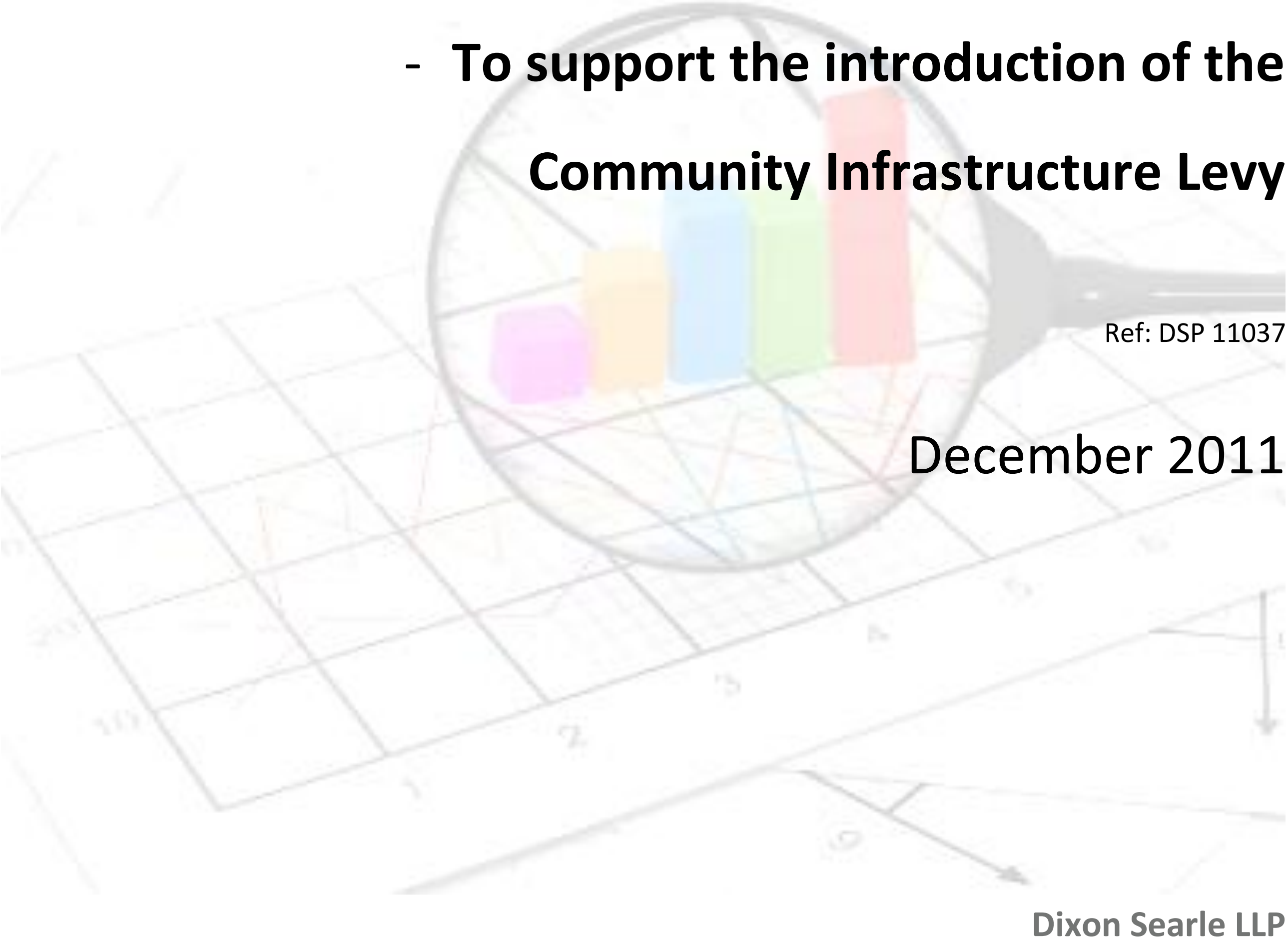
D|S|P Housing & Development Consultants

East Cambridgeshire District Council

Viability Assessment

- To support the introduction of the Community Infrastructure Levy

Ref: DSP 11037



December 2011

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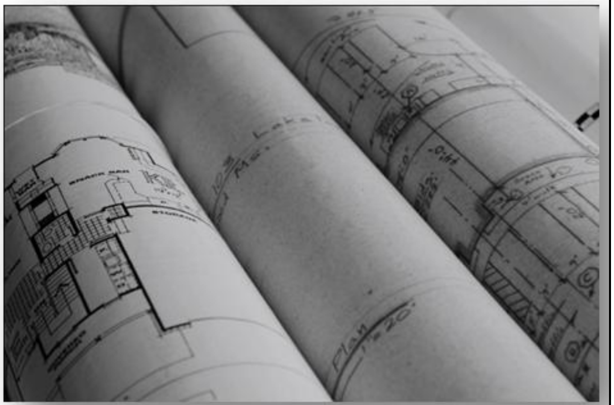

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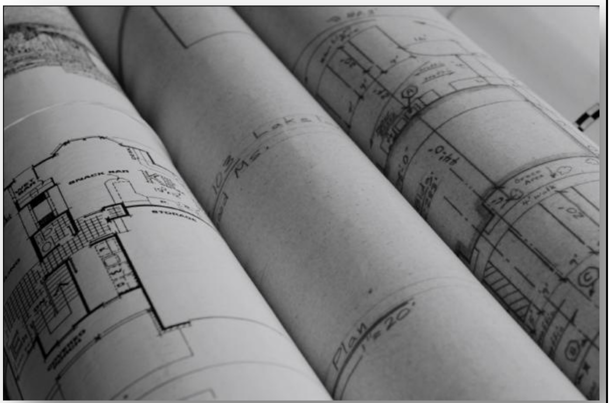

