Purbeck's Future – Purbeck Local Plan Partial Review Issues & Options Consultation (January 2015)

1.2.4. The new draft Strategic Housing Market Assessment for the District (SHMA)[2] indicates that, in order to support the forecasted economic growth rates, the Council should deliver around 238 homes per year between 2013 and 2031 to meet its full objectively assessed need. As the Council is already planning for 120 homes per year up to 2027 in the PLP1, this would mean needing to find an additional 118 homes per year to 2027 and an additional 238 per year from 2027 onwards.

1.2.5. The SHMA figure is a starting point that the Council should test to see if it can meet it. The SHMA does not take into account local circumstances (e.g. capacity of local roads and nature conservation) and part of the preparation of the Partial Review will be to take into account local constraints. This could see the Partial Review planning for a lower figure than that identified in the SHMA. However, the Council must make sure that it can justify any deviation through sound evidence

1.2.6. The Purbeck District Partial Review is an opportunity for the Council to review locations for new housing, new shopping and employment space whilst also reviewing the individual policies within the Plan to ensure that they are up to date taking into account changes to policies at a national level that impact the viability of the Plan and development locally. The Partial Review will continue to shape future development and land use whilst setting out the vision and objectives for the District potentially to 2031 and the strategic and more detailed policies used in determining local planning applications.

1.2.7. This viability assessment information aims to be sufficiently comprehensive to inform policy options for consideration in relation to some ongoing government-led initiatives – for example that appear set to alter the extent to which affordable housing (AH) may be sought within the smallest developments (a potential re-introduction of a national minimum AH threshold). In the event of such national developments, a financial contributions route to support AH could remain open to PDC across the majority of this rural area. If re-introduced in its previous form, this could see no AH being sought on sites providing 1 to 5 dwellings, but financial contributions sought from developments of 6 to 10 dwellings across most PDC areas.

[2] GL Hearn: East Dorset Strategic Housing Market Assessment – Purbeck District Summary (October 2015)

1.3. Background to the CIL & Purbeck District Council Adopted CIL Charging Schedule

1.3.1. The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, Purbeck District Council is the charging authority.

1.3.2 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[3]. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.[4]

1.3.3 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area.

1.3.4 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies and could be used for community projects. Planning Practice Guidance provides further information on spending of Levy receipts including distribution to local neighbourhoods[5].

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[3] DCLG – http://planningguidance.communities.gov.uk/blog/guidance/community-infrastructure-levy/cil-introduction/ (June 2014)

[4] Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

[5] http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/spending-the-levy/#paragraph_072

1.3.5 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area.

1.3.6 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.

1.3.7 The CIL Guidance contained within the PPG goes on to state that the levy rate(s) need to be set so that they do not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan (Local Plan in England). '*Charging authorities will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across their area.*'[6]

1.3.8 Purbeck District Council has an adopted CIL Charging Schedule in place, implementing the CIL in June 2014. As part of the Partial Review process the Council also wish to ensure that the CIL is up to date, for many of the same reasons as given above in regard to the Partial Review – including any variation required due to changes in national policy and the CIL Regulations and Guidance since the evidence base for the adopted CIL Charging Schedule was completed and the CIL adopted. The Council understands that a review of the CIL Charging Schedule will be required if this viability assessment indicates it is necessary or desirable to do so.

1.3.9 The Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the anticipated Local Plan level of growth to be accommodated across the District as a whole. This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.

[6] http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/rates/ [Para 008]

1.3.10 Infrastructure is taken to mean any service or facility that supports the Purbeck District Council area and its population and includes (but is not limited to) facilities for transport, affordable housing, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining whether CIL charging rates need to be varied from the adopted position, bearing in mind that CIL is non-negotiable.

1.3.11 In most cases CIL replaces s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived "double dipping" – i.e. charging for infrastructure both through CIL and s.106. Therefore s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a Regulation 123 list (a list of infrastructure projects that the local planning authority intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale strategic development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.

1.3.12 The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

1.3.13 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

'The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1), as amended by the 2014 Regulations), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.
As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. The same principle applies in Wales.' [7]

1.3.14 The latest amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014 came into force on 24th February 2014. These regulations introduced:

- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

[7] http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/rates/ [Para 009]

- a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.3.15 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance.

1.4 Purbeck District Council – Profile & Specific Issues

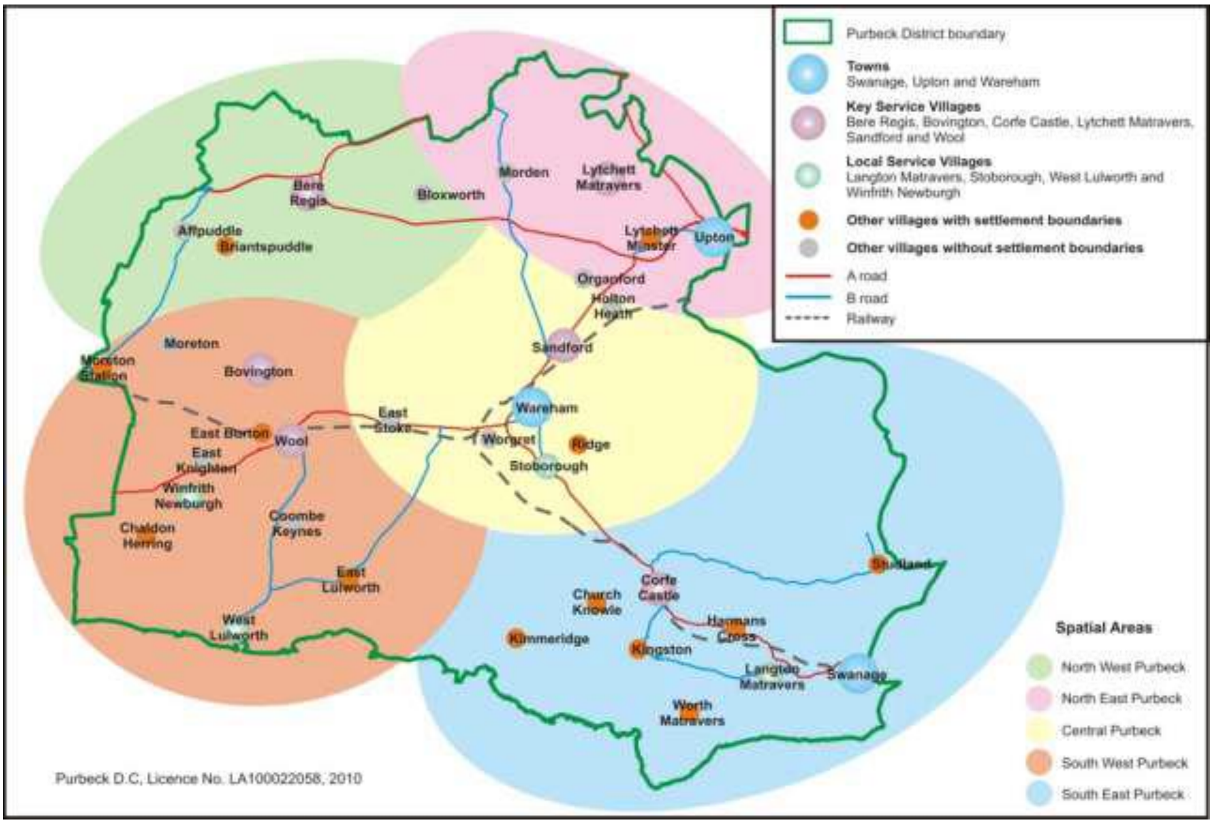
1.4.1 The Council's adopted PLP1 document sets out some background to the District along with the spatial strategy and objectives. It states:

1.4.2 *'Purbeck is a rural district located within the South West region. It is one of six districts within the county of Dorset and has close associations with the Unitary Authorities of Bournemouth and Poole. Purbeck is part of 'South East Dorset' and falls within the Bournemouth and Poole Housing Market Area. The District has a population of 45,410, 60% of which is in the largest settlements of Swanage, Wareham and Upton. Of these, Swanage town contains the largest population of around 9,500.*

The central area of Purbeck acts as a hub for the District, with Wareham providing the District Council offices, a secondary school, a sports centre, shops and a railway station on the London Waterloo to Weymouth mainline. The north east including Upton and Lytchett Matravers has a close relationship with Poole, whereas to the north west and south west of the District there is a greater affinity with Dorchester. Geographically, the south east is quite self-contained, with Swanage, a well-known seaside resort, providing facilities and services for the surrounding villages.

The District can be split into five fairly distinctive, but overlapping, spatial areas, each with its own characteristics, issues and challenges'.

Figure 1: Purbeck District Council Spatial Areas



Source: Purbeck District Council

1.4.3 In terms of the spatial development strategy, the adopted PLP1 provides for 2,520 dwellings (120 per annum) between 2006 and 2027. This number will be met through infill development and settlement extensions to Bere Regis, Lytchett Matravers, Swanage, Upton and Wareham. The PLP1 allocates settlement extensions at Lytchett Matravers, Upton and Wareham, but the others will be allocated through neighbourhood plans and the Swanage Local Plan. In committing to a Partial Review , the Council needs to investigate whether it can provide more housing issues around which include the level of additional housing, location (settlement extensions on smaller sites) and the potential for large housing sites.

1.4.4 Increased housing development is likely to be impacted by and have wide ranging impacts on other land uses and service provision that the Council needs to plan for, including:

- Employment:

  There are a number of key employment sites in Purbeck, where the Council currently direct employment growth. These include Dorset Green Technology Park, Holton Heath and Sandford Lane. The Council may need to consider identifying additional employment sites as part of the Partial Review.

The evidence provided in the Eastern Dorset Strategic Housing Market Assessment indicates the Council should deliver around 238 additional new homes per annum in the district to 2031. This calculation is linked to the number of jobs the Council anticipates delivering according to economic growth forecasts.

- Retail
  The Council's current strategy directs the majority of retail (food and non-food) development to Swanage and the small remainder will be delivered in other town and village centres through extensions to premises and changes of use.

  The new retail study indicates that there is no need for additional non-food retail floor space in the district (over and above that already identified in the PLP1 and the Swanage Local Plan Pre-submission Document) in the period up to 2024.

  In terms of food retail, the study shows that the Council may need to deliver up to approximately 600 sq. m of additional food retail floor space in the period up to 2024. This is in addition to the food retail floor space which is due to be provided on the Swanage Town Centre redevelopment site, as identified in the Swanage Local Plan Pre-submission Document.

- Managing internationally-protected wildlife sites
  Purbeck lies in an area of considerable importance for nature conservation. Eight European sites, covering approximately 20% of all land, are located completely or partially within the District. The impact of new development, mainly housing and tourist attractions, has to be mitigated for. A revised Dorset Heathlands Planning Framework 2015-2020 Supplementary Planning Document (SPD) has recently been adopted, and a Nitrogen reduction in Poole Harbour SPD has been consulted upon. We still have to look at recreational impacts in the Districts. Mitigating these requires significant funding for a small local authority.

- Transport
  The roads in Purbeck are almost at capacity and the pressure increases significantly in the holiday season. To try and ease some of the congestion PDC, in partnership with Dorset County Council, have a Purbeck Transport Strategy (PTS) which identifies projects aimed at reducing reliance on the private motor car. The most recent estimate identifies projects costing £20 million which is not

achievable under the current CIL income stream. The PTS is also being reviewed alongside the Partial Review.

1.5 Purpose of this Report

1.5.1 Viability testing is an important part of the plan-making process. The National Planning Policy Framework (NPPF) introduced a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. The national Planning Practice Guidance (PPG) and other publications cover further guidance on this requirement. National Planning Practice Guidance (PPG) (CIL section Para 8) also states that "*Charging authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant plan (Local Plan in England and London Plan in London)"*. The NPPF states that where practical, CIL charges should be worked up and tested alongside the Local Plan. As such the Council appointed Dixon Searle Partnership (DSP) to provide the viability evidence necessary to inform the Partial Review and if required a future review of the Community Infrastructure Levy:

1.5.2 This study investigates the potential scope for altering the CIL in Purbeck District whilst reviewing and taking into account the Local Plan policies. It also considers the type of development likely to be relevant to the specific strategic site options. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the District; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy and affordable housing). The aim is to provide the Council with advice as to an appropriate level of CIL including whether the rates should be altered or changed relative to site size and type. The assessment also tests and advises on an appropriate level of affordable housing and associated sub-markets across the District whilst also assessing the viability of different types of development as a whole.

1.5.3 The assessment takes into account the policies contained within the adopted PLP1 and reviews those including those relating to affordable housing and other policies and national housing standards. The assessment will provide the evidence base for the viability of the Local Plan policies, informing and supporting the deliverability of the plan overall.

1.5.4 This approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies that are likely to have a close bearing on development costs.

1.5.5 To this end, the study requires the policies and proposals to be brought together to consider their cumulative impact on development viability (at both a local and national level). This means taking account of requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

1.5.6 One of the key areas, always having a key viability impact, will be the Council's approach to affordable housing. The adopted affordable housing policy (Policy AH – Affordable Housing) states that developments that result in a net increase of 2 or more dwellings, or are on a site area of 0.05 hectares or more will be required to provide at least 50% affordable housing in the Swanage and Coast sub-market areas and the settlement extensions at Lytchett Matravers and Wareham with at least 40% elsewhere. As noted above, owing the local characteristics, including the number of smaller developments and the high levels of AH needs, PDC is likely to need to consider how best to retain and boost its AH enabling strategy as far possible in the event of national level restrictions being reintroduced on policy thresholds. The modelling of on-site AH may be used as a proxy for financial contributions; viability has been tested in light of the most impact likely to be seen – i.e. assuming on-site AH within the smallest development scenarios that would trigger the existing policies. The Council also operates a Rural Exception Sites policy the viability of which is also being tested as part of this assessment.

1.5.7 This assessment will review all policies (also taking into account the potential for recently revoked Planning Practice Guidance on affordable housing thresholds to be re-introduced).

1.5.8 The assessment approach applies sensitivity testing to policy costs including a range of affordable housing proportions and at different thresholds (including a higher threshold for on-site provision of affordable housing) combined with varying levels of potential other s.106 costs (planning infrastructure obligations) – to provide information to inform the Council's on-going approach.

1.5.9 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

1.5.10 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).

1.5.11 The residual valuation technique has been used to run appraisals on sample residential, commercial and mixed-use scheme typologies representing development scenarios that are likely to come forward across the District under the emerging development strategy.

1.5.12 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates, affordable housing percentages as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform both the policy and CIL rate setting process.

1.5.13 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £240/m². This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results. All policies that have a potential impact on the cost of development have also been included within the viability testing.

1.5.14 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and a potentially viable level of CIL, affordable housing and other policies as it relates to development type and varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).

1.5.15 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs). As part of this process we have reviewed the current positions and provide commentary on how the existing policy position sits in terms of viability when current costs and values and national standards are taken into account.

1.5.16 In the background to considering the scale of the potential charging rates and their proportional level in the local context, we have also reviewed them alongside a variety of additional measures that are useful in considering the overall impact of a level of CIL on development viability. This includes reviewing the potential CIL charging rates in terms of percentage of development value and cost. This provides additional context for considering the relative level of the potential CIL charging rate(s) and their impact compared with other factors that can affect development viability such as changes in property market conditions, build costs, inflation, affordable housing, etc.

1.5.17 This report sets out our findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a potentially new CIL. As noted, the approach taken also provides the Council with information and evidence to inform and support its on-going work on and delivery of the Partial Review of the Local Plan as a whole.

1.6 Policy & Guidance

1.6.1 This study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance[8] applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance (PPG).

1.6.2 The National Planning Policy Framework (NPPF) was published in final form in March 2012 and supersedes previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options that reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

1.6.3 The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be

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[8] Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) Guidance Note – Financial Viability in Planning (GN 94/2012).

appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'[9].

1.6.4 Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements and potential CIL, can address the requirements of the NPPF.

1.6.5 Further guidance is set out in the PPG which re-iterates these messages, where it says '*Plan makers should consider the range of costs on development. This can include costs imposed through national and local standards, local policies and the Community Infrastructure Levy, as well as a realistic understanding of the likely cost of Section 106 planning obligations and Section 278 agreements for highways works. Their cumulative cost should not cause development types or strategic sites to be unviable. Emerging policy requirements may need to be adjusted to ensure that the plan is able to deliver sustainable development*'[10].

1.6.6 In addition, relevant information is contained in the publication 'Viability Testing Local Plans – Advice for planning practitioners' published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the 'Harman' guidance). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Local Plan viability process.

1.6.7 Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of technical housing standards in England. This was accompanied by a new set of streamlined standards. The DCLG statement said: '*From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction,*

[9] Communities & Local Government – National Planning Policy Framework (March 2012)
[10] Planning Practice Guidance (Ref. ID: 10-007-20140306).

internal layout or performance of new dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code… For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'[11].

1.6.8 The new approach introduced optional Building Regulations requirements. Alongside optional increased water efficiency standards, the 2015 edition of Building Regulations (dwellings) - Approved Document M (Access to and use of buildings) - too effect on 1 October 2015 and contained updated guidance. In particular, it introduced three categories of dwellings:

- Category 1 - Visitable dwellings
- Category 2 - Accessible and adaptable dwellings
- Category 3 - Wheelchair user dwellings

(Note: Categories 2 and 3 apply only where required by planning permission – the optional element implementable by the Local Authority's approach subject to local justification).

1.6.9 In addition, a new security standard has now been included in the Building Regulations (Part Q).

1.6.10 The review noted also clarified statutory Building Regulations guidance on waste storage - to ensure that is properly considered in new housing development.

[11]DCLG - Rt Hon Eric Pickles Written Statement to Parliament "Steps the government are taking to streamline the planning system, protect the environment, support economic growth and assist locally-led decision-making".

1.6.11 The effectively optional regulations and space standards can only be applied where there is a local plan policy based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application.

1.6.12 For further background in relation to the current uncertainty as noted above, between November 2014 and August 2015 the Government revised national policy on s.106 thresholds as follows:

- *'contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm (gross internal area).*

- *in designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions should then be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which are commuted until after completion of units within the development. This applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.*

- *affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.*

- *Additionally local planning authorities should not seek section 106 affordable housing contributions, including any tariff-based contributions to general infrastructure pots, from developments of Starter Homes. Local planning authorities will still be able to seek other section 106 contributions to mitigate the impact of development to make it acceptable in planning terms, including addressing any necessary infrastructure'*[12].

[12] Planning Practice Guidance (PPG) – Planning Obligations – Former Para 012

1.6.13 Those national level policy changes related to the above also included a 'vacant building credit', which became included with the PPG section on planning obligations. This was intended to incentivise the use of brownfield (previously developed) land, and in many cases it would have had a positive effect on viability in such cases by reducing the affordable housing target through a credit based on the floor area of any existing vacant buildings. Whilst in operation, the effect was found to be variable and above all entirely site-specific.

1.6.14 The introduction of these policies via the Written Ministerial Statement (WMS) and subsequent changes to the PPG were subject to legal challenge by West Berkshire Council and Reading Borough Council. The legal challenge was successful and those policies were quashed as of August 2015. This has led to the re-introduction of lower affordable housing thresholds (where viable to do so) or allowed planning authorities to continue to adopt lower thresholds through the Local Plan process. The Government won the right to Appeal the decision and as such PDC will need to be aware that further national policy changes may impact on its ability to set some of these policies locally. We have therefore provided sensitivity testing to reflect potential Purbeck District specific variations to affordable housing thresholds, so that the Council has a complete set of information from which to draw on as it reviews its Plan policies.

1.6.15 The NPPF at paragraph 50 also states on affordable housing (in respect of local authorities' approaches):

> *'where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.'*

1.6.16 Within the Glossary of the NPPF, the Government defines affordable housing as follows:

> ***'Affordable housing:*** *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility*

is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision'.