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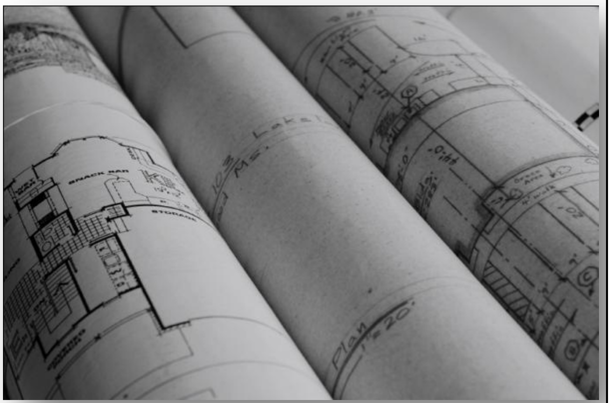
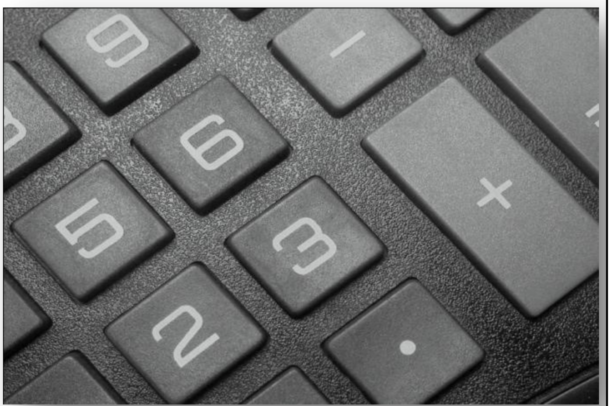




Appendix III:

Market, Values and Assumptions –
Research and Background

Executive Summary

1. The Community Infrastructure Levy has been introduced by the Government as a means of Local Authorities pooling development contributions to help fund the provision of the local infrastructure needed to support the planned growth in their area. By 2014 it will largely, though not entirely, replace s.106 as a means of securing such contributions (after then, pooling of s.106 contributions to fund wider infrastructure provision will be limited).

2. The CIL will be chargeable on a per square metre (sq m) basis; on all new development exceeding 100 sq m (including extensions) and including new dwellings of less than 100 sq m. Affordable housing and developments by charities will not be subject to CIL. Subject to certain rules, the CIL will not apply to any existing accommodation on a development site (whether demolished or reused) – that floor area will be deducted from the chargeable development within the charging calculation.

3. In the process of considering its local implementation of the CIL, East Cambridgeshire District Council appointed Dixon Searle Partnership (DSP) to review the scope for a range of development types (residential and commercial / non-residential) to support CIL funding in the District.

4. The purpose of this resulting study is to inform the Council's consideration of proposed CIL charging rate(s) in the District, by use type and potentially also by locality – depending on viability, varying charging rates may be set. In setting rates that strike an appropriate balance between contributing to local infrastructure funding needs (the funding gap) and development viability, Local Authorities also need to consider a wide range of other information. This includes information on site supply and likely frequency and development plan relevance of various development types to their area.

5. The study involved key stages of research, assumptions setting, carrying out a wide range of appraisals and review. The appraisals (calculations following a particular format for reviewing development viability) used residual land valuation principles, as has become the main established approach to this type of study. A range of "trial" CIL

rates from £0 up to £140/sq m were tested within the inputs used across the large number of appraisals.

6. For residential development suitable parameters for East Cambridgeshire CIL charging rates were found to be £40 to £100/ sq m also assuming continued operation of affordable housing and other policies within the Council's adopted Core Strategy and dependent on whether a varied or single rate is to be adopted; there could be a case for either approach.

7. Mixed viability outcomes were seen through our overview. Although these could be interpreted to support higher CIL rates in some instances, in considering this work and taking CIL implementation plans forward, the wider costs of development, ongoing uncertain market conditions and variable land value levels collectively mean that we must be careful not place an undue level of added risk to development. This also leads to consideration of how varying house prices seen in the District effect development viability.

8. Therefore, at this stage, an appropriate balance between the funding needs and viability was found to be at levels no higher than £100/sq m for the South of the District, Ely and rural areas / smaller settlements; accompanied with a recommendation to also consider setting a reduced CIL charging rate for the typically lower value areas of the District – principally the settlements of Littleport and Soham. This will be for the Council to consider if Littleport and Soham sites are to continue to play an important role in overall plan delivery of new housing in the next few years, and again assuming consistency with the plan policies and Council's approach on affordable housing. If there is significant development to come forward in these areas, which would be within the CIL scope, then we recommend that consideration be given to a rate at approximately half the about level there (i.e. CIL charging rate not exceeding £50/sq m). The varying viability outcomes support a differential CIL rate.

9. So from our viability perspective there are 2 key options for the Council to consider for local implementation of the CIL as applied to residential development:

A. Dual rate; Up to £50/sq m for the settlements Littleport and Soham; Up to £100/sq m elsewhere – in the case of the upper level supported by values in Ely, the south and for small schemes in many smaller settlements / rural areas.

   Or, as a potential alternative for consideration;

B. Single flat rate in the range £60 - £80/sq m (not exceeding £80/sq m) District-wide but bearing in mind varying viability and seeking a balance between the levels within recommendation A; accepting compromise in higher value localities so as to operate some degree of sensitivity to the lower value scenarios.

10. The viability of a range of commercial / non-residential development types in the District was found to be highly variable – as has been the case with ours and others' findings in a variety of local authority areas. However, we saw an over-riding theme that retail development is capable of supporting significant scope for CIL contributions – whereas other key forms of potential commercial development are not in the current circumstances.

11. Whilst, in theory, we found CIL charging rates for large retail developments (supermarkets and, in particular, retail warehousing) could be set at levels least as high as we have tested (to £140/sq m) and probably beyond those levels, there are some aspects of the results which point us to a slightly lower rate recommendation of £120/sq m for large retail.

12. For smaller retail development, principally assuming any new convenience stores but also applicable to other types, we recommend a rate not exceeding half the large retail level; i.e. £60/sq m.

13. In a wide range of other cases, it was found that CIL charging would generally either exacerbate marginal or lacking viability by placing undue added risk to other forms of new development coming forward.

14. At the current time and for the foreseeable future we recommend a nil (£0/sq m) charging rate applicable to business development (B uses). The viability results were typically very poor for these scenarios, such that only most favourable combinations of assumptions produced potentially viable scenarios and then only with particular scenarios. This is not an unusual finding in our experience. It is a reflection of the market and poor relationship between development costs and values. However, we are mindful of the fact that the Council has agreed a range of small scale contributions equivalent to up to about £12/sq m using existing section 106 procedures, given the impact on local infrastructure that such developments can have. The Council will wish to consider how its existing approach fits with its local CIL implementation.

15. The same viability scenario of a poor relationship between value and costs applies to a wide range of other forms of new development too, so that we recommend that the Council considers a £0 (nil) charging rate for those. We include agricultural development within this bracket.

16. As a potential exception to these principles, however, we were asked to review equine related development. This is seen locally to a significant extent. It has a wide range of forms. Our research and appraisals point to potential scope for a modest CIL rate (£30/sq m is suggested) for stabling, riding schools and stud farm type development. However, owing to the development costs, any new scheme types such as veterinary / equine hospitals are not considered to offer this same potential in development viability terms – again, the development costs would be likely to out-weigh values.

17. In all cases the resulting CIL charging rates are considered to represent an appropriate approach and balance in the local circumstances. The report includes detailed information and commentary. It also makes associated recommendations relating to regular monitoring and potential review of the local CIL charging regime.

Executive Summary ends.
December 2011.

1 Introduction

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

1.1.1 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, East Cambridgeshire District Council will be the charging authority.

1.1.2 CIL takes the form of a charge levied per square metre (sq m) of net additional floorspace of development. The levy is charged on most new developments that involve an increase in floor space. Most developments providing 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. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the unit is below 100 sq m in area. The charge will be expressed as a rate in £s per sq m of development.

1.1.3 The funds raised are to be allocated towards infrastructure needed to support new development in the Council's area, in accordance with its development plan (Adopted Core Strategy in this case). Legislation currently being consulted on will require that charging authorities allocate a meaningful proportion of the levy revenue raised in each neighbourhood back to those neighbourhoods.

1.1.4 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.

1.1.5 The levy rates will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the anticipated funding gap that exists; and secondly by evidence of development viability.

1.1.6 East Cambridgeshire District Council has been working with infrastructure providers and agencies in considering ands cost estimating the local requirements associated with supporting the Core Strategy. This work forms the basis of identifying the total cost of infrastructure associated with supporting the growth identified in the

District's local plan (Core Strategy) led growth in the District and the funding gap that will be supported in part through CIL.

1.1.7 Infrastructure is taken to mean any service or facility that supports the Council's area and its population and includes but is not limited to transport, energy, water, drainage, waste, ITC, open space, affordable housing, education, health community services and culture and leisure. In the case of current Community Infrastructure Levy (CIL) scope, and therefore this assessment, affordable housing is assumed to be outside the scope of CIL and dealt with in the established way through site specific planning (s.106) agreements. As a key appraisal theme, affordable housing has been allowed for separately, in addition to testing potential CIL charging rates.

1.1.8 Any authority wishing to charge CIL must produce a charging schedule setting out the levy's rates in its area. The CIL rate or rates should be set at a level that ensures that development within their area is not put at serious risk.

1.1.9 A key requirement of CIL and setting the charging schedule is that it should strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development. In order to meet the requirement of Regulation 14 of the CIL Regulations April 2010 (as amended) the Council therefore appointed us - Dixon Searle Partnership (DSP) - as consultants to provide the evidence base to inform the development of and support the Council's draft charging schedule in viability terms.

1.1.10 This study investigates the potential for charging CIL by showing the likely impact on the economic viability of residential and commercial / non-residential development scenarios across East Cambridgeshire. It aims to provide the Council with advice as to the likely viability of seeking developer contributions towards infrastructure in the form of CIL charging; including the viability considerations and potential rate or rates which are considered appropriate in the local context.

1.1.11 The approach taken in this study follows 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 generated by the completed scheme (the gross development value – 'GDV').

1.1.12 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme types (notional or hypothetical schemes) representing development scenarios that are considered relevant to the development plan and could come forward within the District. The essence of the viability overview process is that the RLVs generated by the appraisals for the purposes of this study and for indicating the potential viability of a scheme need to exceed a certain level of land value – which is usually linked to an existing or alternative use value of a site ('EUV' or 'AUV') – with any surplus then potentially available for CIL payments. In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons can be highly variable. It is not an exact science, as is acknowledged in a range of similar work and in technical papers and guidance notes on the topic of considering and assessing development viability. Therefore, so as to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached in various scenarios.

1.1.13 The process a produces a large range of results relating to varying potential CIL charging rates and the exploration of other variables. As with all such studies, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the Council's ongoing work.

1.1.14 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial rates of between a potential overall range of £0 and £140 per sq m.

1.1.15 The results of each of the appraisals are compared to a range of potential existing or alternative land use value benchmarks or other guides relevant to the circumstances. These are necessary to determine the potential scope for various CIL rate contributions according to development type and with 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 (commercial) to the rear of this document.

1.1.16 In the background to considering the potential charging rates we have also reviewed the results alongside a variety of additional measures as to the scale of the potential CIL charging rates that we have explored here. This includes reviewing the potential CIL rates in terms of percentage of development value, percentage of development cost; and the equivalent sum in £s per unit or by scheme total. All of these areas help us and the Council to consider the likely proportional effects and the level of CIL that could reasonably be expected to be charged on development without putting it unduly at risk across East Cambridgeshire.