***'Social rented** housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency'.*

***'Affordable rented** housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable)'.*

***'Intermediate housing** is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing'.*

'Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes.'

1.6.17 The evolving area of housing mix is wide-ranging. Recent Government announcements have suggested that the last paragraph above may be changed in the near future so that low cost market homes (i.e. low cost / discounted sale homes) may be treated as affordable homes for the purposes of planning (the current Government consultation on the NPPF refers). As further detail develops, for example through legislation and regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered. The Starter Homes initiative (for example) together with specialist housing (e.g. for the elderly and regarding accessibility) and custom-build may be other aspects of overall housing provision to consider as proposals develop.

1.6.18 In addition, the Chancellor announced in his Budget speech in 2015 that affordable housing providers will have to cut social housing rents by 1 per cent each year for the next four years from April 2016; a reversal of the rental formula which currently allows RPs to raise rents in line with the consumer prices index (CPI) plus 1 per cent. As part of this viability assessment, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer). However, we have not, at this stage, taken into account any changes to the definition of affordable housing given that there is as yet no detail from the Government's announcement on which to base any meaningful viability modelling at this stage. Initial indications are that whilst affordability could be greatly reduced when considering low cost sale or similar compared with affordable rented or even shared ownership tenure, we could see positive impact (and potentially a very significant one) on overall scheme viability. We suggest that PDC should keep open its consideration of these matters.

1.7 Notes and Limitations

1.7.1 This assessment has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development - including whole plan viability, affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

1.7.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the affordable housing or other planning obligation potential (the surplus after land value comparisons).

1.7.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site-specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases and should not be used as such.

1.7.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on its Local Plan policies.

2 Assessment Methodology

2.1 Residual valuation principles

2.1.1 Collectively this study investigates the potential for a range of development types to contribute to infrastructure provision funding across Purbeck District through the collection of financial contributions charged via the Community Infrastructure Levy and reviewing the cumulative impact of policies emerging through the Council's Partial Review of the Local Plan Part 1. This includes various affordable housing proportions and the thresholds above which affordable housing may be sought.

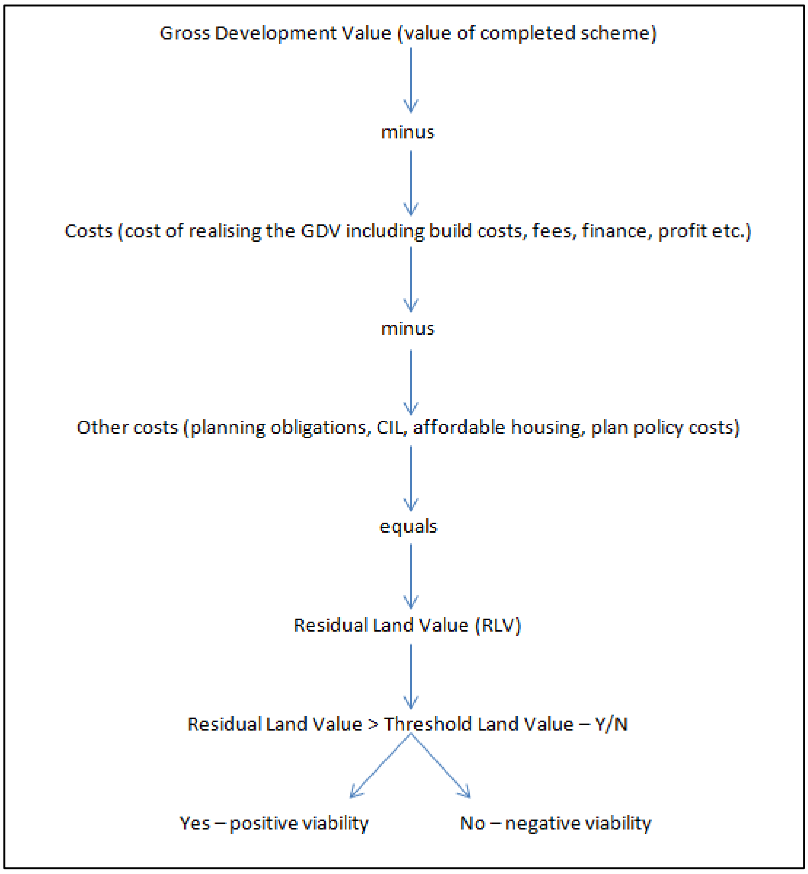
2.1.2 There are a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on those likely to come forward through the Local Plan and, for assumptions building, combined as necessary with those as set out in the adopted Local Plan (where the approach is likely to be continued but the emerging policy set is still evolving). By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

2.1.3 Prior to fixing assumptions, necessarily at a point in time, and running appraisals using those (as outlined in the following paragraphs) we undertake an extensive information review, property market research and development industry stakeholders' survey. As a part of this, we undertake a review of the established policies – enabling an assessment of which are considered likely to have a particular development cost impact, or additional cost implications over and above the costs information used from established sources such as the Building Cost Information Service of the RICS (BCIS). Appendix I, provides a quick reference assumptions guide and also includes (following the assumptions overview sheets) a policy review schedule indicating the view taken with respect to investigating the impacts of the policies so far as those are known at the time of this assessment.

2.1.4 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential / commercial.

2.1.5 Residual valuation, as the term suggests, provides a "residual" value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 2) shows the basic principles behind residual valuation, in simplified form:

Figure 2: Simplified Residual Land Valuation Principles



2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

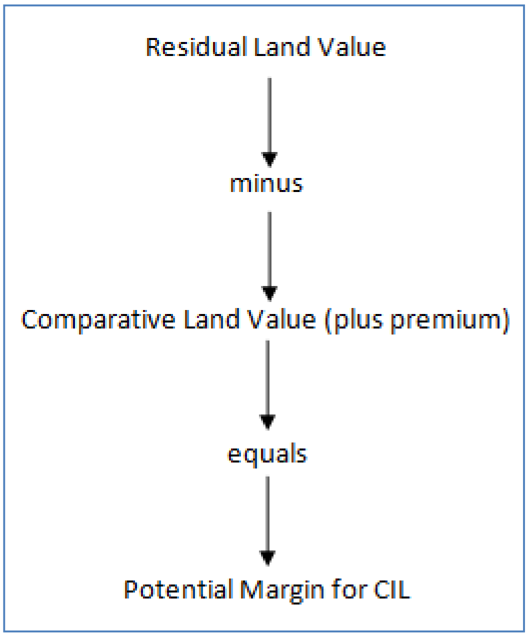
2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.8 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council, previous viability studies / assessments and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. There is a typically low level of activity on land deals and as in all areas, consequently the use of comparables to inform land value assumptions is difficult. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a Purbeck specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions from the particular appraisal result or results set that is under review.

2.1.9 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing costs (as with varying commercial development types) and increasing trial CIL rates.

2.1.10 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 3 below):

Figure 3: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



2.1.11 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local markets through research on local values, costs and types of provision, etc. At key project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for engagement and for provision of information to help inform the assessment. Appendix III provides more details. On the whole, the process is informed as far as practically possible by the review of available information and making an overview from that. This approach reflects the expectations of the guidance.

2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments (development scenarios). The scenarios were developed and discussed with the Council following a review of the information it provided combined with the requirements of the Council's Brief. Information included the adopted PLP1 and Issues and Options Partial Review, draft Strategic Housing Market Assessment, progress reports, annual monitoring reports, 5 year housing supply paper, details of s106 agreements and CIL liability / collected and history, and other information. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the District bearing in mind the probable life of any revised future CIL Charging Schedule. In addition, the scale of development coming forward across the District also needed to be considered.

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas (see Figure 4 below, and Appendix I provides more details):

Figure 4: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
1 House (Large)	1 x 4BH
2 Houses (Large)	2 x 4BH
5 Houses	1 x 2BH, 2 x 3BH 1 x 4BH
5 Flats	1 x 1BF, 3 x 2BF
6 Houses	1 x 2BH, 2 x 3BH 1 x 4BH
6 Flats	1 x 1BF, 3 x 2BF
10 Houses	3 x 2BH, 4 x 3BH
10 Flats	2 x 1BF, 5 x 2BF
11 Houses	3 x 2BH, 4 x 3BH, 1 x 4BH
11 Flats	3 x 1BF, 5 x 2BF
15 Mixed	1 x 1BF, 2 x 2BF, 2 x 2BH, 4 x 3BH, 1 x 4BH
20 Houses	5 x 2BH, 7 x 3BH, 2 x 4BH
25 Flats	7 x 1BF, 10 x 2BF
30 Flats (Sheltered)	15 x 1BF, 6 x 2BF
50 Mixed	2 x 1BF, 8 x 2BF, 9 x 2BH, 14 x 3BH, 2 x 4BH
200 Mixed	7 x 1BF, 35 x 2BF, 35 x 2BH, 56 x 3BH, 7 x 4BH
500 Mixed	18 x 1BF, 87 x 2BF, 87 x 2BH, 140 x 3BH, 18 x 4BH
1000 Mixed	36 x 1BF, 174 x 2BF, 174 x 2BH, 280 x 3BH, 36 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

2.2.3 The assumed dwelling mixes are based on the range of information reviewed, combined with a likely market led mix. They reflect a range of different types of development that could come forward across the District so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the District by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.

2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test a range of potential affordable housing policy thresholds. In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet – bearing in mind also that an equivalent financial contributions approach could be used as well as on-site AH, depending on how the details work through.

2.2.6 The site typologies are based on the requirements of the Council's brief so that each site type can reflect development as replacement dwellings, garden land, residential intensification (replacement of 1 dwelling with multiple dwellings), redevelopment of former commercial land and greenfield settlement extensions or larger scale greenfield strategic development.

2.2.7 With regard to strategic level sites, at this stage (and based on the available information), it is not possible to undertake detailed review. For strategic scale sites much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. The Partial Review Issues and Options document indicates a range of options for the future growth of the District. At this stage no decisions have been reached and this assessment will partially aid in that process. As such the range of testing for this study is necessarily quite wide and alongside the smaller site typologies tested. It is likely that further detailed work will be required in order for the Council to develop a fuller understanding of the potential delivery scenarios in relation to these sites over time, however further commentary is provided within Chapter 3, so far as possible at this stage given the results trends indicated by the largest current stage appraisals.

2.2.8 The dwelling sizes assumed for the purposes of this study follow the new nationally described space standards and are as follows (see figure 5 below):

Figure 5: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	**Private (market)**
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	85
3-bed house	93	100
4-bed house	112	130

2.2.9 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These used here are based on the introduction of space standards through the new nationally described space standards introduced by the Government in March 2015[13]. If dwelling space standards are to be introduced by Purbeck District Council as part of the Partial Review, that can only happen by reference to the nationally described space standards; and then only where there is a proven need to do so and also on the basis that viability considerations are taken into account.

2.2.10 Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits

[13] DCLG – Technical housing standards – nationally described space standard

with the way developers tend to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope.

2.2.11 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

Rural Exception Sites Testing

2.2.12 DSP have also carried out testing on the Council's rural exceptions policy to determine how much, if any, cross-subsidy is required by market housing on such sites. For the purposes of this exercise we have used the same affordable housing and market housing assumptions as for all other typologies. For the rural exception modelling, this has been undertaken on the basis of 10 and 20 units (with variable market housing proportion in each) at Value Level 6 assuming nil CIL on the affordable housing and £100 CIL for the market housing where applicable. Effectively this was an iterative process; testing 100% affordable housing for viability and then adding market housing one unit at a time until a viability threshold was reached. For the purposes of this study, the benchmark land value is considered to be between £15,000 - £20,000 per plot based on our experience.

2.2.13 A discussion on the results of the modelling is contained in Chapter 3.

Commercial / Non-Residential Development Scenarios

2.2.14 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 6 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the District.

2.2.15 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 6 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 6: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	**Example Scheme Type(s) and potential occurrence**	**GIA (m²)**	**Site Coverage**	**Site Size (Ha)**
A1 Large Retail	Retail Warehousing / Small Supermarket	1250	40%	0.31
Small Retail	Convenience Store / other - A1-A5	300	50%	0.06
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	200	70%	0.03
Business - Offices - Town Centre	Office Building	500	50%	0.10
Business - Offices - Out of town centre /Business Park	Office Building	1000	60%	0.17
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	500	40%	0.13
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	2000	40%	0.50
Hotel (budget)***	Hotel - edge of town centre / edge of town (60 beds)	2100	50%	0.42
C2 - Residential Institution	40 bed Nursing home / care home	1900	60%	0.32

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

2.2.16 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the District. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based review as well as feedback from consultation. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

2.2.17 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.

2.2.18 Clearly there is potentially a very wide range of such schemes that could be developed over the life of this CIL charging schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.

2.2.19 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

2.2.20 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus unlikely to support any level of CIL.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of Purbeck District and given the values variations seen in different parts of the district and the pre-existing sub-market areas descriptions, the VLs covered typical residential market values over the range £2,450 to £4,950/sq. m at £250/sq. m intervals. These are described as VLs 1 to 11+ - set out within Appendix I.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £240/sq. m. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £240/sq. m potential charging rate level trial was not considered relevant in the District. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

2.3.3 We carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within previous research documents including previous viability studies forming the evidence base for existing policies and CIL; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by 'appropriate available' evidence and that 'a charging authority should draw on existing data wherever it is available'. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the existing sub-market areas and the zones that make up the existing CIL Charging Schedule as well as the individual component settlements that form those sub-areas.

2.3.5 Our desktop research considered the current marketing prices of properties across the District and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available alongside the results of the stakeholder consultation exercise. Together, this informed a district-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

2.3.6 Overall the research indicated that values vary as expected (a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc.). Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the District development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Purbeck District. Neither is the relatively small number of current new-build schemes from which to draw information. However, these factors do not affect the scope to get a clear overview of how values vary or otherwise given the varying characteristics of the District; as set out in these sections and as is suitable for the consideration of both the Local Plan and CIL.

2.3.7 As a general summary, the data, as expected suggests that values vary across the District, and quite widely in places. Value are highest in Swanage and the coast as set out in the Council's current CIL Charging Schedule and sub-market area analysis. The evidence suggests that there is no reason to alter the sub-market area groupings for Swanage and the coast at this stage. We also see a similar pattern of values that lead to the CIL Charging Schedule differentiation across Wareham and the rural fringe. However, current data suggests that there is insufficient evidence to maintain a differential approach between what is termed the Purbeck rural centre and Upton with values appearing to be similar in our opinion (and bearing in mind the caveats above). The results section of this report provides the detail.

2.3.8 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report. However, Figure 7 below indicates some key themes on values patterns across the district as observed through our research:

Figure 7: Indicative Settlement / Locality Relationship to Value Level (VL)

Market Value Level	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11+
Location (Range)						The Coast					
		Purbeck Rural Centre				Wareham					
			Purbeck Rural Fringe								
		Upton						Swanage			
1 Bed Flat	£122,500	£135,000	£147,500	£160,000	£172,500	£185,000	£197,500	£210,000	£222,500	£235,000	£247,500
2 Bed Flat	£171,500	£189,000	£206,500	£224,000	£241,500	£259,000	£276,500	£294,000	£311,500	£329,000	£346,500
2 Bed House	£208,250	£229,500	£250,750	£272,000	£293,250	£314,500	£335,750	£357,000	£378,250	£399,500	£420,750
3 Bed House	£245,000	£270,000	£295,000	£320,000	£345,000	£370,000	£395,000	£420,000	£445,000	£470,000	£495,000
4 Bed House	£318,500	£351,000	£383,500	£416,000	£448,500	£481,000	£513,500	£546,000	£578,500	£611,000	£643,500
Value Level (£/m2)	**£2,450**	**£2,700**	**£2,950**	**£3,200**	**£3,450**	**£3,700**	**£3,950**	**£4,200**	**£4,450**	**£4,700**	**£4,950**

2.3.9 The values that are assumed (as being available to support development) affect the consideration of viability of policies and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values linked to areas of the District.

2.3.10 In addition to the market housing, the development appraisals also assume a requirement for affordable housing (AH). As discussed previously, Purbeck District Council's current approach is to seek affordable housing from sites providing a net increase of 2 or more dwellings. The requirement is based on developments in the Swanage and Coast sub-market areas and the settlement extensions at Lytchett Matravers and Wareham providing 50% affordable housing with at least 40% elsewhere. The adopted approach also requires a tenure mix of 90% affordable rent / 10% intermediate. As noted above, national level policy may again come to influence AH thresholds, by reintroducing a national minimum. In PDC's case, however, this could leave potential to seek AH financial contributions from sites providing say 6 to 10 new dwellings.

2.3.11 As this study seeks to test the viability of Local Plan policies holistically alongside the level of CIL that could potentially be viable, we have tested and reviewed a range of potential affordable housing policies from 0% to 50% across a range of site sizes and typologies. For the affordable housing, we have assumed that approximately 90% is affordable rented tenure and 10% is 'intermediate' in the form of shared ownership (although in reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) ensuring that properties meet local needs at the time of the application).

2.3.12 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

2.3.13 At this stage there is some uncertainty over future changes to the definition of affordable housing for planning purposes including homes defined as Starter homes under the Government's Starter Homes initiative. These may well play a future role and in our opinion would lead to a smaller impact on development viability. The Government has yet to clarify whether Starter Homes or low cost market housing (if brought into the definition of affordable housing) would be in addition to affordable housing already sought or as part of the affordable housing policy requirement.

2.3.14 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.

2.3.15 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

2.3.16 In broad terms, the transfer price assumed in this study varies between approximately 30% and 75% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Bournemouth Broad Rental Market Areas (BRMAs) for the varying unit types was used as our cap for the affordable rental level assumptions as this covers a vast majority of the District.

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

2.3.18 As discussed briefly above, as part of this viability assessment, we have also reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer) by making an allowance that reduces the calculated payment assuming housing providers will have to cut social housing rents by 1 per cent each year for the next four years from April 2016 - 2020. Research carried out on behalf of DSP indicates that the impact could lead to a reduction of around 10% compared to pre-April 2016 figures although again, the impact is highly variable and based on the willingness of RPs to take on affordable rented units – often influenced by internal policies and approach to risk management.

2.3.19 Again, it is worth noting that affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the Purbeck District context. The market dwellings within each scenario will carry the CIL payments burden at the Council's specified rate(s).

2.3.20 In addition to on-site affordable housing, as part of this assessment DSP has been asked to review the impact of requesting financial contributions towards affordable housing in-lieu of on-site provision. In order to do this a mechanism needed to be adopted to calculate a reasonable contribution. At this stage it is not clear as to the approach to be adopted by PDC. However, for the purposes of this study only we have based the calculation on a methodology as adopted by local authorities elsewhere and as devised and supported by DSP in the past. Effectively this seeks a financial contribution that would allow affordable housing providers to secure the land in lieu of and equivalent to on-site provision. This is based on the land subsidy (cost benefit) that would be provided on-site if the developer were reimbursed reasonable build costs for the on-site affordable homes provision.

2.3.21 The residual land value (RLV) percentage (RLV expressed as a percentage of GDV) used within the DSP calculation is an average of the results of the appraisals carried out with 0% affordable housing (creating in this instance an approximate district-wide RLV as a percentage of GDV of 24.1% taking into account current CIL rates across the District).

2.3.22 There are many possible routes, to calculating a financial contribution. Ultimately there are various options for PDC to consider (if required), depending on the level of complexity thought appropriate in the local circumstances; and the degree of resourcing the various routes might need in terms of guidance, updating and site specific discussions / negotiations.

2.3.23 There is no Government or other formal requirement, or widely recognised guidance, as to how affordable housing contributions of this type should be calculated or set out. In essence, the precise calculation method and accompanying text is a means to an end in that the important aspects are to arrive at a suitable figure or figures which can be clearly explained; and that do not unduly affect development viability so that site supply is not restricted by the implementation of the approach.

2.3.24 For the purposes of this study we have assumed a residual land value percentage of 24.1%, as above. In practice this value may need to be reviewed should this mechanism be utilised in calculating financial contributions. As an example with our 2-unit housing scheme example at Value Level 5 and assuming areas within the 40% affordable housing bracket, the financial contribution would be equivalent to the following (2 x 4-bed houses):

A – GDV (4-bed house) = £448,500 x 2
B - Residual land value percentage = 24.1%
C – Uplift for servicing costs = 15%
D – Affordable Housing Proportion
E – Number of units

(A x B + C) x D x E = Financial Contribution
E.g. £448,500 x 2 x 0.241 x 1.15 x 0.4 = £99,441

2.3.25 Further information is contained within Chapter 3.

2.4 Gross Development Value – Commercial / Non-residential

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.4.3 Figure 8 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the District. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Purbeck District only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

2.4.5 These varying rental levels were capitalised by applying yields of between 5.0% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

2.4.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

2.4.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining the parameters for setting non-residential CIL rates across the District. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 8: Rental Value for Commercial Schemes

Development Type		Value Level (Annual Rental Indication £/sq. m)		
		Low	Medium	High
A1 Large Retail	Retail Warehousing / Small Supermarket	140	160	180
Small Retail*	Convenience Store / other - A1-A5	110	130	150
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	110	130	150
Business - Offices - Town Centre	Office Building	110	130	150
Business - Offices - Out of town centre /Business Park	Office Building	125	150	175
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	60	70	80
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	50	60	70
Hotel (budget)	Hotel - edge of town centre / edge of town (60 beds)	170	190	210
C2 - Residential Institution	40 bed Nursing home / care home	160	180	200

* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

Economic and market conditions

2.4.8 This viability study has been undertaken during a period in which generally housing market stability and values growth has been seen (nationally), following a significant period of recession. At the point of closing-off this part of the study, there continues to be continued positive market sentiment whilst the UK economy, as a whole, gradually picks up.

2.4.9 Many areas that saw steep house price growth up to around mid-2014 are now seeing house price growth slowing from the rapid growth levels experienced to earlier in 2014. Looking more locally, however, Purbeck District as a whole has shown relatively strong growth compared to the national picture - with residential values in particular rising 7.2% over the year to October 2015 (compared to just over 5% nationally).

2.4.10 This trend looks set to continue with some forecasts (for example by Savills) continuing to indicate the prospects for house price inflation of up to around 15-20% by the end of 2021 or so in London and the South East (5 year forecast)[14].

2.4.11 The RICS Commercial Market Survey for Q3 of 2015 - stated that '*The Q3 2015 RICS UK Commercial Property Market Survey again shows a healthy rate of demand growth across both occupiers and investors, with improvement continuing all over the UK. Available supply, however, remains firmly in decline. Current market dynamics therefore continue to place significant upward pressure on rents and capital values.*

Focusing on the occupier market, survey feedback indicates demand from tenants continued to rise for a twelfth quarter in succession. Each of the three traditional sectors (office, industrial and retail) recorded a firm pick up in demand during Q3, albeit improvements in retail remain more modest in comparison. Alongside this, availability of leasable space contracted once more, marking the tenth consecutive quarter of declining supply.

Unsurprisingly, in an additional question included in this quarters' survey, respondents from the South East and London expressed differing views to those from the rest of the UK, regarding the effect of Permitted Development Rights (PDR). PDR allow the conversion of offices into residential without the need to seek planning permission. Indeed, when asked how much conversion into residential space was weighing on supply, 57% of contributors nationwide (excluding London and the South East) felt it was having no effect, while 10% reported the impact was substantial. In London and the South East, 39% and 35% respectively felt space lost to residential was substantially bringing down supply.

What's more, 59% of UK respondents (minus London and South East) feel PDR should be made permanent, against 23% who were against the idea (18% did not know). Whereas, in London, 56% were against PDR becoming permanent while only 22% approved. In the South East the picture was more balanced, with 46% in favour and 48% opposed.

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[14] Savills – Residential Property Focus (2015 Issue 3)

Whatever the impact of PDR, demand growth continues to heavily outpace that of supply, ensuring headline rental expectations remain elevated. As such, rents are anticipated to post further solid gains in all sectors over the quarter ahead, with growth in the office and industrial segments projected to be particularly firm. When viewed at the regional level, rental projections remain strongest in London both in the near term and over the next twelve months. Even so, all-sector rents are expected to rise, to a greater or lesser degree, across all parts of the UK.

Meanwhile, investment market conditions were reported to have improved once more in the latest results as investor demand grew across each sector. Likewise, interest from foreign buyers increased steadily. That said, both the total investment and overseas enquiries series signalled a slight moderation in the rate of growth during Q3. The supply of property for sale dipped notably across the office and industrial sectors but remained more or less unchanged for retail. As a result, demand continues to outstrip supply growth comfortably across all areas of the market.

Accordingly, each sector is expected to see capital values rise materially in the near term and to continue to do so over the next twelve months. Given the slightly softer nature of fundamentals, retail property is projected to see more modest growth in values relative to office and industrial, albeit retail sector growth is still expected to accelerate. When disaggregated from the national level, three-month capital value expectations are most buoyant in East Anglia, London and the North East (in net balance terms). Elsewhere, capital value expectations remain comfortably in positive territory right across the UK.

Nationally, a weighty majority of 85% of respondents view current pricing levels to be either at or below fair value at present. That said, this figure has in fact edged down relative to Q2, when 90% of the total respondents were of this opinion. In London, 62% of contributors now sense the market is becoming overpriced to some extent (the figures jump to 73% for central London). This marks a noticeable increase from the 50% who took this view in the previous survey.

These results are broadly in line with members' perception of the stage their market is currently at in the property cycle. Indeed, a large share of central London respondents (37%) believe the market is approaching its peak, while 44% think their market is in the middle phase of the upturn. This compares with a figure of just 8% nationally who feel conditions are moving towards the top of the cycle'.

2.4.12 As with residential development, consideration was given to the Purbeck context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the district so far as the likely location of such development is concerned, with any variation potentially captured by key retail areas more likely located beyond the district borders. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.

2.4.13 As can be seen, there is great variety in terms of values within each of the main settlement areas and across the full range of locations in the District. However, there were typical values that informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a District-wide overview was considered appropriate.

2.4.14 Overall, we found that in the event of identifying scope to charge a CIL on commercial or non-residential development in viability terms, there is no clearly justifiable or readily definable approach to varying that through viability findings based on location / geography. Whilst certain specific scheme types could create more value in one location compared with another in the district, typically there was felt to be no clear or useful pattern which might be described for that. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

2.5 Development Costs – General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required and is appropriate.

2.5.2 All development cost assumptions are informed by data from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made within all appraisals. This is another factor that should be kept in mind in looking at the viability of the Local Plan and the cumulative effect of local policies in combination with national requirements and setting a reasonable and viable level of CIL; helping to ensure that the former are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below (Figure 9) are taken from the BCIS. In each case the median figure, rebased to a Purbeck location index, is used. Costs shown for each development type (residential and commercial) are provided in Appendix I. For the purposes of this exercise we have added an allowance for housing schemes of 10 units or less and made a deduction for flatted schemes of 10 units or less based on advice provided by the RICS BCIS within a report commissioned by the Federation of Small Businesses (FSB)[15].

[15] RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

Figure 9: Build Cost Data (BCIS Median, Purbeck Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses - mixed development	£1,030
	Houses – estate houses generally	£998
	Houses – estate houses generally (1-10 units)	£1,138
	Houses – 'one-off (3 units or less)' - detached	£1,473
	Flats - generally	£1,186
	Flats – generally (1-10 units)	£1,127
	Flats - Sheltered housing	£1,220
A1 Large Retail	Retail Warehousing / Small Supermarket	£718
Small Retail	Convenience Store / other - A1-A5	£878
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	£878
Business - Offices - Town Centre	Office Building	£1,441
Business - Offices - Out of town centre /Business Park	Office Building	£1,536
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	£1,064
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	£643
Hotel (budget)***	Hotel - edge of town centre / edge of town (60 beds)	£1,596
C2 - Residential Institution	40 bed Nursing home / care home	£1,650

*excludes external works and contingencies (these are added to the above base build costs)

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type (typically between 10% and 15% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.6.4 In all cases further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements). In the residential scenarios, this was applied to all dwellings assuming that construction standards will need to meet the equivalent requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4) for energy as met through compliance with Building Regulations. We have utilised information within the DCLG Housing Standards Review Impact Assessment[16] and Zero Carbon Hub respectively[17]. In the case of commercial / non-residential scenarios, all build costs were increased by 5% to represent potential costs associated with achieving BREEAM (Building Research Establishment Environmental Assessment Method) or equivalent / similar standards reflecting carbon reduction objectives. Appendix I provides more detail.

2.6.5 The Government's Housing Standards Review has resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations[18], applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process. Optional standards include Part M4(2) Category 2: Accessible and Adaptable Dwellings and Part M4(3) Category 3 – Wheelchair user housing.

[16] DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)
[17] Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)
[18] Approved Document M of Schedule 1 of the Building Regulations – (Access to and use of Buildings)

2.6.6 As with residential space standards (Nationally Described Space Standards), there needs to be evidence for both need and viability. As part of this assessment DSP have been asked to review the viability of asking for various optional standards. For the purposes of this study we have addressed viability only in respect of the accessibility standards incorporated into Part M – i.e. optional requirement M4(2), and optional requirement M4(3). In each case the 'need' has not yet been quantified and as such no draft policy currently exists on the requirement for each type on a development by development basis. In our experience, Local Authorities typically require up to 100% of new dwellings to comply with option standard M4(2) and around 10% of dwellings to comply with optional standard M4(3). For the purposes of this report we have carried out sensitivity testing based on a requirement of 0% of dwellings to meet M4(2) and M4(3); 100% of dwellings to meet M4(2) and 0% M4(3); 100% of dwellings to meet M4(2) and 10% of dwellings to meet M4(3) and 100% of dwellings to meet both M4(2) and M4(3).

2.6.7 As part of the Government's Housing Standards Review consultation, costs analyses were produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update, approximate costs of complying with the optional Category 2 requirements of Part M are included. This indicates various costs for different types of dwelling and on different forms of development.

2.6.8 For the purposes of this report and ease of running the development appraisals we have taken the average extra over access cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling) as a proxy for the cost of meeting Part M4 (2) standards (total of £2,447 for houses, £1,646 for flats). These costs have been applied to as per the sensitivity tests described above in our appraisals.

2.6.9 For Part M4 (3) the same report indicates average extra over costs to be £15,691 for flats and £26,816 for houses. Again, these costs have been applied to as per the sensitivity tests described above in our appraisals.

2.6.10 A further allowance of 5% of build cost, effectively a further contingency, has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

2.6.11 Site survey and normal site preparation costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios).

2.6.12 The interaction of costs and values levels will need to be considered again at future reviews of CIL and the Local Plan. In this context it is also important to bear in mind that the base build cost levels may vary over time. In the recent past recessionary period we saw build costs fall, but they have in many cases risen relatively sharply (seen readjustment) in the recent period and will continue to rise (although more gradually) according to recent BCIS forecasts.

2.6.13 The latest available BCIS briefing (updated December 2015) stated on build cost trends:

"The General Building Cost Index rose by 0.3% in 2nd quarter 2015 compared with 1st quarter 2015 and by 0.9% compared with the same quarter in 2014.

Materials prices fell by an annual 0.8% in 2nd quarter 2015 and nationally agreed wage rates rose by 2.5%. General inflation rose by 1.1% over this period.

Materials prices are expected to rise quite sharply in the year to 3rd quarter 2016, by 4.6%. However, it should be noted that the increase is exaggerated by falling prices in 2015. The rise is likely to be driven by rising metal prices and oil derivative materials prices, with both having fallen sharply in 2015. Over the remainder of the forecast, materials prices are forecast to rise at around 4% per annum, as both the construction and wider economies improve.

The average of wage awards is predicted to rise from 3.1% over the first year of the forecast, increasing to 3.9% over the final two years, as construction demand grows stronger.

New orders for construction work in Great Britain remained unchanged in 2nd quarter 2015 compared with the previous quarter, but rose by 2% compared with 2nd quarter 2014.

Based on the latest construction figures published by ONS, strong growth in new work output is anticipated for 2015, with an increase of 6%. Growth is then forecast to slow *over the next two years to 4% and 3% respectively, before growth picks up again in 2018 and 2019 to 4%, strengthening in 2020 to 5%.*

From 2nd quarter 2014 through to 1st quarter 2015, there were strong increases in tender prices. The increase slowed in 2nd quarter 2015 to around 5% and the rate of change is expected to remain around this level over the first year of the forecast period, as contractors start to cope with the increasing workload. Tender prices are forecast to rise by 5.5% in the year to 3rd quarter 2016, driven primarily by quite strong input costs, as oil and metals prices bounce back from significant falls. Over the remainder of the forecast, it is anticipated that tender prices will rise between 5% and 6% per annum, driven by improving demand and pressure from rising input costs. Over the whole forecast period, tender prices are expected to rise by around 30%.[19]

Annual % Change	3Q13 to 3Q14	3Q14 to 3Q15	3Q15 to 3Q16	3Q16 to 3Q17	3Q17 to 3Q18	3Q18 to 3Q19	3Q19 to 3Q20
Tender Prices	+9.8%	+5.8%	+4.4%	+4.9%	+5.4%	+5.4%	+5.7%
Building Costs	+1.9%	+0.6%	+2.8%	+3.9%	+3.8%	+3.9%	+4.1%
Nationally Agreed Wage Awards	+2.4%	+2.5%	+3.0%	+3.5%	+3.8%	+3.9%	+3.9%
Materials Prices	+1.5%	-2.3%	+2.3%	+4.5%	+3.6%	+3.8%	+4.0%
Retail Prices	+2.3%	+1.1%	+2.2%	+2.5%	+3.1%	+3.0%	+3.3%
Construction New Work output*	+8.6%	+6.2%	+3.9%	+3.0%	+3.8%	+3.7%	+5.0%
* Year on Year (3Q13 to 3Q14 = 2013 to 2014)							

Source: BCIS

2.7 Development Costs – Fees, Finance & Profit (Residential)

2.7.1 The following costs have been assumed for the purposes of this study alongside those discussed above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

<u>Professional fees</u>: *Total of 10% of build cost*

<u>Site Acquisition Fees</u>: *1.5% agent's fees*
0.75% legal fees

[19] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (November / December 2015)

	Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).
Finance:	6.5% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
Marketing costs:	*3.0% - 6.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 20% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

2.8 Development Costs – Fees, Finance & Profit (Commercial)

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

Professional and other fees:	*12% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
Finance:	*6.5% p.a. interest rate (assumes scheme is debt funded)* *Arrangement fee variable – 1-2% loan cost*
Marketing / other costs:	*(Cost allowances – scheme circumstances will vary)* *1% promotion / other costs (% of annual income)* *10% letting / management / other fees (% of assumed annual rental income)* *5.75% purchasers costs – where applicable*
Developer Profit:	*20% of GDV*

2.9 Build Period

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

Figure 10: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	1 House (Large)	6
	2 Houses (Large)	6
	5 Houses	6
	5 Flats	6
	6 Houses	6
	6 Flats	6
	10 Houses	9
	10 Flats	9
	11 Houses	9
	11 Flats	9
	15 Mixed	12
	20 Houses	12
	25 Flats	12
	30 Flats (Sheltered)	12
	50 Mixed	18
	200 Mixed	24
	500 Mixed	60**
	1000 Mixed	78**
A1 Large Retail	Retail Warehousing / Small Supermarket	7
Small Retail	Convenience Store / other - A1-A5	6
Small Retail (Town Centre)	Comparison shops (general/non-shopping centre)	6
Business - Offices - Town Centre	Office Building	6

Development Use Type	Scheme Type	Build Period (months)
Business - Offices - Out of town centre /Business Park	Office Building	6
Business - Industrial / Warehousing	Smaller / Move-on type industrial unit including offices - industrial estate	6
Business - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	12
Hotel (budget)***	Hotel - edge of town centre / edge of town (60 beds)	18
C2 - Residential Institution	40 bed Nursing home / care home	16

*Larger scheme types – potential involvement by multiple house-builders (Above: Figure 10 continued)

2.10 Other planning obligations - Section 106 ('s.106') Costs

2.10.1 Current guidance states the following with regard to CIL: "*At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions*"[20]. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance[13] states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.10.2 The Council already operates a CIL and a great majority of existing Planning Obligation requirements are taken up within the CIL proposals, but nevertheless a review of the Council's CIL / s106 monitoring indicates that sites are still required to contribute to site-specific mitigation measures (for example heathland / open space highways / transport and similar requirements). The appraisals therefore included a

[20] DCLG – Community Infrastructure Levy Guidance (February 2014)

notional sum of £3,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements.

2.10.3 On larger, strategic scale development allowances would need to be made for increased levels of infrastructure (through s.106) assuming the requirement for on-site provision in these cases. Strategic scale sites have been tested at an appropriately high level for the purposes of this study and based on available information.

2.10.4 Appraisals were run on the basis of scenario testing with a fixed land value input to allow a surplus to be generated after all other development costs had been accounted for. That sum could then be expressed as a sum per unit available for on-site s106 requirements and or CIL.

2.10.5 In addition to the cost mentioned above, an additional allowance was included for strategic infrastructure and utility costs[21] in the case of these strategic site scenarios. Following advice within the Harman Report (Viability Testing Local Plans), an allowance of between £17,000 and £23,000 per unit was made.

2.11 Indicative land value comparisons and related discussion

2.11.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any CIL and any site specific s106 requirements, will also have a bearing on land value; as has been recognised by CIL examiners and Planning Inspectors.

2.11.2 As discussed previously, in order to consider the likely viability of any development scheme relevant to the Local Plan and its policies (including CIL), the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context

[21] costs associated with providing serviced housing parcels, i.e. strategic infrastructure costs which are typically in the order of £17,000 - £23,000 per plot for larger scale schemes

for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), s.106 costs and other sensitivity tests (crucially including the effect of affordable housing policy targets applied fully in the case of the residential tests and the level of CIL tested).

2.11.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as Government policy. The levels of land values selected for this comparison context are often known as 'benchmark' land values, 'viability tests' or similar (as referred to in our results tables – Appendix II and within the following report Chapter 3). They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change – with key relevant assumptions (variables) in this case being the GDV level (value level – VL), affordable housing (AH) % and CIL.

2.11.4 As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the varied land supply picture that the Council expects to see.

2.11.5 The emerging development strategy appears to rely on a mixture of host sites from greenfield, former or current employment and commercial sites and sites in existing residential use.

2.11.6 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship and vice versa.

2.11.7 This also needs to be viewed in the context that invariably (as we see across a range of CIL viability studies) the CIL rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added. Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that Councils need to find between funding local infrastructure and the viability of development in their area.

2.11.8 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi; and from a range of property and land marketing web-sites.

2.11.9 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting up to 2011. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends.

2.11.10 Evidence on land values to support the current CIL Charging Schedule were reviewed including comments made by the Inspector in the Examination of the PDC Draft Charging Schedule, details contained in previous viability evidence and evidence in neighbouring authorities. We also reviewed site specific cases in the District and

Appeal decisions involved in certain sites. Details, so far as available and publishable, are provided in Appendix III.

2.11.11 Each of the RLV results was therefore compared to a range of land value levels representing potential values for sites of varying types; envisaging a potential spectrum of sites from greenfield through lower and then upper value commercial land and sites with existing residential use. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will be variable in practice.