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

1.2 Notes and Limitations

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

1.2.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required alongside that. 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 CIL funding potential (the surplus after land value comparisons).

1.2.3 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.

1.2.4 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 CIL Preliminary Draft Charging Schedule preparations.

2 Assessment Methodology

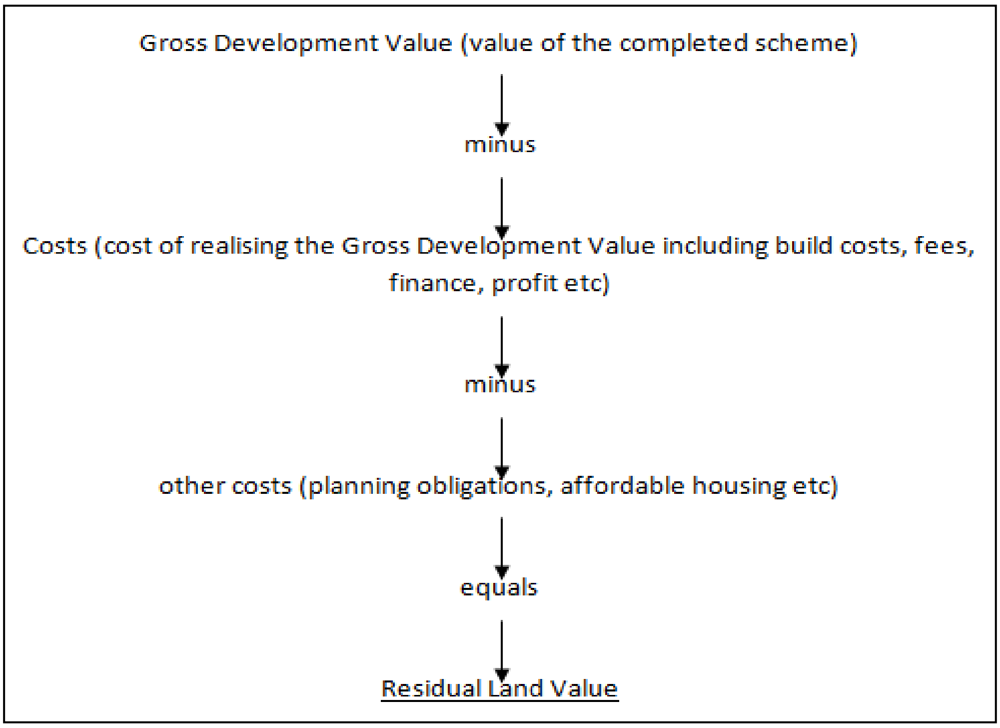
2.1 Residual Valuation

2.1.1 This study investigates the potential for a range of development types to contribute to infrastructure provision funding across East Cambridgeshire through the collection of financial contributions charged via a Community Infrastructure Levy.

2.1.2 In order to do this we have run development appraisals using the well recognised principles of residual valuation on a number of notional scheme types, both residential and non-residential/commercial.

2.1.3 Residual valuation as the name 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 shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



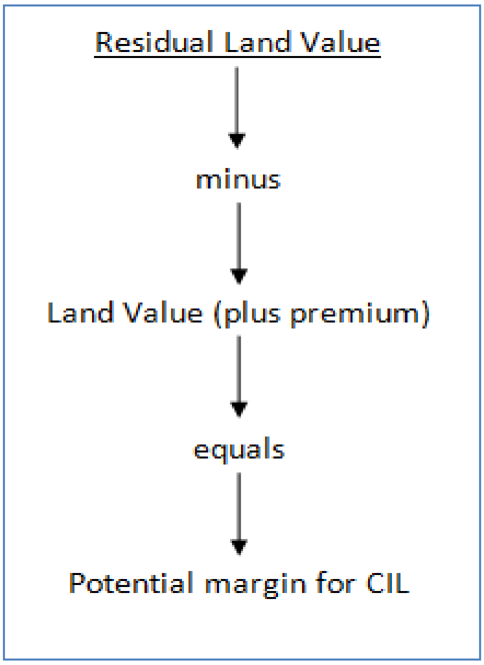
2.1.4 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.5 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 existing or alternative land use values (EUVs or AUVs) relevant to the site use and locality; including any potential uplift required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means taking an appropriate high level view around the potential level(s) that land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.6 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. Therefore indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council and any available sales, or other evidence and pointers on value, have been used for this purpose in making our assessment. Recently there has been a relatively low level of activity on land deals and consequently there has been very little to go on in terms of examples; the range of reporting mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not just an East Cambridgeshire factor, but one that we are typically experiencing in carrying out these types of studies. In assessing results, the surplus or excess residual (land value) remaining after these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions.

2.1.7 From an overview of those relationships, in the context of the range of wider assumptions within particular scenarios, we can see results trends – deteriorating RLV and therefore viability outcomes as scheme value (GDV) decreases; and / or costs rise – e.g. through adding/increasing affordable housing, increasing build costs (e.g. with varying commercial development types) and increasing "trial" CIL rates. 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 etc that could move around. In essence, the steps taken to consider that potential margin or surplus are as follows:

Figure 2: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL)



The assumptions that go into the residual land value appraisals are set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local market (through research on local values, costs and types of provision, etc) and locally relevant planning policies (taking into account the policies set out within the adopted Core Strategy[1]) as well as other practical delivery aspects locally. At key project stages, we consulted with the Council's officers, and we sought soundings from a range of local development industry stakeholders as we considered our assumptions.

[1] East Cambridgeshire District Council – Core Strategy Development Plan Document (Adopted October 2009)

2.2 Site Typologies / Notional Site Types

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and commercial non-residential developments. The scenarios were developed and discussed with the Council following a review of the information it provided; such as the Council's Core Strategy, Developer Contributions and Planning Obligations Supplementary Planning Document, Monitoring Reports, Strategic Housing Land Availability Assessment (SHLAA) and other data in the case of the residential scenarios. It was necessary to determine scenario types most relevant and likely to come forward across the District. The scheme types were then proposed to and agreed with the Council as reasonably representative for the purposes of this high level overview viability assessment.

2.2.2 For residential schemes, 5 main scenario types were tested with the following mix of dwellings and including affordable housing provision (where required by and in accordance with the Council's policy):

Figure 3: Residential Scheme Types

Scheme Type	Overall Scheme Mix
1 House	1 x 4BH
3 Houses	3 x 4BH
15 Houses	5 x 2BH; 10 x 3BH
100 Mixed	4 x 1BF; 9 x 2BF; 9 x 2BH; 31 x 3BH; 47 x 4BH
400 Mixed	16 x 1BF; 36 x 2BF; 36 x 2BH; 124 x 3BH; 188 x 4BH

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

2.2.3 The unit mixes were again based on information provided by the Council and reflect a range of different types of development that could come forward regularly across the District so as to ensure that viability has been tested with reference to the ongoing housing supply themes and policies. Each of the above main scheme types was also tested over a range of value levels representing varying residential values seen currently in the area and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. falling and rising values). The scheme mixes are not exhaustive – many other types and variations may well be seen.

2.2.4 As above, a key area of the assumptions setting for the residential scenarios was to reflect the Council's policies, including on affordable housing – Policy H3 of the Core Strategy. In summary those policy headlines, as allowed for in the appraisals at target levels, are as follows. Developments of 3 or more dwellings are required to provide a minimum 30% affordable housing in the north of the District; and 40% in the South. The Core Strategy sets out the Parishes that are in the southern area - Ashley, Bottisham, Brinkley, Burrough Green, Burwell, Chippenham, Cheveley, Dullingham, Fordham, Kennett, Kirtling, Reach, Snailwell, Swaffham Bulbeck, Swaffam Prior, Westley, Waterless and Wood Ditton; and in the north - Coveney, Haddenham, Isleham, Mepal, Little Downham, Littleport, Little Thetford, Soham, Stretham, Sutton, Wentworth, Wicken, Witcham, Wilburton, Witchford and Ely City.

2.2.5 The scheme typologies applied in this study reflect the affordable housing policies in terms of proportions (%) of affordable housing varying between 30% and 40%. Full details of the private and affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet. In addition to these two established levels of affordable housing required through policy, as part of our wider consideration of sensitivities affecting scheme viability, we have also looked at one sample scheme type (15 houses) with an alternative level of 20% affordable housing.

2.2.6 The dwelling sizes assumed for the purposes of this study are as follows:
(see figure 4 below)

Figure 4: Residential Unit Sizes

Unit Sizes (sq m)	Affordable	Private
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

2.2.7 As with many areas of the study assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. No single size or even range of assumed sizes will represent all dwellings coming forward. Since there is a relationship between dwelling sizes, their values and their build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ 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 with the way developers tend to price and assess schemes; and is consistent with CIL principles. It provides a more relevant context for considering the potential viability scope and the also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as proportions of the schemes values and costs (see Chapter 3 for more on those indications).

2.2.8 The dwelling and development sizes indicated are gross internal areas (GIAs). They are reasonably representative of the type of units coming forward for smaller and average family accommodation, within the scheme types likely to be seen most frequently providing on-site integrated affordable housing for example. We acknowledge that these 3 and 4-bed house sizes, in particular, may be small compared with some coming forward. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions 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.

2.2.9 In the same way, the commercial scheme scenarios were developed through the review of information supplied by, and through consultation with, the Council following the basis issued in its brief; supplemented with and checked against wider information. The following sets out the various notional scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring

CIL contributions from key types of commercial development considered likely to be relevant in the District.

Figure 5: Commercial Development Types

Development Type	**Example Scheme Type(s) and potential occurrence**	**GIA (m^2)**	**Site Coverage**	**Site Size (Ha)**
Large Retail - supermarket	Large Supermarket – out of / edge of town – greenfield / brownfield	4000	35%	1.14
Medium/Large Retail – retail warehousing	Retail warehouse – in / edge of town – greenfield / brownfield	1000	40%	0.25
Small Retail – convenience store (to include comparison, A1-A5)	Convenience Store - various locations. Also includes food and drink, financial services.	400	60%	0.07
Business development - B1(a) Offices - town Centre	In town office building	1000	200%	0.05
Business development - B1(a) Offices - edge of town	Edge of town / business park type office building	3000	40%	0.75
Business development B1 , B2, B8 - Industrial / Warehousing	Move-on type industrial unit including offices - industrial estate (also office uses in industrial estate type buildings and locations)	500	40%	0.13
Business development B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate	3000	40%	0.75
Hotel	Budget Hotel – various locations – edge of town	2100	60%	0.35
Residential Institution - Care home	Nursing home	3000	60%	0.5
Commercial equine related development	Stud farms, stables etc	1000	40%	0.25
	Commercial equestrian clinic / equine hospital	3000	40%	0.75

2.2.10 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial scheme scenarios that could come forward locally. As in respect of the assumptions for the residential scenarios, a variety of variety of sources were researched and considered for guides or examples; 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 searching. We also received some additional indications through our process of seeking local soundings. Further information is provided within Appendix III to this report.

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

2.2.12 In addition to testing the commercial uses of key relevance above, further consideration was given to other uses that may potentially come forward locally, although this could not be exhaustive by any means for any such study. These include, amongst others, non-commercially driven facilities (community halls, medical facilities, schools, etc) and other commercial uses such as motor sales, garages / depots / workshops, agricultural storage, surgeries / similar, and day nurseries.

2.2.13 Clearly there is potentially a very wide range of such schemes that could come forward. Alongside their viability, it is also relevant for the Council to consider the likely frequency as new builds or major extension schemes, the distribution of these; and their role in the delivery of the development plan (Core Strategy) 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.