2.11.12 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results respectively), we have made indicative comparisons at land value levels in a range between £250,000/ha and £1,500,000/ha plus so that we can see where our RLVs fall in relation to these levels and the overall range between them. Higher land values, when viewed in £/ha terms, are also likely to be relevant in the case of some central urban area sites with significant existing use values and subject to high density development proposals and, as can be seen from the results, some scenarios will underpin higher land values.

2.11.13 Using a consistent approach, we have taken the view that the most relevant land value comparison (benchmark) for the commercial / non-residential scenario RLVs is the same £750,000/ha; so that RLVs falling short of that are considered to be indicative of marginally viable schemes at best, with results beyond that starting to indicate more confidence in delivery prospects across a wider range of mostly former commercial site types. Land values in excess of £1m/ha are likely to be relevant to prime retail sites.

2.11.14 With regard to greenfield or other lower value land (whether at the urban fringe, as "urban greenfield" (such as under-used playing fields, allotments, amenity land, gardens and the like) or in the district's rural areas) we consider the minimum land value likely to incentivise release for development under any circumstances in the local context is around £250,000/ha based on gross developable site area. Land values at those levels are likely to be relevant to development on smaller through to larger scale greenfield land (or enhancement to amenity land value) and for the purposes of this assessment, strategic greenfield land. It is important to note that at these levels and all levels indicated by the RLV results (see the tables at Appendix II), the land values shown, indicate the receipts available to landowners after allowing within the appraisals for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels ('viability tests') represent a "raw material" view of land value, with all development costs falling to the prospective developer (usually the site purchaser).

2.11.15 This approach (as relates to all land values) assumes all deductions from the GDV covered by the development costs assumptions. At this level it could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000 - £25,000/ha in existing use). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations in such scenarios would not go beyond these levels – they could well do in a range of circumstances.

2.11.16 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on 'Financial Viability in Planning' (RICS GN 94/2012 – as noted below), the NPPF requirements and other papers on viability assessment.

2.11.17 The consideration of land value – whether in the RICS' terms (see below) or more generally for this context, involves looking at any available examples ('comparables') to inform a view on market value and may well also involve considering land value relating to an existing or alternative use ('EUV' or 'AUV'). A similar concept to existing use value may also be referred to as 'CUV' (i.e. current use value). In addition, there may be an element of premium (an over-bid or incentive) over 'EUV' or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use.

2.11.18 The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that '*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value* *required for the land to come forward for development*'. This benchmark is referred to as threshold land value in that example: '*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely*'. Further it goes on to say that '*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied*'.

2.11.19 RICS Guidance[22] refers to site value in the following '*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations'.*

2.11.20 In the Local Housing Delivery Group report[23] chaired by Sir John Harman, it is noted that '*Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'.

2.11.21 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

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[22] Financial Viability in planning – RICS Guidance note (August 2012)
[23] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

2.11.22 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

2.11.23 Essentially this approach leads to the comparison of the RLV results in £s per hectare (£/ha), having taken into account all values and costs including varying levels of CIL and affordable housing, to a range of potential land values representing various greenfield, previously developed land (e.g. former commercial uses) or existing residential (residential intensification) benchmark land value indications. The range of land value comparisons is set out beneath the results tables (at Appendices IIa and IIb) and further information is set out within the wider research as included at Appendix III. The results trends associated with these are seen at Appendices IIa and IIb as explained in Chapter 3 below.

3 Findings

3.1 Introduction – Context and principles

3.1.1 As we see through undertaking a great range of assessments of this nature, in our experience there is rarely a single suggested route or viable option when looking at the impacts of affordable housing (AH) and CIL; and particularly as those come together as the main viability factors over which a local authority can have a significant degree of influence. That influence, directly flowing through to viability outcomes, is from the local setting of an AH threshold and target (%) and CIL charging rates. It has been noted that the degree of influence over local AH threshold setting may be reduced through national policy.

3.1.2 Outside the influence and operation of the economy and property market itself, both at wider and local levels, bearing in mind these processes all rely largely on market-led development delivery, we consistently see that affordable housing has the most significant impact of matters that to some degree are within the control of a local authority (in terms of policy impacts).

3.1.3 Although CIL is a fixed, non-negotiable charge and therefore it also has a notable impact on viability as part of the collective costs of development, provided it is set at realistic levels its scale of influence on overall development viability tends to be very much smaller than that seen from the AH requirements. Related to this, while the nature of CIL charges is different to costs incurred under s.106, CIL largely replaces s.106 in most development scenarios; it is not a new charge. In PDC's case, the CIL is already in place and being charged.

3.1.4 The results of this assessment show this common feature and the relative impacts, whereby we can also see that steps-up in the AH% create large changes in results (drops or increases in the appraisal RLVs) whereas the trialling of the impact of a gradually increasing CIL charging rate has a very graduated effect on overall viability.

3.1.5 With the scope for and relationship between AH requirements and CIL under consideration in an assessment of this type, there is great potential for the process to become quite circular.

3.1.6 Local authorities need wide information to inform the development of their approach to both of these key matters. However, invariably decisions also need to be taken around relative priorities and how an appropriate balance for the local circumstances (including variations within those) will be found within the overall Local Plan (LP) and CIL strategy; in this case the Purbeck Local Plan Partial Review and associated CIL (the latter reviewed and adjusted as appropriate).

3.1.7 The purpose of a CIL is to support the growth identified in the LP – through providing funding to meet identified infrastructure provision. Usually we see a focus on priority infrastructure elements needed to support the LP delivery, based on an identified funding gap that very often represents a small proportion of the overall infrastructure requirements.

3.1.8 CIL charging, viewed as part of the collective obligations and costs (related to national and local requirements and policies as well as usual development costs), should not affect viability to the point of potentially prejudicing the delivery of the plan as a whole. This does not mean that all sites need to remain viable on an individual basis with all requirements applied collectively. Rather it means that the CIL set-up should function effectively across the development programme whilst, ideally, being as simple as possible.

3.1.9 Affordable housing policy targets should be demanding, owing to the needs levels, and achievable, but set up such that they can be implemented flexibly from site to site as necessary.

3.1.10 The AH policies and the CIL also have a purpose of bringing a high level of clarity of expectations on the land owners, developers and planning applicants that are key stakeholders and effective partners with the LA in delivery the LP proposals.

3.1.11 We have noted that at the time of undertaking this review, there is a range of uncertainties surrounding the nature of affordable housing looking ahead. On the one hand affordable rent level restrictions are impacting RP's business plans, and on the other hand a potential new role for other forms of "affordable" tenure, such as low cost/discounted sale, could well have a positive viability influence in comparison.

3.1.12 Similarly, other aspects either outside the Councils' control - or over which it will need to determine positions on in respect of any scope to consider local fit – include the following National level initiatives in place:

- Affordable rent level reductions over the next 4 years;
- Planning for custom/self-build – which does not attract CIL payments;
- Planning for specialist housing – e.g. for the elderly – accessibility;
- Permitted development scope

Together with, potentially (national level initiatives / changes under consideration):

- A form of deemed planning approval for previously developed land (PDL);
- Starter homes;
- Reinstatement of the national AH threshold that was incorporated into the national Planning Policy Guidance (PPG) following a Ministerial Statement in in November 2014 but then removed in July 2015 following a successful challenge to that change by Reading and West Berkshire Councils (currently under Appeal);
- CIL Review - consultation closed January 2016.

3.1.13 Following PDC's brief and our discussions with the Council on setting up the review scope, this assessment covers a wide range of scenarios at this stage considered suitably representative of the potential variety of development coming forward in Purbeck District. This in turn creates a wide spread of results – broad context from within which to consider potential policy options and approaches; including how those might play out spatially as the Council progresses its work on the Local Plan Partial Review.

3.1.14 From a review of our results, supplemented through experience of a great variety of assessments undertaken for LAs, we will consider below whether in our view there is any additional viability scope available to the Council (e.g. in order to support increased CIL charging). This will be considered alongside varying AH viability impacts and will necessarily also include whether, in our view, any other adjustments (to LP policy or CIL rates) should be considered by the Council as it also reviews other evidence being updated as the LP Partial Review and accompanying updated CIL proposals are developed further.

3.1.15 Subsequently there may need to be some revisiting and / or focussing on certain areas of the assessment and results by the Council – working with DSP as required - dependent on how its consideration of this information develops, and on any further news on national level policy development affecting the PDC proposals or choices, etc.

3.1.16 At this stage, it would appear prudent for the Council to continue developing policy positions in a way that allows scope to adapt in this time of change within the planning system and key developments on national level planning and housing policy.

3.1.17 All relevant policy costs / sensitivity tests as per Appendix I have been included alongside the AH% and CIL rate testing – so as to develop a view of the cumulative costs impacts associated with the national and local authority level.

3.1.18 Owing to the wide range of findings and the potential circularity involved in considering these (as was noted at 3.1.5 above, for example as both AH % tests and CIL trial rate levels are varied across the range of values and development scenarios), for each assessment undertaken we consider how to review the picture most appropriately for the local circumstances.

3.1.19 In this case, PDC has an adopted policy basis (including requirements for affordable housing at 40% and 50% varied by area) and has been charging its CIL since June 2014. Therefore, the appropriate starting point for focus on reviewing the results and presenting findings is to consider how viability appears now based on those implemented positions but using updated assumptions on development costs and values (including costs associated with potential policy positions that may create altered impacts compared with existing).

3.1.20 From those positons, as would be relevant now with the adopted policies and CIL charging in place, we can also provide examples of how the policies (particularly on AH%) and CIL rates might be considered for adjustment if that is advised as a result.

3.1.21 Before considering the relevant results on this basis, in the following sections we will outline how the Appendices IIa and IIb tables are used.

3.2 A guide to the results overview tables

3.2.1 A summary of all the main appraisal results sets (the residual land values – RLVs – produced by the individual appraisals) is included within the tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (Residential scenario results – tables 1a to 1r);
- Appendix IIb (Commercial / non-residential scenario results – tables 2a to 2f);

3.2.2 In each case these reflect the scenarios explained in Chapter 2 and summarised at Appendix I.

3.2.3 Each RLV figure represents an appraisal (is an appraisal result) so that within the upper (IIa) and left-side (IIb) white / non-shaded section of each table is shown the range of actual RLV results (as a sum in £s in each case). Then in the colour shaded table sections beneath (IIa) and to the right (IIb) of those, each of those RLV results is converted into a corresponding RLV expressed in £/hectare (£/Ha) terms.

3.2.4 The process involves an appropriate wide overview – undertaken at a high level rather than needing to be responsive to all individual site level specific circumstances. The appraisals scope does not need to be exhaustive. As an indication of the scope, however, a total of approximately 9,000 appraisals had been run in all - to the point of the full draft reporting (across all scenario types).

3.2.5 Within Appendices IIa and IIb the tables refer to the potential (indicative) relevance / occurrence of the test scenarios, on an overview basis and bearing in mind that in practice each site will be different. More may be drawn from this and associated LP development work by the Council as the assessment process both informs and responds to the Council's building-up of its development strategy allied to the new Plan (Partial Review).

3.2.6 The process included consideration of the varying site types likely to be relevant to the LP Partial Review delivery, including accommodating increased housing numbers over those previously forming the basis for the development strategy. In the Purbeck context relevant to most new housing supply, this meant review of the redevelopment of smaller PDL scenarios of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such as redevelopment of existing housing) providing typically up to around 30 new dwellings or so. Greenfield development, ranging from small-scale extensions to existing settlements to strategic scale development of approximately 1,000 dwellings, have also been considered as these types look set to contribute significantly to the Planned new supply (with, however, details still to be worked through by PDC at this stage).

3.2.7 Some of the development scenarios considered at this stage, and particularly the smaller schemes of fewer than say 50 dwellings, could occur on site typologies sites with a variety of characteristics.

Residential results tables (Appendix IIa)

3.2.8 In summary the Appendix IIa results tables (1a to 1q) show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1q, the affordable housing policy requirement or sensitivity variation tested (% AH).

- Across the top grey row: other assumptions headings and the increasing “trial CIL charging rate” tested from £0/sq. m to £240/sq. m applied across all scheme scenarios and variations at £20/sq. m intervals for residential.

- Within the Appendix IIa table section for each residential scenario type and affordable housing assumption variation, the increasing market sales value level (VLs 1 to 11) used to test the sensitivity of the outcomes to varying values. Overall, this covers residential sales values from £2,450 to £4,950/sq. m (approximately £228 to £460/sq. ft.) giving us a quite closely graduated and focused look at the sensitivity of viability to values varying within the typical range seen overall in Purbeck District, and likely to be most relevant to the new build housing supply. This range enables us to consider viability as influenced by location and by the market (e.g. including consideration of the local market areas referred to by PDC currently and also to values falling or rising from current typical levels).

3.2.9 This established approach to DSP’s assessments provides full context for considering the potential for the varying value levels to support viable developments with reference to the delivery of the emerging Plan (Part Review) proposals and for considering any suggested adjusted potential CIL funding scope for the relevant range of scenarios and locations. As the PDC strategy settles, informed by this and other building evidence, the Council will be able to draw upon the most representative results and findings.

3.2.10 The viability assessment of potential affordable housing policy positions and potential CIL charging rate(s) scope is based on the running of sensitivity tests. Each of these corresponds with an individual row of figures within each section of the Appendix IIa tables. As above, each of these tables shows the results of the development appraisals as both a residual land value and an equivalent residual land value calculated on a £/ha basis.

3.2.11 In some circumstances and especially on the smaller sites tested the affordable housing content has necessarily been rounded up or down to the nearest whole dwelling number. This can have a bearing on the results, and sometimes significantly. This factor also explains why in some instances the varying AH% tests may show no change from one to another.

3.2.12 Further testing than is currently strictly necessary has been carried out around potential future AH policy threshold (trigger) positions. Referring to the notes at 3.1.11 – 3.1.12 above, this equips the Council to consider any local policy threshold options that may be workable and, potentially, also to react to any reinstatement of a national minimum threshold or similar.

3.2.13 In connection with this and the probable nature of some smaller schemes in Purbeck, amongst the options for the Council's consideration may be the use of a financial contributions approach to affordable housing provision. This could depend on circumstances including national policy developments, and in that respect could prove to be particularly relevant in respect of developments providing more than 6 new dwellings. Whilst physical delivery is a matter for addressing within a wider strategy, some Councils have been taking a very pro-active approach to collecting AH financial contributions from at least some smaller sites. Just as examples these may include those with sub-threshold numbers of large dwellings on large site areas, locations / schemes unsuitable for on-site AH or potentially a wider range of schemes at up to around 10 dwellings, if scenarios such as these are to fall within the scope of any new affordable housing policy.

3.2.14 Related to the points above, further appraisals and supplementary reporting could be considered to help build or check the picture if appropriate at a later stage - dependent on how the Council's review of the balance between affordable housing requirements and CIL / other obligations progresses in the context of national policy.

Optional standards – Nationally Described Space Standards

3.2.15 For the time being we have assumed that the Council would adopt the Nationally Described Space Standards if the needs case is established locally, and we have used relevant floor area assumptions with that in mind. That does not have to be the case, however. Decisions will need to be made on accommodating specialist housing needs, most likely related also to considering accessibility criteria and the current estimates of costs associated with those (bearing in mind that such criteria all contribute to a growing collective costs burden).

Optional standards – Part M – Access to and Use of Buildings

3.2.16 On accessibility, Appendix IIa Table 1r provides our results of additional sensitivity tests carried out on a 20 dwellings scheme at a mid to upper value for the district, represented by VL7.

3.2.17 Using the base versions from the 20 dwellings scenario, the additional sensitivity outcomes reported at table 1r show the appraisal results (reduced RLVs) from adding in:

- First, the assumed extra-over cost of all dwellings being built to Part M4(2) standards – general accessibility as an optional standard from the new national policy set;
- Second, the assumed extra-over cost of 10% dwellings (i.e. 2 no. within the example scheme of 20) being built to Part M4(3) standards – wheel chair / enhanced accessibility requirements – again as an optional standard open to PDC to consider subject to evidence on local needs and viability;
- The above both being required – i.e. cumulative impact of 100% M4(2) compliant and also containing 10% dwellings (of the total) with enhanced accessibility.

3.2.18 Otherwise the display and reporting of the M4(2) and M4(3) indications is as per all other Appendix II a residential tables.

3.2.19 In terms of residential values, although in practice values patterns will not usually respect boundaries as such (values tend to vary very locally, influenced by schools, views, proximity to amenities and facilities, etc.), we can indicate the relevance of the Values Levels (VLs) to the market levels for new builds (as far as seen at the time of research) and the District's main settlements / localities. In this case, we used the Council's established approach to local market areas as a framework for collecting and considering information on values – comprising Upton, Rural Centre, Rural Fringe, Wareham, Swanage and the Coast.

<u>Residential values – recap for results review purposes</u>

3.2.20 To recap, figure below provides a brief summary of the interaction of values (as viewed through the range of VLs) across the District (as per Figure 11 and Appendix I):

Figure 11: Indicative relevance of Value Levels by Location

Market (sales) Value Level	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11+
Location – Local market area (Range)						The Coast					
		Purbeck Rural Centre				Wareham					
			Purbeck Rural Fringe								
		Upton						Swanage			
Value Level (VL) (£/m2)	£2,450	£2,700	£2,950	£3,200	£3,450	£3,700	£3,950	£4,200	£4,450	£4,700	£4,950
VL (£/ft2)	£228	£251	£274	£297	£321	£344	£367	£390	£413	£437	£460

(Source: DSP 2015)

3.2.21 Typically, values variation is seen within all areas that we assess. However, this occurs at various levels and it is important to consider whether this affects the appropriate strategic level overview for LP and CIL development purposes; or is in the main limited to normal local variations.

3.2.22 In practice values variation occurs down to a street-by-street level and according to local facilities, location of amenities, schooling and the like; all usual factors creating differences between or even within schemes. Variation (varying "plot" prices) will also be seen within a development to some extent; sometimes with significant effects (e.g. without seaside or open countryside views, etc. in PDC's case).

3.2.23 However, these effects are not included at strategic viability assessment level. They will be site and scheme design specific factors. In Purbeck's case, we have also observed that within the overall spread of residential values relevant to the district there is wide variation by general area (part of the district – i.e. local market area), as per the above general hierarchy of values and the overlapping that has been found. This is consistent with the picture as previously evidenced through PDC's viability studies since 2008.

3.2.24 New-build schemes tend also to set their own values which do not necessarily fit the prevailing levels seen through general market research covering a given area. Through "place setting" effects, larger scale sites could also well set their own value levels, depending on location and proximity to facilities, etc. Our focus for this assessment, reflecting this market-led source of housing and affordable housing (together with CL funding) is on the range of values attributable to new-builds.

3.2.25 The areas and site types that are likely to deliver the majority of the housing growth, collectively, are likely to influence the Council's consideration of CIL charging rates, affordable housing and potentially other policies. In PDC's case, this means a wide spread of locations and types of development as indicated by the emerging picture supported by the SHLAA, although at the time of this report this is under review and the strategy is to be developed further.

3.2.26 Having used the PDC local market areas (Upton; Rural Centre; Wareham; Rural Fringe; Coast and Swanage) as a framework for collecting and reviewing values information together with our view that broadly these areas remain appropriate local characteristics for considering policy development and any CIL refresh, we have also decided to report findings in the context of these areas.

3.2.27 In our view, looking at new build values, there is likely to be little to distinguish between Swanage and the Coastal area more generally; Swanage logically forms part of that and only site/scheme-specifics (as above) are likely to result in clear reliable differentiation for CIL and for any other relevant Local Plan Part Review considerations.

3.2.28 On review of the information, we consider also that differentiating based on values variation between Upton and the Purbeck Rural Centre cannot be clearly justified, and probably overcomplicates matters. A consistent approach on AH policy headline and CIL charging rate between those two portions of the district is likely to be appropriate.