2.2.14 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. This amounts to adding iteratively to the picture seen from those main assumptions and appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes in this sense. 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.

2.2.15 Through this iterative / exploratory process we could 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 would not support any level of CIL, certainly not on any regular basis.

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

2.3 Gross Development Value (Scheme Value; 'GDV') - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. As mentioned previously, this is in order to test the scope for and the sensitivity of scheme viability to the requirement for a range of potential CIL rates (potentially including geographical values variations and / or with changing values as may be seen with further market variations). As above, the trial CIL rates were explored iteratively. This involved increasing the trial rate applied to each scenario, over a scale up to £140/sq m, so that we could consider the ability of schemes of varying values to support, or not, CIL contributions at various potential rates. Exploration beyond that level of potential charging was not considered relevant here, given the way we could see the results developing and from our wider experience of studying and considering development viability.

2.3.2 We carried out our own desktop and on the ground research on residential values across the Council's area. In addition, it is always preferable to consider a range of information so as to look for common themes and pointers. Therefore we also considered existing information for example contained within the Council's previous Affordable Housing Viability Study Viability research documents (produced both internally and externally), and from sources such as Land Registry data, VOA reporting and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview.

2.3.3 A framework needs to be established for gathering and reviewing property values data. Our first stage desktop research considered the previous affordable housing study background research in conjunction with Land Registry House Prices Index trends for Cambridgeshire, together with a review of new build housing schemes of various types being marketed at October 2011. That informed a District-wide view of values.

2.3.4 Following this research, variable values were observed in all areas. This is as would be expected – a common finding. Values patterns are often blurred to some extent. Higher values were more typically noted towards the south of the District. The clearest feature seen was that the lowest values in the District are typically seen in Littleport; with Soham values not far above those. Ely values were noted to have more in common, often, with southern and rural areas / smaller settlements; i.e. to be above the typical value levels seen in the other main northern area settlements of Littleport and Soham.

2.3.5 We were able to look at particular settlements, with reference to how values varied between those. This research is set out at Appendix I (overall market review section – starting on page 3 of that Appendix).

2.3.6 With the officers we were then able to test and consider variations on a theme which respected the picture seen and confirmed through our further work; ultimately to consider viability variations as would affect the potential CIL funding scope and any differentiation needed for that by locality. 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 ongoing discussion and consideration of the various data and knowledge sources, this evolved to a settled, evidenced view of the key characteristics of the District - to inform the most appropriate local approach to CIL charging on residential developments.

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

Figure 6: Residential Values range in £s / sq m

Revenue (GDV) - Sales Value Level (VL)	VL 1	VL 2	VL 3	VL 4	VL 5	VL 6
	Value level and indication / example of typical occurrence by locality (general guides - subject to variation with site specifics)					
	Generally beneath typical new build levels	e.g. indicative of Littleport / Soham / other similar new build values		e.g. indicative of Ely / rural values	e.g. indicative of Bottisham / southern areas / rural	Generally above current typical new build values
£ per sq m	£1,600	£1,800	£2,200	£2,600	£3,000	£3,300
£ per sq ft equivalent	149	167	204	242	279	307

Revenue – assumed dwelling sizes only (£)	VL 1	VL 2	VL 3	VL 4	VL 5	VL 6
1-b flat	£72,000	£81,000	£99,000	£117,000	£135,000	£148,500
2-b flat	£96,000	£108,000	£132,000	£156,000	£180,000	£198,000
2-b hse	£120,000	£135,000	£165,000	£195,000	£225,000	£247,500
3-b hse	£152,000	£171,000	£209,000	£247,000	£285,000	£313,500
4-b hse	£200,000	£225,000	£275,000	£325,000	£375,000	£412,500

2.3.8 In addition to the market housing we have assumed a requirement for affordable housing where applicable; in line with the Council's affordable housing policies (see above). Within the proportions (overall %s) of affordable housing, we have assumed that approximately 70% is rented tenure and 30% is 'intermediate' (as far as well best fit the overall scheme mixes and affordable housing proportion in each scenario). The latter is usually in the form of shared ownership or similar. This is a fairly typical approach to targeting an appropriate affordable housing tenure mix. It was agreed with the Council that, for the affordable tenure element, the appraisals should reflect the new Affordable Rent model as detailed within the Homes and Communities Agency's (HCA) Affordable Homes Programme (2011-2015). For the affordable housing the revenue that is assumed to be received by a developer is based on only 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 low cost/affordable home ownership – i.e. typically shared ownership). Currently the 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.

2.3.9 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. Revenue assumptions were reviewed in the context of our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on affordable rents for other authorities); together with trials using the HCA's Development Appraisal Tool ('DAT') which can be used to calculate affordable housing revenue. It was decided to base our revenue assumptions on the average percentage of market (sales) value ('MV') generated for both Affordable Rent and Shared Ownership from a number of trail scenarios; and to apply those within our viability appraisals. Figure 7, below, provides an overview of this process.

2.3.10 For affordable rented properties the assumption has been made that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set (i.e. that they represent 80% of market rent including service charge). This is to ensure that the percentage of MV figure does not reach a point that in practice would be unaffordable or impractical. In practice, the values generated could be dependent on property size and other factors including the RP's own development strategies and therefore would vary from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales/other tenure forms, recycled capital grant from stair-casing receipts, for example, 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.

Figure 7: Average (affordable housing) Revenue Data from DSP calculations

Dwelling Type	Ave. % MV - AR	Ave. % MV - SO
1bf (2p)	57%	65%
2 bf (4p)	60%	69%
2bh (4p)	56%	66%
3bh (5p)	53%	60%
4bh (6p)	56%	62%
Overall	**53%**	**65%**

Notes:
'AR' = Affordable Rent
'SO' = Shared Ownership
'MV' = Market Value

2.3.11 It is worth noting again that affordable housing dwellings will not be liable for CIL payments – under the regulations nationally; not just as an East Cambridgeshire scenario. The market dwellings within each scenario will carry the CIL burden at the Council's specified rate(s).