3.2.29 From our wider information review, this finding on the similarity of values between the Upton area and the Rural Centre reflects the Council's approach and understanding at the time of developing its existing CIL proposals. As far as we can see, our update is consistent with PDC's evidence and with the view it held prior to amendment following examination, when this further differentiation was added following the inspector's reporting process.

3.2.30 As above, aiming to differentiate for policy application and / or CIL charging rates in an endeavour to reflect the whole range of values variation subtleties is very likely to over-complicate matters and is unlikely to be justified; the approach needs to be readily explained and operated – it should be reasonably strategic as part of delivering the plan as a whole.

Commercial / Non-Residential results tables (Appendix IIb)

3.2.31 For each commercial / non-residential development scenario type tested, the Appendix IIb tables (tables 2a to 2f) show:

- Increasing value (this time meaning rental value that underpins the completed scheme (sale) value – or GDV - in combination with the yield percentage) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. 'L' and 'H' allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements.

- For each table (2a to 2f) the yield percentage assumed for capitalising the annual rental assumptions in each case; overall yield range 5 to 7.5%.

3.2.32 These tables include the RLV results for the commercial / non-residential tests, but only where full development appraisals were completed (retail, offices, industrial / warehousing, hotel and residential institution (nursing /care home). With the results tables, a significant range of results areas noted as ‘Not Applicable’ (white/unshaded table areas) or ‘Negative RLV’ (red shaded areas) appear. These refer to points beyond which the full appraisal exercise was not extended given the pattern of negative RLVs that was seen emerging – once the RLV turns negative there is little more to be learned about viability and especially as affects consideration for CIL rate(s) setting. The viability of other types of development uses has been considered based on an initial review of the scheme rental and therefore GDV against the base build costs – further information on this below (see 3.2.35 and Figure 12).

3.2.33 Overall, the range of yield percentages used assumes high quality, well-located new-build development as assumed relevant to a new development plan and to a CIL associated with that. It should be noted that in respect of some development uses in the local context (particularly the ‘B’ (business) Class uses) the yield percentage tests shown are considered to be at the positive end of the potential range and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, any scope for supporting the cost of a local CIL. Therefore this also provides us with a preliminary indication of the extent to which, viewed now, optimistic looking (e.g. wider commercial market improvement based) assumptions are needed to support more positive results that would provide more consistent headroom for reliable CIL charging across a range of developments. For the development use types considered, where poor or marginal outcomes are shown generally (B, C1 and C2 Uses – business, hotels, care / nursing homes) we can see that results would deteriorate further with increased yield percentage trials if those were applicable.

3.2.34 Only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because at the early stages of this study, it became apparent that the strength of the relationship between the values and build costs was poor in the case of a wide range of other non-residential uses. This applies to scenarios that we found to have very poor viability prospects when viewed as developments, as summarised in the table below (see Figure 12).

3.2.35 The appraisal results of the key (Appendix IIb) development use types together with initial analysis of other development use types showed there to be no point further developing the testing beyond that shown at Appendix IIb and the associated work noted here.

3.2.36 As with other aspects, this could be revisited at any subsequent stage of assessment or future review, following further consideration of the types of development relevant to the overall delivery of the planned growth and therefore the infrastructure requirements and CIL supporting that.

Figure 12: Other development uses (examples with insufficient viability to support clear CIL charging scope)

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost BCIS**	Viability prospects and Notes
Cafés	£30 - £300	£300 - £3,000	Approx. £1,210 - £3,580	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£12 - £70 per	£120 - £700	Approx. £1,195 - £1,730	Clear lack of development viability
Day Nurseries	£50 - £150	£500 - £1500	Approx. £1430 - £1,975	Insufficient viability to clearly and reliably outweigh the costs
Equestrian - Stables / Livery	Approx. £250 - £400 per unit		Approx. £640 - £1,100	Insufficient evidence of viability to clearly and reliably outweigh the costs
Garages and Premises	£40 - £75	£400 - £750	Approx. £530 - £1,040	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls (General purpose Halls)	£10 - £60	£100 - £600	Approx. £1,400 - £1,755	Clear lack of development viability – subsidy needed
Leisure Centre - Health and Fitness	£70 - £150	£933 - £2,000 @ 7.5% yield (upper-end)	Approx. £922 - £1,800	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	Little information available - say £120 - £150	approx. £1,800 @ 7.5% yield	Approx. £1,100 - £1,585	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost BCIS**	Viability prospects and Notes
Museums	No comparable information available		Approx. £780 - £1,430	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises – e.g. Agricultural	£25 - £70	£250 - £700	Approx. £198 - £937 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£110 - £500 per sq. m	£1100 - £5000 per sq. m	Approx. £1,290 - £1,700 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.
Visitor Centres, libraries and similar	No comparable information available		Approx. £1,615 - £2,580	Likely clear lack of development viability – subsidy needed

(Above: Figure 12 continued - Source: DSP 2015, using VOA and BCIS data)

Notes:
*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).

**Approximations excluding external works, fees, contingencies, sustainability additions etc.

3.2.37 In the current Purbeck District context it is likely that even the highest yield percentage trials (7.5% - results at table 2f, Appendix IIb) may well represent too positive a scenario in some cases. However, as above, overall the trials served the purpose of exploring how positive the assumptions would need to become to improve viability to a workable level where poor initial outcomes were seen and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield (or other) assumptions that might be seen in practice. Conversely, market improvements underpinning more positive viability assumptions could improve the outcomes, however, and once again the current stage findings could be reviewed as the viability assessment picture builds.

3.2.38 For more general context here, in our wider work we are seeing that for prime sectors and locations the commercial market is showing continued signs of picking-up from the recent recessionary period hangover. For example in some areas we are seeing an increase in distribution property development, research and development facilities and in some cases offices and other forms of development. To date, however, the signs of new commercial development activity appear relatively limited in this District, which in general does not have an extensive or particularly well established commercial property offer.

3.2.39 While the District has a varied stock of generally small scale commercial property, in the main it is not a key location for commercial development activity of a significant scale. This is unlikely to change owing the relative remoteness of most areas from the main transport networks, and to environmental constraints.

3.2.40 While we will not expect to see a sufficiently significant switch in the viability of such schemes to support a great deal of speculative development here viewing this currently, again this will be a factor for further review in due course or potentially if the first CIL charging schedule proposals now under consideration are not to be implemented short term.

3.2.41 These considerations mean that while a CIL cannot be used as a planning tool, for example to aid regeneration or economic development, by setting (continuing with) a nil CIL at this point this is as far as a LA can go in CIL terms to respect and work with difficult viability conditions. We will come back to the commercial scenarios viability findings.

<u>Results Trends</u>

3.2.42 Within each of the results tables, the coloured table cells (see below) act as a guide to the trends seen across the range of results. The results represent the scenarios relevant to considering the scope for supporting AH provision and potential CIL charging (alongside other costs and requirements) in the context of the emerging Purbeck Local Plan Part Review.

3.2.43 The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability. These trial rates are considered in combination with the key areas of potential policy that impact on viability – most notably affordable housing, the varying potential effects of which are seen moving down each of the residential results tables 1a to 1r.

3.2.44 As has been noted, whilst the sensitivity tests on affordable housing are the key factor in that respect, also allowances were made comprehensively and scenarios were built up to be suitably representative of other emerging and typical policies that at this stage are considered likely to have a direct development cost implication. Any additional emerging policy specifics that have a varied impact on viability compared with the current stage assumptions will need to be considered on further review.

3.2.45 The overall trends show reducing RLVs and therefore increased viability impact (reduced viability outcomes) as the trial CIL charging rates increase (moving from left to right within all Appendix IIa and IIb tables) and, more so, as the affordable housing percentage increases moving from top to bottom within the Appendix IIa residential results tables.

3.2.46 The positive impact on viability of increasing sales value (GDV) whether residential (as seen through VLS increasing across the range 1 to 11) or commercial (as seen through the rental assumptions moving from low to medium and high.

3.2.47 Realistically this testing with trial CIL rates uses steps to control to reasonable parameters the extent of the appraisal modelling exercise. Provided the trial rates span a sufficient range, and the steps between each trial level are not too large, an element of interpolation between results may be considered.

3.2.48 It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £240/sq. m for residential and £0 to £200/sq. m for commercial scenarios to give a sufficient range for review. We could see that higher rates were unlikely to be suitable within the range of local circumstances, so this wide results set would in our experience provide us with suitable parameters and context for review with the Council.

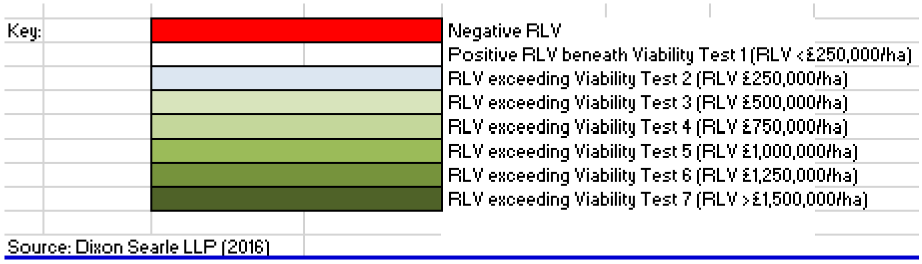
3.2.49 The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the other assumptions included. As noted above, we developed a view that the most useful base point for reporting findings and developing options or recommendations for PDC would be to view from our tables the results produced by the existing combinations of AH policy and adopted CIL charging rates; in combination with all other updated development costs assumptions.

3.2.50 It is important to note that the colour coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science, this guide to the trends must not be over-interpreted as representing any strict cut-offs for viability / non-viability. In practice, switch-points between viability and non-viability will be variable. This process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable in the balance between viability of the Affordable Housing and CIL rate(s) on the one hand, and the opposing tension of the local affordable housing needs and infrastructure requirements on the other. This is all in the context of the emerging Local Partial Review, as far as it was possible to make financial assumptions at this assessment stage; in advance of the proposals for more settled policy and delivery details in some respects. This assessment is intended to both inform and support the progress of the Local Plan (part) review and related updated CIL.

3.2.51 The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from white (non-shaded) or red £/Ha residential results areas at Appendices IIa and IIb (representing very poor outcomes – negative RLVs, i.e. clear non-viability) to the boldest green coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types).

3.2.52 In practice a range of outcomes within the non-red and white/pale blue/pale green £/ha RLV results table areas could prove viable depending on particular scheme and site circumstances, however. Nevertheless, the main focus for the positive results review (indicating schemes viable or, at the lower ends, paler greens) moving into viability, is the extent of the green shading.

3.2.53 For ease of reference, the results table colour scale, showing the £/ha results trends within Appendices IIa and IIb (as per the table footnotes there) is as follows:



3.2.54 As seen here the table footnotes provide a reminder of the range of land value benchmarks (comparisons) applied in arriving at this picture; all bearing in mind the context and explanations provided within this report.

3.2.55 The results discussion within this report, and the reported policy and CIL options / scope that is supported by our findings, is based on the current stage assumptions. This in no way determines Council Policy positions or its CIL charging rate(s) proposals; it is merely to further inform the development and ongoing review of those.

3.2.56 Government guidance states that the CIL charging rates should not be set up to their potential limits (up to 'the margins of viability', or similar phrases). On reviewing the results and for the Council taking this further into the wider consideration of its Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, a number of key principles have been and will need to be considered as set out below.

3.2.57 Costs will vary from these assumptions levels with specific sites and over time (in particular build costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormals, scheme-specific design / materials, any further carbon reduction / energy efficiency, water usage efficiency or accessibility measures longer term, etc.

3.2.58 When viewed overall, the various assumptions made represent market norms from well-established sources but are tailored to the Purbeck District characteristics where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the plan and to informing the associated approach to formulating CIL proposals by the Council.

3.2.59 Landowners' situations and requirements will vary. However, their expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the prevailing market – for example in the case of some redundant commercial premises. It is also necessary to look at a balance between market forces and the principles of land value reflecting the policy requirements (including CIL) and site characteristics. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.

3.2.60 We consider that there are likely to be few scenarios in Purbeck where a land value of less than approximately £250,000/Ha would be sufficient to secure site release; hence our selection of that as a lower end viability test.

3.2.61 The more relevant main benchmarks relevant except in the highest value town centre and residential or commercial redevelopment scenarios are likely to be at £500,000/Ha and £750,000/Ha.

3.2.62 The lower of these applied to the developable (net) site area in our review reasonably represents a land owner return in large scale greenfield development scenarios where the developer bears all costs of bring the site forward and developing it (so there is no value of works or other costs accounted for as in a serviced land value).

3.2.63 In the range £500,000 to £750,000/Ha, but treated at the higher end of this range for this assessment purpose, we consider that former industrial / commercial land and sites such as smaller greenfield releases, potentially including paddocks and garden land and so forth with development prospects) should be available for re-use whilst also offering an incentive to landowners to sell.

3.2.64 All in all, viability test 4 at £750,000/Ha is considered a key indicator for sites coming forward with a reasonable prospect of viability across a range of scenarios that look set to continue to be relevant to the Local Plan delivery. In our view this level of land value would also reasonably represent requirements for commercial development sites; for all but the higher value retail scenarios (where the tests at £1m/Ha will more likely be relevant. The same is likely to apply to some residential sites – for example more frequently in the more expensive coastal and rural fringe areas.

3.2.65 In no sense are these limits, as above, and it can be seen that the stronger results from with the overall range area capable of producing land values to exceed these levels.

3.3 Universal considerations on viability

3.3.1 The wider economic backdrop remains mixed, although over the course of this assessment process to date the residential market has been stable and positive overall – house prices are rising steadily and forecasted to continue to do so in the next few years (Appendix III provides further information).

3.3.2 A level of continued development activity and interest in promoting sites suggests some underlying strength in the local market in this highly attractive area. Nevertheless, the district has large areas that are considered less readily accessible than some in neighbouring rural districts.

3.3.3 We cannot rely on any assumptions related to increasing house prices and the improved viability that may flow out of that trend. The use of the residential values levels (VLs) range in that way purely provides indications on a sensitivity basis so that to inform the viability scope put to the Council we are looking at the range of values expected, from the information currently available. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.3.4 On reviewing the residential scenarios results here (as will be set out below), we consider it prudent to look at the lower end of the range of values (VLs) that from our research are representative of new-builds in each local market area.

3.3.5 Certainly a significant factor for the residential scenarios, as is always the case, will be the Council's approach to affordable housing provision secured from market developments. This assessment aims to test alternatives so as to provide advice on potential for affordable housing target percentages within the new Plan, as well as on how those considerations will affect the selection of CIL charging rates. As above, our starting point for this will be the results associated with current AH policy to seek (under the Purbeck Local Plan Part 1):

- (At least) 50% AH in the Swanage and Coast local ('sub-market') areas and from the settlement extensions at Lytchett Matravers and Wareham, and;
- (At least) 40% AH elsewhere

3.3.6 Developers' profit level requirements (and in some cases related funders' stipulations) could well vary. Our recent experience together with a variety of appeal outcomes suggests that in practice we could see lower profit level requirements than those we used here as assumptions purely for the assessment purpose (i.e. at 20% GDV as part of a prudent approach to assumptions setting overall and all a part of ensuring that CIL is not considered at the margins of viability).

3.3.7 This note on profit levels applies equally or to a greater extent on commercial development appraisal scenarios especially (typically in practice lower developer profit levels would be seen). However, we considered it appropriate overall to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks.

3.3.8 This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.

3.3.9 The potential for reviewing the PDC CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery. Amongst these, the location and frequency of site and scheme types forming key parts of the local growth planning options is key – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns for example). PDC will need to consider this and other evidence in that light.

3.3.10 Similarly, the types and frequency of schemes likely to be relevant under the emerging plan partial review will influence the selection of the Council's approach to implementing any refreshed approach to affordable housing policy too. As we have noted, at this time there are many factors to balance in weighing-up any policy adjustments, including the changing revenue profile emerging for affordable housing.

3.3.11 In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. For the CIL focus needs to continue to be on the main relevant types, given that plan delivery and the Council's proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.

3.3.12 The modelling (including of any further scenarios at any subsequent / supplementary stage) does not need to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected PDC LP delivery.

3.3.13 Under the emerging Plan development strategy options that may be considered further, strategic scale housing delivery from relatively large developments (e.g. settlement extensions providing up to around 1,000 new dwellings on greenfield land) having potentially significant development costs or infrastructure requirements looks set to be relevant at least to some extent in considering the scope to bear policy and CIL costs. There will almost inevitably be a degree of viability pressures on such sites where significant infrastructure provision is required, as we can begin to see for example through our larger scenario test outcomes at this stage. This form of development may need particular consideration (by way of potential rate(s) differentiation) for CIL, dependent on its nature and the associated costs. This would be consistent with the approach of many LAs to strategic sites. Again, more information on this is provided below.

3.3.14 Therefore, in the Purbeck District context, CIL could be most relevant to the scattering of generally smaller development proposals (as represented by the scenarios of up to say 500 or so dwellings where significant site-specific infrastructure or other development mitigation may not be needed, with most coming forward in Purbeck being very much smaller than that; sites providing more than approximately 30 dwellings are infrequent. Much of the supply comes from smaller sites still, and this pattern will continue.

3.3.15 It may well be that the Council wishes to select affordable housing amongst its first priorities and, if so, that approach would then start to determine the CIL funding scope from different scenarios (as it did on setting up the existing CIL). Although for viability review and delivery purposes AH and CIL cannot be separated, this approach could start to reduce some of the circularity that is inherent with having both open for review. This approach would also fit with having at least a good level of LP certainty as to the basis for CIL, accepting that while it might not be strictly necessary to have an adopted new LP in place in order to progress a CIL, there does need to be a clear direction.

3.3.16 As the Council's picture on the sites likely to be contributing to the delivery becomes clearer through the settling of outcomes from the early stages Plan Part Review development work and review process, the implications of continued (or revised) CIL charging alongside the site-specific costs and planning obligations could then be re-checked further as needs be, based on this groundwork combined with any additional / latest available information at the relevant time.

3.3.17 Given the nature of CIL and the need to keep it as simple as possible, in any event this could in some cases mean that other planning obligations aspects may need to be negotiated with CIL in place at levels suitable for the majority of sites.

3.3.18 It is important to note that some individual schemes (residential and commercial/non-residential) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market factors (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that once in place a CIL would be non-negotiable.

3.3.19 Under the CIL principles this is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk (alongside the affordable housing policy / strategy ultimately chosen). In due course this may mean more specific consideration of particular sites or site types, most likely including an appropriate level of viability review related to any strategic scale development proposals that may be planned.

3.3.20 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL than the recommended levels (and / or greater levels of other obligations). This is again in the context of seeking an appropriate local balance in setting the charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting a reasonable level of contributions towards meeting the infrastructure needs associated with the required new development.

3.3.21 The latter points here tie in with the Government's latest CIL Guidance (as noted earlier and now incorporated within the on-line PPG) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. The Council will need to be able to show that it has struck an appropriate balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.3.22 Consideration is to be given to the scale of local infrastructure needs associated with the planned growth (rather than the deficit of needs associated with existing development) that require funding contributions and development viability amount to opposing tensions. The Council needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided.

3.3.23 At the time of this assessment stage, work on infrastructure requirements is ongoing and is likely to be further updated. This is quite a normal scenario in our experience and indeed infrastructure evidence is usually a "live", moving area. Nevertheless, there is growing evidence of a notable funding gap in Purbeck District and particularly associated with increased new housing numbers; meaning that the Council needs to continue to secure a level of CIL that is as meaningful as possible, but realistic. This is a key ingredient of the overall growth and funding packages, in support of its development strategies; focused on the emerging plan (as will be updated by the partial review).

3.3.24 CIL charging calculations relate to net new development – added floor-space. As is typical, in practice we understand that in line with the CIL regulations a number of developments in the District will entail some level of "netting-off" of existing floor-space within the charging calculations. This means that the selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will have a highly variable influence on scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set right 'at the margins of viability' [24] as part of this overall theme.

3.3.25 Local authorities (the charging authorities, including in this case Purbeck District Council) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area. As a part of this, the viability assessment work does not need to be followed precisely. Instead, the Council should be able to show how the assessment, along with its wider evidence base, has informed the selected CIL approach and policies.

3.3.26 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome.

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[24] DCLG – Community Infrastructure Levy Guidance (As consolidated February 2014 and now with PPG)

3.3.27 Many of these factors are universal. It is important to note, when we refer to highly variable outcomes / sensitive results, that:

- These are not factors that only affect Local Plan and CIL considerations in Purbeck District. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF, Planning Practice Guidance (PPG) and the CIL regime – regardless of location;

- These characteristics would also apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0/sq. m) CIL rate – as the results show for many non-residential scheme types (Appendix IIb) and for the lowest value and/or highest affordable housing percentage and highest trial CIL rate residential sensitivities. CIL should not be used as a tool to aid or influence progress towards other development strategy objectives (e.g. economic development) but it needs to be set through evidence on viability so cannot be charged where no clear viability scope exists.

3.4 Current stage residential findings – Scenario based review of current assessment outcomes – See also Appendix IIa

3.4.1 In this section, consistent with the Council's brief as developed through our inception meeting and liaison with PDC officers, we will run through the assessment findings. These will be related to the development and site types and the local market areas currently considered relevant (i.e. to the emerging Local Plan Partial Review spatially). In any event PDC may use these examples and the wider results in considering viability outcomes as may be most relevant to varying development types and locations. It is important also to note that the results tables may be used iteratively – so that intermediate positions between results may be relevant to considering the findings relating to CIL at £10/sq. m or £30/sq. m (e.g. by viewing results from different scenarios at £0/sq. m, £20/sq. m and £40/sq. m. The same principle applies at any other point within the results sets.

Replacement dwelling (Table 1a)

3.4.2 This single dwelling scenario currently carries no AH contribution requirement under adopted policy.

3.4.3 Although it is subject to the implemented CIL charging at £10 - £180/sq. m dependent on zone (PDC market area) it may well also carry a reduced or nil CIL cost on many occasions, owing to the existing floor space or self-build relief under the CIL Regulations.

3.4.4 Based on the increased build costs assumptions used, a minimum of mid-range but more likely higher values look to be needed to support the development costs with CIL at the existing rates.

3.4.5 Overall, the £RLV outcomes are more likely to be relevant than the necessarily the £RLV/Ha indications in this scenario; an important point since it is necessary to assume that the site value would equate to the cost of an existing property in the market. The findings suggest no additional scope for CIL charging; and also suggest that any scope to introduce requirements for a contribution towards meeting AH needs would be quite limited (likely beneath typical contribution levels – see below) unless there were a reduction in the CIL (trade-off).

Single dwelling on garden land (Table 1a)

3.4.6 This scenario assumes a new dwelling of 175 sq. m built on relatively low value land, nevertheless where the plot owner is sufficiently compensated for the impact on value to the retained property.

3.4.7 The same applies here in respect of the relevant results for review, except that in our experience the land residuals created here should be sufficient to withstand CIL payments at the implemented levels together with a suitably assessed AH financial contribution; on a target basis equivalent to on-site provision but in our view perhaps calculated by reference to a lower % target than the headline 40/50% under adopted policy.

3.4.8 If considering a review of AH policies as may affect the smallest developments, in our view both financial contributions and a "sliding scale" type principles should be considered.

Small redevelopment of 2 to 5 dwellings (Tables 1b to 1d)

3.4.9 In this instance, first we look at 2 no. dwellings of 175 sq. m each (Table 1b). These may be on garden land or a similar small infill plot, or replace 1 or more existing properties.

3.4.10 With no (0%) AH and at the higher values more than likely relevant to this type of scenario (as may be found in most areas but perhaps not regularly in Upton and the Rural Centre) this appears capable of supporting the purchase of 1 or potentially 2 properties. This should represent a viable scenario which could again support a modest level of AH financial contribution alongside CIL at the implemented levels.

3.4.11 However, and especially as the only workable on-site AH scenario under existing policy is a 50% requirement (i.e. "one for one" policy) it looks to us that even at the higher value levels this scenario may well struggle to work and reliably bring forward the single AH unit. Notwithstanding potential national policy restrictions on such low thresholds, there may also be a range of practicalities associated with that approach – not covered here but DSP can provide the Council with further views and information if required.

3.4.12 At Table 1c (houses) and 1d (flats) we move to considering a 5 no. dwellings scenario; this time containing a mix of smaller house types (2 to 4-bed). Owing to issues with number rounding this "works" at 20% AH (i.e. with a single AH unit) but was assumed with 2 Units at 30% and 40%; and 3 AH units at 50% AH.

3.4.13 The 5 houses scenario appears workable in the mid to high value areas with 40% AH and CIL as implemented; the residual land value resulting from the appraisal indicating the possibility of being able to acquire a single existing dwelling but probably not more than one.

3.4.14 Looking at the same scenario with 50% AH assumed as above, the RLV has deteriorated significantly from the 40% scenario and this looks much tighter from the point of view of being able to acquire a reasonably substantial property as the development plot.

3.4.15 Assumed on garden land or on another greenfield / lower value infill plot, this scale and type of development appears potentially capable of supporting the full AH requirement (to 40% or 50%) AH and CIL, but not in the typically lower value areas of the district (Upton and Rural Centre) it appears, and with 50% AH requiring the highest values (typically only in Swanage and the Coastal sub-market area).

3.4.16 The results viewed on a £/ha basis indicate similar potential outcomes.

3.4.17 The 5 flats scenario tests produce higher looking RLVs than those from the 5 houses, but this is down to the higher density and smaller land-take assumed representative of small scale flatted development. Again we can see that the £RLVs appear to fall short of a clearly workable viability position with 50% AH, but at 40% the purchase of a single existing property may be achievable (the purchase of more than one seems very unlikely to be supported by the RLVs seen, even with the highest value levels assumed).

3.4.18 At 50% AH with £180/sq. m CIL (as the highest sales values would be needed) this scenario only appears potentially viable with a combination of higher values and a reliance on a lower value land purchase such as garden or amenity land or perhaps a low value redundant commercial yard or similar. It looks the case that this would not be workable even with the highest sales values assumed (i.e. as applicable for Swanage / Coast) in a residential redevelopment scenario.

3.4.19 Again, as noted above, national policy developments may preclude the continued use of AH policy thresholds beneath 6 dwellings in the PDC context – only over time will this become clear.

<u>Medium redevelopment of 6 to 10 dwellings</u> (Tables 1e to 1h)

3.4.20 The 6 dwelling scenarios are seen to have improved viability over those of 5 discussed above. Looking ahead, an approach to seek financial contributions towards meeting AH needs may need to supersede a primarily on-site AH based approach moving ahead. The viability assessment results assuming on-site AH may also be used as a proxy for the maximum effect of an equivalent AH financial contributions approach.

3.4.21 The improvement in viability noted is largely because owing to the numbers working at 50% the assumed AH content (of or equivalent to 3 dwellings) has not increased from the 5 dwelling tests. The same applies with the 40% AH requirement too.

3.4.22 At 30% or 40% AH (assumed with 2 AH units), the 6 houses scenarios potentially support 1 to 2 existing dwellings being purchased (as a site) with existing CIL payable, but only with mid or more likely higher sales values available. However the 6 flats scenarios appear to support a maximum of 1 existing property purchase and then potentially support 40% rather than 50% AH, even with the highest sales values (only Swanage and Coast) assumed.

3.4.23 All in all the 2 to 6 dwelling scenario tests indicate that viability is relatively tight in at least some of these scenarios. Development on garden or old workshop/yard land or similar will support CIL at the prevailing rates but, from what we can see, with viability likely to struggle to support the AH policy requirements and certainly at 50% alongside the fairly significant CIL level of £180/sq. m.

3.4.24 With collective obligations up to these levels, some of the highest value schemes may be able to support a single existing dwelling purchase, but certainly not all. Broadly speaking, a similar sum of money available for site purchase would in our experience provide the potential to buy a small site falling out of commercial / non-residential use too – for example a vacated garage, workshop or perhaps an uneconomic public house or similar. On this basis, however, it appears that at this scale of development few schemes would be able to support the purchase of more than a single existing property (or more extensive former commercial premises) as a site for the development.

3.4.25 At the low end of the current CIL charging, a £10/sq. m vs £30/sq. m rate makes no discernable difference to outcomes, although we can see that the typically lower value area sites of this type are likely to struggle to support AH at 40% as per the adopted 2-tier policy.

3.4.26 The indications from these findings are that when viewed alongside the various area characteristics the PDC AH % targets are very onerous for viability (whether viewed at 40% or 50% according to the Swanage & Coast / remainder split). Here the characteristics referred to here include the higher existing CIL rates (£100 and £180/sq. m), the lower sales values (especially as more typically found in Upton / Rural Centre and even with the lower CIL charges) and a sites involving one or more existing dwellings.

3.4.27 The 10 dwellings tests as expected suggest very similar outcomes.

3.4.28 In our view, assuming the CIL rates are to be maintained or broadly maintained at the existing higher levels then the application of the AH targets could be reconsidered in favour of a sliding scale type approach – whereby reduced AH %s are sought from schemes in this bracket.

3.4.29 As was noted while discussing the principles involved, if at a future stage the PDC AH threshold is altered or reviewed, perhaps but not necessarily as a result of Government policy developments, then there could be scope to review the CIL charging. A differential by scale of development would be created where no AH/AH contributions were collected across a wide range of smaller schemes but continued to be sought from larger ones above a higher threshold level (e.g. at 10 or 11 dwellings, or similar).

3.4.30 To further illustrate this, we can look at the 10 unit (or 11 unit) scenarios with no (0%) AH in comparison with those including existing AH policies at 40 and 50%.

3.4.31 Using the 10 houses results sets (Table 1g) and referring to a lower value (say VL3) scenario with 40% AH and £30 CIL (e.g. as applicable in Rural Centre) we can see that we generate an RLV of around £400,000/Ha, which may well be insufficient to support that scenario. So, moving to the 0% AH results, we can see that the RLV more than doubles even when CIL is taken to the highest rate tested here. The impact of the 40% AH is clear to see at these lower values and certainly it appears that a significantly higher CIL rate could be considered in the event of AH requirements no longer applying to a bracket of smaller sites. Alternatively, if the AH remains applicable, a different and potentially more deliverable balance between AH and CIL may be achievable. PDC could consider this alongside review of its AH and CIL delivery experiences over the recent period, although the CIL here is relatively new in terms of opportunity to monitor it to date. Results at 20% - 30% AH, or at other lower levels / iterations could be considered on discussion with PDC.

Large redevelopment of 11 – 30 dwellings

3.4.32 From 11 units and upwards, the RLV results expressed in £/Ha also become more relevant although we note that PDC considers this scale and type of development could occur on sites where, again, one or more dwelling is purchased for redevelopment. At this scale, it seems likely that multiple dwellings might be purchased to accommodate the proposals.

3.4.33 Overall, sites hosting this scale of development could have a range of characteristics in the Purbeck context, as we will consider here.

3.4.34 Looking at the 11 and 20 dwellings (houses) schemes (RLV indications at Tables 1i and 1l) we see a similar range and tone of results:

i. In the existing 40% AH "zone" at VL2 (scheme envisaged at lower new-build values for Upton/Rural Centre) we see the results suggest that greenfield land, low value commercial, recycled amenity land or similar would need to be relied on – RLVs reaching just over £700,000/Ha with £10/sq. m CIL; falling under £700,000/Ha with CIL at £30/sq. m (11 houses – Table 1i).

ii. If we "move" this scheme to VL4 - higher values for those local market areas, also equivalent to lower Purbeck Rural Fringe values – we can see the RLV reaches £1m/Ha with a maximum of around £160/sq. m CIL. This indicates a positive outcome for the higher end of the lower value areas, creating a land value that should be sufficient across a range of site types. In turn this indicates that there should be some scope for uplift of the lowest (£10/sq. m) CIL rate and potentially the £30/sq. m rate; with no clear driver now for that differentiation. As a guide, we consider that a £50/sq. m CIL rate across these two typically lower value zones would not be unworkable.

iii. However, the outcomes also suggest that more than 40% AH may be achieved only in limited circumstances with the higher values (levels only applicable regularly to the Coast and Swanage new builds).

iv. On this point, looking at 50% AH, we can see that a RLV of around £500,000/Ha (suggested minimum greenfield land value view for the <u>assessment purpose only</u>) is reached with only £20/sq. m maximum CIL at VL3; a much higher £200/sq. m maximum CIL at VL4.

v. A £750,000/Ha land value requirement (moving into viability on a wider range of sites including some PDL) is not met at VL4 with nil CIL, but is reached at VL5 with a maximum of approximately £140/sq. m CIL.

vi. Looking at the higher viability tests as will be applicable especially in some higher value market area PDL scenarios, £1m/Ha is reached at VL6 with maximum £60/sq. m CIL. The first point that £1.5m/Ha is reached is VL9 with £100/sq. m CIL.

vii. Taking this exploration further, £180/sq. m CIL with the 50% AH test requires VL7 values (representing upper end for Wareham; lower end for the Coast) to reach £1m/Ha or VL10 values to reach in excess of £1.5m/Ha. This suggests that only sales values around the highest levels applicable for the district, would regularly support 50% AH in combination with £180/sq. m and other updated assumptions (but prior to considering the viability sensitivity to adding costs e.g. for accessibility).

viii. In our view, these findings are pointing to the 50% AH requirement being workable with other known and anticipated policy and development costs only in a limited range of scenarios – greenfield / lower value sites in combination with mid-range to upper end values and probably before any significant abnormal costs are encountered. It follows that 40 to 50% AH may be difficult to achieve with £100 to £180/sq. m CIL in place on PDL sites; and especially with any abnormal costs.

ix. The 15 mixed dwellings scenario (Table 1k) may also be used to consider the PDL redevelopment type circumstances, and can be seen to generally offer a more viable position than outright flatted development unless the latter is supported by values towards or around the highest values available in the district.

Settlement extensions of 10-20 dwellings

3.4.35 As these could potentially occur at all settlements across the district, these may be considered from the results by alignment to the values levels (VLs) that best match the new build house prices seen in various locations (based on available information). This element of the discussion uses the 20 houses scenario assuming greenfield land at £750,000 <u>for this purpose only</u>, assuming small sites release e.g. in relation to edge of village paddock/amenity land rather than "bulk" purchase of agricultural land for a larger scheme.

3.4.36 Upton/Rural centre. On this basis, 40% AH with £100/sq. m CIL appears potentially viable with VL3 values. At VL2, i.e. low end values that might be seen for those areas, not more than £80/sq. m CIL looks viable with 40% AH, but only with land at £500,000/Ha so whilst potentially workable this is probably a more marginal scenario with little room for any abnormal costs or added policy costs (again e.g. re accessibility or similar).

3.4.37 Wareham/Purbeck Rural Fringe. These localities have overlapping sales values too, so for the purposes of this discussion the Wareham values assumptions are equivalent to the mid to upper part of the Rural Fringe. As could be seen from Figure 10 above (3.2.20) Lower Rural Fringe values are considered to be similar to mid-range to upper end values for Upton/Rural centre, as above. Taking VL6 with this context in mind, 40% AH with £100/sq. m CIL for residential reaches a RLV of £1.5m/Ha; a very positive looking viability indication which appears to also provide additional scope to support any abnormal costs or costs added through enhanced policies e.g. on open space/mitigation or accessibility, etc.

3.4.38 The Coast (including Swanage). The prevailing 50% AH policy can be seen to have a significant impact compared with 40%. 50% AH with £180/sq. M CIL at say VL8 produces a RLV at just beneath £1.5m, so again the same comments as at 3.2.18 above apply.

<u>Settlement extensions of 50-200 dwellings</u>

3.4.39 These may come forward under the Local Plan Part Review process at the towns, key and local service villages (e.g. Wareham and Upton – we will take those as examples for context to the discussion below, following the same review approach as above for the smaller potential settlement extension scenarios).

3.4.40 At this level and stage of review, the outcomes (£/Ha RLVs) from the 50 and 200 mixed dwellings scenario assumptions are very similar (Tables 1o and 1p respectively) as would be expected. The following commentary related to results from Table 1o.

3.4.41 Consistent with the above, reviewing 40% AH with say £30/sq. m CIL (the higher of the two lowest rates) shows that at VL3 (e.g. Upton) we can exceed the £750,000/Ha test (with a maximum of approximately £40-50/sq. m CIL). A RLV very close to £500,000/Ha is reached at VL2.

3.4.42 Looking at a similar scenario but with values higher applicable to Wareham for example at say VL6, 40% AH with £100/sq. m CIL provides a RLV of just beneath £1.5m/ha; a relatively comfortable looking result with scope to support abnormal costs and some other policy costs. With AH increased to 50%, that RLV falls to around £1.1m, but at that level is still indicative of a positive viability outcome. It suggests that unless such a scheme is attracting high levels of abnormal costs, the viability should have capacity to support collective requirements with potentially some scope also to support additional s.106 mitigation or other costs / requirements where necessary.

3.4.43 These results also indicate that for a PDL based development of this scale, viability is likely to be stretched with as much as 50% AH, particularly if abnormal costs become relevant alongside higher land values based on existing / potential alternative uses.

3.4.44 It should be noted that a reduced density compared with the 40 d.p.h. currently assumed for the developable site area would be seen to "dilute" the available RLV across a larger "land take" and this would have a negative impact on the above positions, with outcomes dependent on the revised assumptions.

Potential large housing sites

3.4.45 We understand that in order to meet additional housing demand, the Council is also looking at the potential to accommodate and options for a small number of significantly larger development opportunities, subject to the wide range of planning considerations as well as to viability. These might range in size from around 500 to approximately 1,000 dwellings per site, but with many details and specifics to be considered further as part of PDC's ongoing work on the Local Plan Part Review.

3.4.46 Due to the different nature of the assumptions, appraisals / review mechanics and outcomes, these results are not included in the main Appendix IIa tables dealing with the more typical site scenarios, as they need to be considered on a separate basis, as we will outline here. Instead the outcomes are included in 4 separate tables numbered 1s to 1v and found at the end of Appendix II.

3.4.47 These scenarios have been appraised at this stage with both 40% and 50% AH and an allowance for a typical £20,000/dwelling site enabling (opening-up, site infrastructure & servicing) cost, in line with the Harman Report indications and our wider experience. There is no allowance for s.106 or CIL within the appraisal as a fixed input, so the residual outcome viewed through the appraisal (as the 'residualised price' within the Argus Developer Summary Report sheets) is the amount available to both purchase the land and fund s.106 and / or CIL together with any other costs not allowed for at this initial stage of viability review. Looked at this way, this ensures all these costs are also financed as necessary within the cashflow.

3.4.48 On this basis, the current stage 50% AH outcome at VL5 (sales values assumed at £3,450/sq. m) with a land cost input at £400-500,000/Ha shows an indicative surplus of approximately £12-15,000 per dwelling (rounded to nearest £1,000) potentially available to support s.106/CIL and any other currently unidentified abnormal or policy costs (or other requirements) – with the likelihood that such costs will impact collectively. This results set is seen at Appendix IIa tables 1s and 1t.

3.4.49 The 40% AH equivalent indication rises to support a surplus of approximately £19-22,000 per dwelling with land assumed at £500,000/Ha and £400,000/Ha respectively – Appendix IIa tables 1u and 1v.