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

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

2.4.2 Figure 8 below shows the range of rental values assumed for each scheme type; for capitalisation based on associated yield assumptions to provide a Gross Development Value for each scheme; dependent on the combination of yield and rental value indications applied. The rental values were tested at varying levels and are representative of low, medium and high rental values assessed as relevant for each commercial / non-residential scheme type in the District. They are necessarily estimates. These were assumed for new builds, consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions.

2.4.3 These varying rental levels were combined with yields assumed at between 6.5% and 8% (varying dependent on scheme type). All schemes were appraised initially using a yield assumption of 8% (results set not included). All were then appraised at 7.5% (which, following further review, we considered appropriate to develop as the base set for most forms of commercial / non-residential development envisaging good quality new development, rather than much of the transactional evidence – which relates mostly to older accommodation. Retail and hotel scheme types were also appraised using a 6.5% yield assumption; which was felt to be more reflective of likely levels for those scenarios – particularly the larger retail types (supermarkets / retail warehousing) and the hotel. This range, overall, enabled us to explore the sensitivity of the outcomes to such variations, given that in practice a wide variety of rental and yield expectations or requirements could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (6.5% for large retail and hotel overviews) were the most appropriate at the current time in providing context for reviewing results and considering viability outcomes.

2.4.4 It is important to note here that small variations, particularly in the yield assumption, but also in rental value assumptions, can have a significant impact on the gross development value that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important to bear in mind in the context of the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions, or assumptions that would rely on infrequent circumstances in the local context, could well act against finding that balance in our view.

2.4.5 Overall, this approach enabled us to consider the sensitivity of likely viability outcomes to changes in the capitalised rents and allowed us to then consider the most relevant areas of the results in coming to our overview. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3 which follows.

Figure 8: Rental Value for Commercial Schemes

Scheme Type	**Value Level (Annual Rent Indication £ / sq m)**		
	(“Low”)	(“Medium”)	(“High”)
Large Retail (supermarket – convenience)	£180	£230	£280
Large Retail (retail warehouse type)	£130	£180	£230
Small Retail (convenience and including A1-A5)	£110	£140	£170
Business development - Town Centre offices	£140	£170	£200
Business development – Out of /edge of town	£150	£180	£210
Business development - B1, B2, B8 - Industrial / Warehousing - Small	£70	£80	£90
Business development - B1, B2, B8 - Industrial / Warehousing - Larger	£60	£70	£80
Hotel (budget)	£130	£170	£210
Residential Institution (care/nursing home)	£140	£160	£180
Equine – stud farms, stables, riding schools etc	£100	£150	£200
Equine – equine hospital, clinic or similar	£100	£150	£200

2.4.6 We are making this viability assessment following a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we still have a weak economic backdrop feeding through in to significant ongoing property market uncertainty. Although there have been a range of mixed signs in 2011, we are still seeing low levels of development activity. This is caused by a cocktail of factors e.g. as a result of low occupier demand, and related to poor availability of attractively priced and readily available finance for property development and purchasing. The latest available RICS

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

2.4.7 As with residential, consideration was given to whether there should be any varying approach to CIL charging levels for commercial and other developments in this local authority.

2.4.8 On review, it was considered that the key types of schemes could occur in some form at the 3 main northern settlements or potentially at the larger settlements in the south of the District. However, in each case it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within East Cambridgeshire. This was borne out on review of the commercial values data, as per the examples included at Appendix III.

2.4.9 While the highest in-town retail rents are in Ely, we consider that out of edge of town retail, supermarket and convenience store developments of the types likely to be more relevant as new builds, those would tend to generate similar values in a range of locations in the District. The highest office rents tend to be seen in Ely and the south of the District, but similar value levels are also seen in a scattering of locations. With Industrial and warehousing or similar, some of the higher rents are in Ely; others are in a range of locations including in the south and in the typically lower value residential areas as well.

2.4.10 Overall, no clearly justifiable or readily definable approach to varying the potential CIL charging on commercial / other development types was found. Whilst certain specific scheme types could create more value in one location compared with another in the District, typically, there was felt to be no clear or useful pattern which might be described for that. We therefore continued our work on the basis of a uniform approach District-wide to exploring the CIL charging rate scope in viability terms for commercial uses. 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. Each area of the development cost assumptions is 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. For this overview we have not allowed for abnormal costs that may be associated with particular sites as these are highly specific and can distort comparisons at this level of review. In our view, and again related to the need to consider balance (and not "push to the limits") in setting CIL charging rates, this is another factor that should be kept in mind; in some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is what counts and, whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the median figure, rebased to Q4 2011 and an East Cambridgeshire location index (108 relative to a national level of 100) is used. As with other cost side assumption areas, this needs to be built in to the study thinking as part of finding the right local balance through avoiding assumptions that leave insufficient scope when the CIL charging is applied in practice. Costs shown are for each development type (residential and commercial):

Figure 9: Build Cost Data (BCIS Median, Q4 2011, Location Index 108)

Use	Property Type	BCIS Build Cost (£/m²)*
Residential	One off housing	£1,269
Residential	Mixed developments	£827
Residential	Flats	£1,009
Large Retail	Supermarket	£1,197
Large Retail	Retail warehouse	£610
Small Retail	Convenience Store	£750
Business development	Town Centre Office Building	£1,369
Business development	Out of / edge of town office building	£1,279
Business development	Industrial unit including offices	£858
Business development	Larger industrial / warehousing unit including offices	£621
Hotel	Budget hotel	£1,402
Residential Institution	Nursing (care) Home	£1,399
Equine related	Stud farms, stables, riding schools etc	£932
	Equine hospital, clinic or similar	£1,359

*excludes externals and contingencies (these are added to above base build costs)

2.6.2 The above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type. This is typically between 14% and 21% of base build cost for flatted and housing schemes, respectively, based on analysis of specific schemes within the BCIS dataset. A notional allowance for externals of 20% of base build cost has been added for all commercial schemes, based on a range of information sources and cost models. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on overview assumptions are necessary. As with any assumption of course this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, we could also see cases where 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 at all assumptions areas.