3.4.50 As an indication at this stage therefore, for the purposes of considering headline policies on matters such as affordable housing and S.106, this suggests that up to approximately £22,000/dwelling could be available to support s.106/CIL and potentially other cost requirements depending on the base scenario, including with respect to affordable housing. The "surplus" potentially available for these is unlikely to exceed these levels, and we could find on further consideration with more information known on particular site characteristics in due course that a reduced view of this develops.

3.4.51 In our experience, bearing in mind that CIL is a fixed non-negotiable charge, this provisionally points to a very low or (as per the approach being adopted by most LAs with such sites) a nil (£0/sq. m) CIL charging rate being workable as part of the collective costs burden. Consistent with our experience, s.106 will be likely to provide more flexibility on delivery and may better cater for the bespoke package of development mitigation matters that are likely to be required for development of this scale.

3.4.52 Clearly the on-site / site-specific requirements for infrastructure are not known to allow more detailed consideration as yet, but it appears that the great majority of this potential surplus is likely to be taken up by those together with any abnormal costs – again, not identified at this point.

3.4.53 Only in the event that sites come forward with a greatly reduced amount of specific mitigation requirements (e.g. without the need for new schooling and other community facilities, major highways works, etc.) would these indications differ so far as we can see at this stage.

3.4.54 Whilst on the basis of the above the 50% affordable housing target looks potentially achievable, from the findings to date that appears a marginal outcome. In our experience it is likely that once more is known and essential mitigation matters and priorities are considered in order to secure development, that the actual AH capacity for such a development may be more realistically based on a 40-50% maximum target rather than a 50% minimum. The actual delivery scope would need to be reviewed with the benefit of further site specific and delivery detail information. This is not to say that 40-50% AH would necessarily be achieved, but as with the smaller greenfield scenarios a reasonably ambitious target appears appropriate to inform starting point expectations and at least ensure that appropriate attention is given to addressing the significant affordable housing needs.

3.5 Main residential findings for PDC to consider - Summary

3.5.1 **If the existing AH policy % headlines are to be maintained owing to high needs levels, in our experience these should be expressed as targets not minimums; and be operated accordingly.**

3.5.2 **Using assumptions appropriate for the assessment purpose it appears that 50% AH might not be deliverable alongside other collective costs of development in other than straight-forward greenfield scenarios (with no significant on-site/site-specific infrastructure costs) – e.g. edge of settlement extensions. This level of AH requirement would also appears to need the support of mid-range to higher values**

in the Purbeck context. It may be more challenging as the values generally fall moving northwards.

3.5.3 **As an equivalent outcome, broadly the same may be said as regards 40% AH with the typically lower values.**

3.5.4 **Overall, at these levels the AH requirements are certainly challenging in viability terms. The variation 40 to 50% is the main response to viability variation due to varying values, so that particularly at the £180/sq. m charging rate in combination with other costs, the collective costs burden on development is high when fully applied.**

3.5.5 **It follows that this could have a limiting effect on the scope to secure any additional policy benefits – e.g. regarding accessibility – and could lead to added pressure on the AH delivery especially where abnormal or other costs also need to be factored in.**

3.5.6 **On the smaller sites (meaning of fewer than 10/11 dwellings and potentially of fewer than 14/15 dwellings (since thresholds are mostly arbitrary) we would recommend that PDC considers the potential to introduce some form of sliding – scale type thinking if such sites are to continue to come within the AH policy scope generally. Government policy developments may have a bearing on this. Allied to this, use could be made of financial contributions (again subject to Government policy) as, all in all, it appears to be the smallest sites where the most frequent viability issues will arise, especially as many of those will rely on PDL sites.**

3.5.7 **Related to these points, there is a also possibility that a PDL/greenfield AH policy distinction could be considered, but this would need careful review as in our experience there can be problems defining site types and hybrid type sites do come forward.**

3.5.8 **If national or local policy develops to exclude smaller sites from the scope of AH and / or any other costly requirements, then the CIL charging rates affecting those could be reconsidered. This could create a clear viability step – differentiation by scale of development could become relevant for review by PDC.**

3.5.9 **In any event there is no scope to increase AH targets and, overall, if anything a view to looking at some easing could be beneficial without greatly affecting overall delivery. We suggest that PDC could usefully compare these findings with its delivery track record and "on the ground" experiences, as part of assessing the balance that it wishes to move forward with.**

3.5.10 **On CIL, subject to the comments made above, we do not consider there to be scope to adjust rates upwards with the potential exception of looking again at the £10 and £30/sq. m rates. With the passing of time and alongside a necessarily flexible approach to operating the AH target in any event (that applies at any % level selected), it should be possible to equalise those rates – simplify and set both at the same level. At this point we have not seen a clear justification for that differentiation. Furthermore, both of those lower rates could be increased potentially – to approximately £50/sq. m but not suggested higher at this point unless the AH % affecting the northern portion of the district is reviewed to a level beneath 40%.**

3.5.11 Emerging sensitivity tests (see Appendix IIa Table 1r) suggest that some easing of the collective costs burdens or at least more flexibly set out AH policy approach could be needed – something may need to "give". This may impact on the lower CIL rate(s) scope/discussion at 3.5.10 above. This and similar aspects can be considered further with PDC.

3.5.12 The above is all necessarily based on a "traditional" view of AH tenure, with pressure on affordable rented housing revenues a current factor in the added challenge associated with meeting high AH numbers and particularly in that form. The Council will need to monitor national policy developments. Any consolidating of the apparent current moves towards low cost sale housing becoming a recognised form of affordable housing (e.g. as 'Starter Homes') are most likely to impact positively on overall viability in comparison with the impacts from existing affordable tenure (and especially relative to rented affordable housing viability impacts). Therefore it may be that PDC will wish to consider a dual approach or have a contingency in mind, because a wide view of what constitutes AH may influence any changes to policy; reduced targets from those existing may become less appropriate or less necessary for consideration amongst the options.

3.6 Housing for the elderly – retirement living/sheltered

3.6.1 Consistent with our wide experience of CIL viability, rates setting and site-specifics to date, we would recommend that no differentiation be made for market provided sheltered housing schemes. Whilst such schemes involve the costly construction of much larger non-saleable proportions of overall floor area (communal space) and have particular appraisal characteristics that we have reflected, they also have some balancing viability characteristics - including typically achieving premium sales values, having higher densities and reduced external works. These schemes are in our view part of the wide spectrum of market housing. In our experience, regardless of CIL, highly commercial negotiations tend to take place in respect of affordable housing contributions on such developments and as with all other schemes that and other aspects of negotiation have the capacity to deal with viability issues where the collective costs cannot all be carried by a scheme and site-specific viability review investigates that.

3.6.2 Affordable sheltered housing and nursing / care homes (C2 uses) are a different matter in our view, however. We expect those to be either exempt from CIL charging through the regulations or, in the latter case, shown to be insufficiently viable to support CIL charging through our work – see below our findings on commercial / non-residential scenarios. Typically the care based developments would not attract an affordable housing requirement, and this can be another differentiating factor in the challenging scenario of determining the boundaries between C2 and C3. Taking all aspects into consideration, a scheme specific view on the nature of a development and its liability or otherwise for CIL payments will often need to be taken. The charging schedule should, however, seek to make clear the Council's intentions in treating these various forms of development, consistent with the viability findings.

3.7 General Considerations – Review of Proposed Residential Rates

3.7.1 The Appendix IIa tables (and IIb for commercial scenarios review – see below) can be used to see how increasing trial CIL charging rate (moving from left to right) impacts incrementally on (relatively gradually reduces) viability; and in comparison the increased sensitivity to varying property sales values and where relevant affordable housing proportion tested (moving up and down the VLs range shown on the left) has a much more marked effect. Similarly, the tables can be used to consider varying combinations of assumptions that produce similar RLV results and therefore similar viability outcomes for this purpose of CIL scope review only.

3.7.2 For further background it is possible to consider other forms of indicative "health-checks" on proposed CIL rates. With this in mind, we have also considered how the above charging rates parameters (existing range) look in comparison with the GDVs (new build residential sales values) – for further trial charging rate context:

- £10/sq. m CIL @ £2,700/sq. m (VL2) represents 0.37% GDV;
- £10/sq. m CIL @ £3,200/sq. m (VL4) represents 0.31% GDV;
- £30/sq. m CIL @ £2,700/sq. m (VL2) represents 1.11% GDV;
- £30/sq. m CIL @ £3,200/sq. m (VL4) represents 0.93% GDV;
- £50/sq. m CIL @ £2,700/sq. m (VL2) represents 1.85% GDV;
- £50/sq. m CIL @ £3,200/sq. m (VL4) represents 1.56% GDV;
- £100/sq. m CIL @ £3,700/sq. m (VL6) represents 2.70% GDV;
- £100/sq. m CIL @ £3,950/sq. m (VL7) represents 2.53% GDV
- £180/sq. m CIL @ £3,700/sq. m (VL6) represents 4.86% GDV;
- £180/sq. m CIL @ £3,950/sq. m (VL7) represents 4.55% GDV;
- £180/sq. m CIL @ £4,200/sq. m (VL8) represents 4.28% GDV;
- £180/sq. m CIL @ £4,450/sq. m (VL9) represents 4.86% GDV;
- £180/sq. m CIL @ £4,700/sq. m (VL10) represents 4.04% GDV;
- £180/sq. m CIL @ £4,950/sq. m (VL11) represents 3.63% GDV;

3.7.3 Similarly, in our experience, so as to aid consideration of the funding potential, see the potential charges in context, consider comparisons with s.106 and aid review by stakeholders it is always worth looking at the potential CIL rates in terms of what they could mean for liability levels due from typical new build dwellings. This tends to put in context the significance of the charges, particularly if they are looking too high, and so it may also act as a further form of check. For example, looking at the £125 - £200/sq. m overall potential charging rate(s) area as above.

Figure 13: Indicative CIL charges (based on rates findings parameters and assumed dwelling sizes)

Unit Sizes (sq. m)*	CIL chargeable (market sale) dwelling size (GIA - sq. m)	CIL/market sale dwelling @ £30/sq. m	CIL/market sale dwelling @ £50/sq. m	CIL/market sale dwelling @ £100/sq. m	CIL/market sale dwelling @ £180/sq. m
1-bed flat	50	£1,500	£2,500	£5,000	£9,000
2-bed flat	70	£2,100	£3,500	£7,000	£12,600
2-bed house	85	£2,250	£4,250	£8,500	£15,300
3-bed house	100	£3,000	£5,000	£10,000	£18,000
4-bed house	130	£3,900	£6,500	£13,000	£24,300

3.8 Consideration of affordable housing financial contributions

3.8.1 Following the principles and methodology outlined at 2.3.20 above, as developed by DSP and in use by some client authorities, we are able to propose an approach to calculating AH financial contributions. We acknowledge that this is just one method and, as with others it generates figures as a starting point to guide expectations and discussions – i.e. in a parallel process to that for on-site affordable housing provision. We understand that PDC has a calculation methodology, which it may continue to use, although in discussions with officers we noted that direct on-site provision of affordable homes is the Council's preferred and key route of provision.

3.8.2 Included to the rear of Appendix I are tables detailing the RLV %s that would be used within the formula provided at section 2.3.24.

3.8.3 Those have been calculated by allowing for the varying PDC implemented CIL charging levels.

3.9 Rural exceptions and potential market cross-subsidised rural housing

3.9.1 As noted at 2.2.12 above, preliminary consideration has also been given to rural exceptions type provision of affordable housing, but with a view to developing an understanding of the degree to which this provision (e.g. primarily for affordable rent established basis) might require cross-subsidy from part market development on the site assuming difficulties in accessing HCA grant or equivalent funding as would normally have supported such schemes.

3.9.2 In our view this could be an area for PDC to look at as part of an AH financial contributions strategy, but we will not dwell on that as it is outside the scope of the viability assessment work.

3.9.3 The emerging results from this testing indicate the following (based on selected example scenarios, VLs and assumed varied minimum £/plot values at typical levels relevant in our experience to the exception to planning context) – see Figure 14 A to C below (3 tables).

Figure 14A – Cross-subsidised exception site – preliminary review (Table A)

£100/m2 CIL / Value Level 6 – Land @ £10,000 per plot

Scheme Size	No. of Market Houses	RLV	RLV Benchmark	Viable - Y/N
10 x 3-Bed Houses	0	-£351,540	£100,000	Not Viable
	1	-£196,046	£100,000	Not Viable
	2	-£40,551	£100,000	Not Viable
	3	£104,672	£100,000	Viable
	4	£242,464	£100,000	Viable
20 x 3-Bed Houses	0	-£703,080	£200,000	Not Viable
	1	-£547,586	£200,000	Not Viable
	2	-£392,091	£200,000	Not Viable
	3	-£236,597	£200,000	Not Viable
	4	-£81,102	£200,000	Not Viable
	5	£67,745	£200,000	Not Viable
	6	£207,077	£200,000	Viable
	7	£340,922	£200,000	Viable

Figure 14B – Cross-subsidised exception site – preliminary review (Table B)

Land assumed @

£15,000 per plot

Scheme Size	No. of Market Houses	RLV	RLV Benchmark	Viable - Y/N
10 x 3-Bed Houses	0	-£351,540	£150,000	Not Viable
	1	-£196,046	£150,000	Not Viable
	2	-£40,551	£150,000	Not Viable
	3	£104,672	£150,000	Not Viable
	4	£242,464	£150,000	Viable
20 x 3-Bed Houses	0	-£703,080	£300,000	Not Viable
	1	-£547,586	£300,000	Not Viable
	2	-£392,091	£300,000	Not Viable
	3	-£236,597	£300,000	Not Viable
	4	-£81,102	£300,000	Not Viable
	5	£67,745	£300,000	Not Viable
	6	£207,077	£300,000	Not Viable
	7	£340,922	£300,000	Viable

Figure 14C – Cross-subsidised exception site – preliminary review (Table C)

Land assumed @
£20,000 per plot

Scheme Size	No. of Market Houses	RLV	RLV Benchmark	Viable - Y/N
10 x 3-Bed Houses	0	-£351,540	£200,000	Not Viable
	1	-£196,046	£200,000	Not Viable
	2	-£40,551	£200,000	Not Viable
	3	£104,672	£200,000	Not Viable
	4	£242,464	£200,000	Viable
20 x 3-Bed Houses	0	-£703,080	£400,000	Not Viable
	1	-£547,586	£400,000	Not Viable
	2	-£392,091	£400,000	Not Viable
	3	-£236,597	£400,000	Not Viable
	4	-£81,102	£400,000	Not Viable
	5	£67,745	£400,000	Not Viable
	6	£207,077	£400,000	Not Viable
	7	£340,922	£400,000	Not Viable
	8	£474,116	£400,000	Viable

3.9.4 From the above, and using the assumptions noted here, we are able to indicate that with land value restricted to typical exceptions site levels the proportion of affordable housing achievable looks to rise to 60 to 70% (6 or possibly 7 out of 10 units) of the total on a dwelling number basis – using our base scheme scenarios (dwelling mixes) for this element of high level review.

3.9.5 As can be seen from the range of outcomes, this varies marginally according to land value level. All plots (including the market ones) are assumed to be available at restricted exceptions type levels, so that the cross-subsidy is available as far as possible to support the viability impact from the fact that affordable rented accommodation generally falls short of supporting its own development costs. We would expect the particular outcomes to be more dependent, however, on the scheme type and mix of the values achieved for the market dwellings element.

3.10 Self (or 'custom') build dwellings plots within larger developments

3.10.1 Here we seek to provide wider information for PDC's review.

3.10.2 In general this type of policy is a new area for local authorities, following various government initiatives to support self-builders, and it may take a while to be explored and bed-in. This may be a topic for guidance by Councils dependent on their local relevance and how it fits best and works in their local areas. However, we understand that PDC currently has no intention of issuing further guidance or amplifying the detail on this.

3.10.3 Purely as an observation, in practice, and particularly on small site, a developer may have relatively limited interest in returning to a site to add a single property or very small number of properties for example. In addition a developer will, we expect, probably seek to ensure that certain criteria are set out on construction type / design and timing etc. since otherwise they make take the view on a small site that their own construction and marketing could be impacted, or at least uncertainty created.

3.10.4 Such influences along with cash flow may act as incentives to secure a prompt sale to a custom-builder. Potentially, depending on the nature of the site and the parties (and on any Council guidance etc. issued in due course), from a practical point of view it seems that this could develop into a construction arrangement between the site developer and plot purchaser.

3.10.5 Whilst, so far as we can see to date, overall viability impacts will not be significant, in our view it is likely to be relevant for local authorities to consider the effect of such polices together with others – e.g. by providing affordable and / or accessible housing as well as custom-build plot(s), the level of market-led drivers for a development might be seen to reduce on a small site and especially where development viability may be inherently challenging in some instances.

3.10.6 Having said this, from DSP's experience of considering custom/self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots for custom-build has the potential to be a sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details – as with other aspects of the development process. Although its effect in practice will need to be monitored, if implemented in a non-prescriptive / flexible way if pursued by PDC at this stage, we consider that it should prove workable alongside the affordable housing, CIL and any necessary s.106 requirements.

3.10.7 We would envisage the developer obtaining at least outline planning, providing a means of access and utility services to the boundaries and potentially preparing the site for construction through clearance and any other preparatory works where relevant; perhaps including levelling, drainage and other facilitating works. The developer would expect to recoup these costs and see some level of profit as a result of these land value enhancements.

3.10.8 Alternatively, perhaps the custom-build plot(s) could be sold on at a lower price but with less investment in readying for development.

3.10.9 In any event, we assume that as envisaged in this district the approach is likely to lend itself most to detached house plots although those could be for modest family dwellings.

3.10.10 It is likely that developers would market the plot(s) at an early stage of their site development progression, probably through agents and using similar processes to those used for their scheme marketing (house sales); marketing and legal costs would be incurred. The sales receipt most likely would be the serviced land value, with savings made on the housebuilding costs and a portion of the site/external works plus the fees and finance associated with those; but on the flip-side profit sums reduced to those available through the land only deal rather than based on the full completed property value. Overall the market risks (associated with pricing, time to sell etc.) are probably broadly similar compared with the full development process, though the investment exposure considerably reduced.

3.11 Optional technical standards – Accessibility - Specialist housing (S6)

3.11.1 Applied to 10% of dwellings as an assumption, we consider that Part M4(2) currently estimated costs as outlined above are unlikely to be prohibitive or to tip otherwise viable schemes into non-viability when viewed alongside the range of collective costs.

3.11.2 However, the collective costs of development need to be considered and in our view may need some level of adjustment if these optional accessibility criteria are to be adopted by PDC to any level of requirement beyond a proportion of dwellings to M4(2) standards.

3.11.3 Part M4(3) costs, as currently estimated and applied even to 10% of dwellings could in our view be difficult to support in PDC's case as a reliable and regular component of all developments providing over, say, 10 dwellings.

3.11.4 Overall, we suggest careful consideration of added costs areas such as these, and particularly if affordable housing remains a top priority so that the 40% and 50% targets are maintained. This is particularly the case in respect of the current policy set as impacts very small sites (of 2 or more dwellings) with the AH requirements at those levels.

3.11.5 We suggest that given these factors as well as potential practicalities associated with smaller site layout and designs, that PDC gives consideration as to how it sets and how rigidly it applies any policies requiring development standards / specifications that go beyond the Building Regulations base levels into the effectively optional areas of the national standards – e.g. including in the area of access to dwellings under Part M4 categories (2) and (3) as discussed here.

3.11.6 We refer back to the current costs estimates (£ per dwelling indicative costs, flats and houses) associated with the optional enhanced accessibility measures, as were mentioned above (and see Appendix I). Although those are current indications and are extra-over costs allowances for the applicable proportion of dwellings only, the contribution to cumulative development costs could be significant and particularly if the scope for supporting s.106 requirements is already under pressure through inherent difficulties on scheme viability (e.g. potentially associated with the market or particular site constraints / costs, and before the subject planning policies are taken into account).

3.11.7 In addition to viability evidence, local authorities must also demonstrate the need for implementing optional elements of the national standards – such as these.

3.11.8 During the course of the assessment and in relation to discussions on varied housing provision and on accessibility, PDC also asked DSP for comments on the relative viability of bungalows compared with 2+ storey housing.

3.11.9 In carrying out sensitivity testing on the impact of any requirement for or possibility of sites to providing a proportion of bungalows we have run further appraisal version using the 20 dwellings housing scheme as a base. For this further high-level test we:

- Replaced 9 no. 3-bed houses (@ 100m² each) with 9 no. bungalows (also @ 100m²) – comprising of 6 x private and 3 x affordable rent, assuming the same affordable revenue sum for the bungalows as for the 3-bed houses;

- Applied BCIS based build costs (single storey) reweighted to a Purbeck location factor and at the same date as the original modelling;

- Reduced the density to take account of the greater footprint / land area required for the bungalows (to an assumed 20d.p.h. overall, from 30 d.p.h.);

- Increased the assumed sales values of the bungalows (compared to the level assumed for the houses) by 20% - in line with what we consider to be a typical premium for a bungalow compared to, say, a 3-bed semi-detached house (internal note - n.b. we took this from Nationwide research).

3.11.10 The net result is that, on a like for like basis, the test scenario scheme that includes the 9 no. bungalows (as above) results in a slightly lower RLV £/Ha hectare than that produced by the 20 dwellings all housing scheme, but the impact is in our view relatively marginal. For example, at VL 7 with £180/m² CIL together with 40% affordable housing, the relative difference between the two scheme types is approximately 8.5% (RLV /ha of £1.64m/ha for housing scheme; £1.51m/ha for scheme with bungalows substituted as above).

3.11.11 Overall, it would be difficult to say that viability would be notably different on introducing bungalows to a mix. However, of course a developer would only look to pursue bungalows in a purely market-led scenario where they felt there to be demand underpinned by appropriate market conditions that would support sales and where, as a worst case, the comparative viability outcome would not be significantly poorer (i.e. viewed from the commercial perspective - profit & land value). It seems to us that this is going to be more about demand / need and therefore market support for it than the viability indications per se. Another issue / thought that you might want to factor in is increased land take / potential for reduced capacity on a given land area.

3.12 Other aspects of any revision to the PDC CIL charging – Commercial / non-residential – Findings

3.12.1 Tables numbered 2a to 2g within **Appendix IIb** set out the RLV results generated for the commercial scenarios.

3.12.2 **From the assessment research and findings, based on realistic current assumptions for the district this report needs to acknowledge viability difficulties or at best potential / marginal outcomes associated with most forms of non-residential development. Both the district's characteristics and the findings on this are not unusual in terms of our range of experience on these matters, although activity within the local commercial property market should also be monitored by PDC so that revised information could help to inform a review of the CIL in these respects at subsequent points as appropriate in due course.**

3.12.3 **Provisionally, a single exception in terms of mainstream development types usually considered for CIL viability, and again a consistent assessment finding in our experience, looks to be larger format retail (meaning supermarkets, superstores and retail warehousing). In common with most other viability studies that we have undertaken these were found to be the one clearly viable form of commercial development** when viewed in the way that this evidence needs to be put together (using appropriate assumptions that do not lead to judgements at the margins of viability).

3.12.4 In Purbeck's case we considered that the assumptions set representative of any smaller supermarket and retail warehousing development, that might be relevant in future either as new-build or as a result of remodeling / extensions, would be very similar at this level of review. Accordingly a single scenario of this type was sensitivity tested at an appropriate level in the local circumstances.

3.12.5 **The viability scope for the larger format retail rate is in our view now slightly greater than represented by the currently implemented £75/sq. m charging rate for**

all retail development (within Use Class A1) and is broadly consistent with our findings from other recent CIL studies (at around £100/sq. m) but is not considered significantly higher than that from overviewing the results.

3.12.6 With our medium (typical/mid-range) rental assumption, this testing produced a RLV at approximately £3m/Ha using a 5% yield assumption for rental capitalisation (Appendix IIb Table 2a) with £100/sq. m CIL tested; an indication which in the Purbeck context is considered to be a very positive outcome.

3.12.7 Sensitivity tested with a less positive 6% yield outcome (see table 2c) we can see the RLV reduce through the £1.5m viability test with more than approximately £140/sq. m CIL. With a replacement lower rental value assumption, that same scenario RLV falls to approximately £1m/Ha with CIL at about £80/sq. m. Beyond this (by further reducing the rent or increasing the yield % input) we suspect that viability would at best become marginal, so these results need to be viewed in the round rather than simply focusing on the more positive end.

3.12.8 Following review, and in contrast with those positive outcomes, it is our opinion and experience that any town centre or other local centre shops of other types, smaller shops / local neighbourhood centres type development, village and rural retail provision are unlikely to support a meaningful CIL charge. If any new units come forward to supplement the usual "churn" and changes of use etc. from our findings we would be concerned that they could reliably bear the £75 CIL charge. Of course this is based on suitable viability assessment assumptions, and it may have been found already by PDC that the £75/sq. m A1 retail charge is workable at a whole Plan level, bearing in mind that it may be argued that the non-viability of individual developments will not usually harm the Plan overall, unless they are strategic (whole plan relevant) in nature.

3.12.9 We suggest that the Council considers this matter – again through review of its CIL implementation experiences. That might provide the strongest evidence possible that the £75/sq. m is not detrimental to the delivery of any new smaller shops, in which case PDC could either continue with this as also impacts larger format retail; or consider review in respect of that element. In any event we would not recommend upward revision of the charging schedule as applied to smaller retail development of all types – both comparison and convenience. However, we would suggest that the current differentiation between A1 and A2 to A5 is both over-complicated and would in our view be difficult to clearly evidence in viability terms at this time. Differentiation of this type is not something that we have found to be warranted on any other occasion during our CIL assessment work and we have no findings here that suggest a different position should be applied. If we understand the intention correctly, then under our thinking towards considering a nil rate for all smaller shops development would we think respect the existing differentiation to a degree. It would also make this set-up simpler and more equitable, as reflects the viability evidence that it is in our view not possible to effectively delineate between the various type of A uses in this way; those may be largely inter-changeable after development in any event.

3.13 Further background – retail (general – differentiation by type and size definition / threshold)

3.13.1 DSP has experience of single and differential CIL charging rates approaches for retail development. However, as a high level outcome the general viability distinction between larger (particularly supermarket) and smaller retail formats identified here is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases.

3.13.2 Developing the outline above, the further information on retail in this section is provided for completeness and background at this stage; it provides further insight given our suggestion that PDC considers some level of differentiation to seek to ensure that smaller shops development is not potentially harmed by fixed CIL charging . As above, this applies to all retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.) In practice, “churn” of and adjustments to existing shop units or conversions from other uses may provide much of the new smaller shops provision. PDC may wish to consider the extent to which CIL liable new builds may occur.

3.13.3 The tone of results referred to here is shown by the range of red through to green shaded ‘small retail’ results areas at the Appendix IIb tables (in comparison with the larger format retail results in the table sections above those).

3.13.4 To re-cap on the plan relevance of the various retail types, potentially the following factors are to be considered:

- The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad-hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;

- Non plan relevance (or limited / uncertain relevance) would also suggest the prospect of a low level of increase in CIL receipts compared with either setting a nil CIL or not pursuing CIL at the current stage; or a low level of receipts impact compared with setting a higher, more viability impacting charging rate for certain development uses;

- In any event, as part of considering the impacts of any CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the larger centres, shops provided through farm diversification or other smaller settlements / rural areas / tourism and visitor based provision. Overall, our understanding with regard to Purbeck is that this range of retail uses is probably the key factor to which any approach to CIL and / or s.106 planning obligations needs to respond – in order to support the more general Purbeck Local Plan positions on retail.

3.13.5 Charging authorities are now able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been discussed above in relation to residential development). Whilst DSP's experience is that differentiation has been possible for scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that), it appears possible that this element of the reforms could expand and cement the scope to consider differentiation on CIL charging rates for retail development. However, DSP's experience is such that a retail use does not necessarily change characteristics in any readily determinable way at any specific floor area point other than that determined by the Sunday Trading provisions.

3.13.6 Overall, as with the residential findings, the Council may well be able to consider options for any approach that it pursues towards CIL charging. So in order to provide the Council with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area).

In the circumstances these outcomes are not included in detail in this report, but further information can be supplied to the Council by DSP if required. In any event, this may be as much about considering the differing retail offers and development types associated with those, and therefore general principles around CIL and differentiation, rather than the viability outcomes alone.

3.13.7 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. We find the same at other unit size assumptions. In essence, to support a CIL differential at an alternative threshold point it is necessary to show a distinct change in viability, which would come from different appraisal inputs applying at a particular point – whether at 500, 1,000, 2,000 or indeed any particular unit size. So the same applies on altering the high levels testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary. In each case, unless viability were found to be different either side of any such point, in our view and experience it would not be appropriate to differentiate.

3.13.8 The key factor differentiating the smaller types of retail scenarios that we refer to from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of settlement stores. Specific floor area will not in itself produce a different nature of use and value / cost relationship unless applied in relation to the Sunday Trading provisions as far as we can see.

3.13.9 To reiterate, in our view any differentiation is more about the distinct development use – i.e. the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than relying simply on a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of a charging schedule in due course, however.

3.13.10 In case of assistance in this respect, DSP has worked with a number of authorities on the details of these aspects. As an example, the adopted Wycombe DC CIL Charging schedule (see: http://www.wycombe.gov.uk/council-services/planning-and-buildings/planning-policy/community-infrastructure-levy.aspx) included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

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

[2] Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

3.13.11 Only if differentiating between these smaller and larger retail formats, for example because of their plan relevance and any concerns over added development risk to smaller shops provision, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold as a secondary measure to the development use description that is the most relevant factor. This assumes the threshold being used for clarity and to further explain the nature of the development use that the viability and a charging rate differential is linked to if CIL is pursued.

3.13.12 There are a range of retail related uses, such as motor sales units, wholesale type clubs / businesses, which may also be seen in the area, although not regularly as new builds because these uses often occupy existing premises as smaller retail outlets do. Whilst it is not possible to cover all eventualities for ad hoc development, and that is not the intention of the CIL principles, we consider that it would be appropriate in viability terms to also link these to the retail approach that is selected based on the main themes of plan delivery, all as above.

3.13.13 Similarly, we assume that where relevant any new fast food outlets, petrol station shops, etc., provided for example as part of any large retail developments, would be treated as part of the retail scheme.

3.13.14 Other uses under the umbrella of retail would be treated similarly too. Individual units or extensions would be charged according to their size applied to the selected rate as per the regulations and standard charging calculation approach.

3.13.15 We have found that using the approach and assumptions that are suitable for the exploration of CIL charging scope through this viability overview, development uses such as hotels and care homes are non-viable development forms. We can confirm however that this does not necessarily mean that such schemes are non-deliverable per se. It means that at the present time clear scope for CIL charging cannot be evidenced in viability terms.

3.13.16 The same applies in respect of the current / short term prospects for all likely relevant forms of business development (meaning 'B' class uses) locally, as the viability the work to date clearly shows poor outcomes in terms of scope to support CIL from these. This should be kept under review in future.

3.13.17 Whilst only of more general relevance in given this study purpose, this suggests a level of challenge locally in promoting development opportunities and a need to look to the most accessible, most valuable locations. Usually it would also mean working with other agencies as well as the private sector to help facilitate delivery as the market appetite develops for it - given the current more positive and gradually spreading sentiment within the commercial property sector. We are aware that the neighbouring Bournemouth and Poole conurbation is more likely to attract such forms of development on a more significant scale, but also understand that PDC seeks to promote appropriately scaled mixed-use and economic development within its area.

3.13.18 In common with most of our other CIL studies, we have also carried out some initial high level consideration of other development uses such as leisure (e.g. bowling / fitness / gym) or other D class elements such as health / clinics / nurseries etc. Bearing in mind the key development value / cost relationship that we are examining here, we find that it is not necessary to carry out full appraisals of these because a simple comparison of the completed value with the build cost indications from BCIS (before consideration of other development costs) points to poor to (at best) marginal development viability. This one of the key reasons why these forms of development are generally not seen stand-alone, but tend to be provided as part of mixed use schemes that are financially driven by the residential and /or retail development. Much the same applies to elements such as health / clinics and other similar, more community oriented development.

3.13.19 The above outcomes and observations are consistent with findings from all of our recent Local Plan and CIL viability work.

3.14 Additional considerations – general information

3.14.1 The CIL principles are such that, where it is implemented, ideally Charging Schedules should be as simple as possible; i.e. as simple as the main twin drivers of the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the district and perhaps including between settlements and the rural areas, variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. We reiterate that this need to look at high level value and viability patterns, rather than an expectation of being able to reflect highly localised effects, is consistent with CIL principles.

3.14.2 Again to reiterate, there may continue to be instances of lower value schemes (of a range of types) that struggle for viability in any event (i.e. are marginal prior to the consideration of CIL). It is important to stress that this could occur even without any CIL or a similar level of s.106 contribution / obligation, so it is not necessarily a result of such obligations. Wider scheme details, costs and obligations or abnormal costs can render schemes marginally viable or unviable before factoring-in CIL. As a common finding across our studies, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all these individual schemes on a guaranteed basis. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. In this sense, CIL is unlikely to be solely responsible for poor or non-viability. These are not just local factors; we find them in much of our wide ranging viability work.

3.14.3 The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan delivery; it always has to be accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.

3.14.4 The Council will need to continue with an adaptable approach to delivery; as is currently applied in respect of the affordable housing policy targets operation for example.

3.14.5 It is also important to view the current stage CIL viability scoping outcomes in the context of the appropriate review, assumptions placing and judgements process that is necessary to robustly and inform and support a CIL charging schedule under the regulations as well as the formal (PPG) and other guidance. This means that the viability findings here are not expected to be representative of the full range of individual site discussions and outcomes. This is because, at the delivery level, an alternative view may be appropriate or sufficient as part of a particular viability scenario. The assumptions used for this purpose should not be relied on for site-specifics, for example.

3.14.6 In respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In addition to seeking to ensure that any CIL approach does not further impede investment, the Council could consider the following types of areas and initiatives (outside the core scope of this report, but put forward as practical indications). Our review of the Purbeck Local Plan and emerging Partial Review suggests that the Council is thinking along these lines:

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;

- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;

- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for;

- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) development;

- Scenarios for particular / specialist uses that are often non-viable as developments but are business-plan / activity led;

- As with residential development, consideration of the planning obligations packages again including their timing as well as their extent.

- A likely acceptance that business development overall is unlikely to be a contributor to general community infrastructure provision in the short-term at least. However, s.106 may still also be used as a mechanism where appropriate; subject to the pooling restrictions and usual criteria on the validity of requirements.

3.14.7 The carrying out of this assessment and review of its findings is a fully independent exercise by DSP on behalf of PDC, undertaken from the perspective of a fresh look at the local characteristics and market. This is informed and supported also through our wider CIL related and other significant viability assessment experience. As part of the assumptions building and information overview that informed the review of results however, an important part of the process is the seeking of information / examples and soundings from locally involved parties – for example including a range of Council officers, property agents and developer interests - where possible. The response rate to this process is usually limited, for a range of reasons including the sensitivities / confidentialities that are involved. As we have come to expect through long experience of the nature of these processes and judgements and the variety of information and opinions, typically we are not in agreement with the full detail of the soundings received. Nevertheless this proves a useful exercise, with some common views and information, and this did add to our triangulation type exercise in terms of testing our own views and assumptions etc. Overall, in general what we picked-up on could be related in some way to our work.

3.15 Charge setting and review

3.15.1 To further inform the Council's potential current and future stage CIL and related considerations, again for completeness rather than necessarily for current rates proposals context, we have also considered the range of trial CIL rates that have been viability tested in terms of their proportion of (percentage of - %) completed development value (sales value or 'GDV').

3.15.2 The resulting figures are included to the rear (at the final sheets of) Appendix I. They do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations across the potential CIL (trial) rates that were tested for CIL viability scoping. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the appraisals (see chapter 2 and Appendix I).

3.15.3 In our experience, appropriate CIL rates are generally equivalent to a small proportion only of the GDV. In a range of other cases we have put forward for consideration rates not usually exceeding say 3-5% of GDV; but only as a rough guide and further background indicator of the potential suitability of the proposals. In the context of the Purbeck value levels, we would suggest the lower end of this range perhaps acts as a more appropriate secondary review measure for any CIL rate(s) proposals.

3.15.4 This does not mean that a CIL charging rate that is equivalent to more than around 3-4% GDV as a potential maximum in a particular locality or development scenario is necessarily too high. However, we have found this to be a useful secondary indicator related to central south of England housing values levels. This information is quite separate and is secondary to the viability testing outcomes that are crucial to our findings and recommendations. Experience simply shows that this can be a useful gauge purely as further context to potentially help inform judgements. This may also be considered in the context of recent, current and projected house price movements. While the costs side of development activity also needs to be considered, the indications are that rising house prices have the capacity to potentially outweigh or significantly mitigate the viability impact of the CIL charges over a relatively short period of time from the setting point. This is certainly a key point for PDC to bear in mind and review periodically assuming that CIL or a similar mechanism for collecting infrastructure contributions remains in place as an option at a national policy level. It links back to our points on the role of monitoring.

3.15.5 In general - for further information – in our experience looking at the trial / potential CIL charging rates as a percentage of cost (meaning development cost) provides a less clear, less consistent secondary guide. This is because of the variation in costs, as between these examples (again the retail warehousing scenario would show a considerably higher % check on this basis), and also because the scope of the costs being used within the comparison (i.e. what is being included within 'cost' or 'development cost') needs to be made very clear.

3.15.6 It is not possible to say for certain at what point a further (future, 2nd) review of the CIL funding (viability) scope should be undertaken. The Council should monitor its local housing market by considering the types of information sources used in this assessment process, including house price tracking, local soundings, etc. (see Appendix III) alongside its delivery experiences.

3.15.7 There is no fixed period for or approach to the monitoring and review of these findings. The viability outcomes are determined by how the development values and costs inputs come together, rather than necessarily by what happens to just one input over time. However, we suggest in general terms that the following examples could be considered as positive indicators / viability ingredients that may point towards review being appropriate (likely negative viability influences are not considered here, given the current base point for viability in terms of CIL):

- Rising market. In practice the assumptions set (i.e. including the costs side) would need to be revisited at the review point, so that the collective view of it could again be considered on an updated basis.

- Revised national approach to affordable housing thresholds (smaller sites thresholds removed), but also dependent on the local view of the overall plan relevance of various development types and sizes. Similarly, other Government reforms may create revised requirements or circumstances relevant to viability. As noted in this report, the national level view on the nature of affordable housing and its definition appears to be evolving at present.

- Significant commercial property markets improvements and increased signs of local activity – the best indicator may be projects progressing in the area, although scheme progression will not necessarily indicate clear CIL charging scope, as has been acknowledged here (owing to the nature of the assessment and assumptions needed to ensure CIL charging levels that will not be prohibitive).

Viability Assessment report ends – Final Report
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Appendices I to IV follow

Purbeck Economic Viability Study, April 2016

Dixon Searle Partnership

Appendices can be found on-line at:

https://www.dorsetforyou.gov.uk/planning-buildings-land/planning-policy/purbeck/local-plan-review-purbeck/local-plan-review-purbeck.aspx