2.6.3 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. We have seen variations, again, either side of this level in practice.

2.6.4 Standard survey (£500) and normal site preparation costs (£4,000) per unit respectively have also been allowed for on a notional basis for residential scenarios; variable within the commercial schemes.

2.6.5 In addition, for this broad test of viability it is not possible to test all potential variations to additional costs. However a further allowance of 4% has also been added to the build cost in respect of achieving higher sustainable design and construction standards for residential schemes (either in relation to Building Regulations improvements or equivalent requirements – e.g. Code for Sustainable Homes). This allowance has been added to the base build costs of dwellings to reflect Code Level 4 related energy requirements. This assumption also provides some allowance for sensitivity to future costs increases to some degree in the next few years in relation to the sustainable construction agenda.

2.6.6 The interaction of costs and values levels will need to be considered again at future review points. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we have seen build costs fall, but moving ahead they are expected to rise again. The latest BCIS data indicates that tender prices increased by 0.9% compared to the previous quarter (the 5th consecutive rise since 2nd quarter 2010) and 3.7% over the preceding year. The forecasts suggest continued fluctuation in tender prices but with a general upwards trend currently predicted. The current forecast to 2013 suggests the following:

"Following the sharp rise in the 2nd quarter, the rate of increase in materials prices is expected to slow down in the second half of the year. Energy, fuel and raw materials prices continue to drive up the unit costs of materials. It is therefore anticipated that materials prices will continue to rise for the foreseeable future at a pace below the

rate of inflation. General inflation is expected to peak just below 6% towards the end of 2011, falling to around 3% over the forecast period.

It is anticipated that the deteriorating economic outlook is going to keep wage inflation at bay in the first year of the forecast period. Wage awards are expected to rise well behind the rate of general inflation, with workloads still well below pre-recession levels. However, wages are expected to rapidly increase in the medium term to recover some of the lost income following the expected return to above long term growth in 2013.

After a relatively positive start to 2011, new work output stalled in the 2nd quarter and it is now anticipated to fall in both 2011 and 2012, with growth only returning in 2013. Revised output figures revealed that the impact of the public sector cutbacks is already having a negative effect on the construction industry, with private sector growth only expected to start mitigating the decline in public spending in 2012 and 2013. However, despite the cuts in public sector investment, it is anticipated that the infrastructure sector will grow over the forecast period, but with relatively modest growth in 2011 and 2012".[2]

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

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

<u>*Professional, planning and other fees*</u>:	*Total of 15% of build cost (12.5%*)*
<u>*Site Acquisition Fees*</u>:	*1.0% agent's fees* *0.75% legal fees* *Standard rate (scale) for Stamp Duty Land Tax (0 to 5%)*

[2] RICS BCIS News – "Tender Price Update" (25/10/11) http://service.bcis.co.uk/V3_BCIS/template.html

<u>Finance</u>:	*6.0% interest rate (assumes scheme is debt funded)* *Arrangement fee variable – basis 1% of loan*
<u>Marketing costs</u>:	*3.0% sales revenue* *£750 per unit legal fees*
<u>Developer Profit</u>:	*Affordable Housing – 6% of GDV (6% of build costs*)* *Open Market Housing – 20% of GDV (17.5%*)*

*(*Note – bracketed figures with asterisk represent modified assumptions relating only to the larger greenfield scenario of 400 dwellings).*

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

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

<u>Professional, planning and other fees</u>:	*Total of 12% of build cost*
<u>Site Acquisition Fees</u>:	*1.0% agent's fees* *0.75% legal fees* *Standard rate (scale) for Stamp Duty land Tax (0 to 5%)*
<u>Finance</u>:	*6.0% interest rate (assumes scheme is debt funded)* *Arrangement fee variable – 1% loan cost*
<u>Marketing costs</u>:	*1% promotion costs (% of annual income)* *1.5% sales fees (of sales price where applicable)* *10% letting / management fees (% of annual income)*
<u>Developer Profit</u>:	*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 scale, having the effect of increasing the periods over which finance costs are applied (see Figure 10 below):

Figure 10: Build Period

Scheme Type	Build Period (months)
1 Unit Housing Schemes	6
3 Unit Housing Scheme	6
15 Unit Housing Scheme	9
100 Unit Mixed Housing Scheme	24
400 Unit Mixed Housing Scheme – large greenfield	96
Large Retail -supermarket	9
Medium/Large Retail –retail warehousing	7
Small Retail (principally convenience stores)	3.5
Business - Town Centre Offices	6
Business - Business Park Offices	10
Business - Industrial (small)	6.5
Business - Industrial / Warehousing (larger)	8
Hotel (budget)	10
Care Home	16
Equine related	6

2.10 Other section 106 costs

2.10.1 An ongoing site specific s.106 allowance (financial contribution) has been factored into the appraisal assumptions as well (alongside affordable housing). On discussion with the Council it was considered that a majority of existing Planning Obligation requirements on future schemes (with the potential exception of some larger scheme scenarios) would be taken up within the CIL proposals, but nevertheless that small scale site specific requirements (perhaps dedicated highways improvements / alterations or similar) could remain in some circumstances. The appraisals for all scenarios up to and including 100 dwellings therefore included a notional sum of £1,000 per dwelling on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements. For the 400 dwelling scenario only, this s.106 cost assumption was increased to £10,000 per dwelling; that scenario representing a larger scheme or portion of a strategic development. As above, we consider this general approach is all a part of seeking the right balance – again, rather than effectively pulling all leeway out of the assumptions.

2.10.2 Under the Council's existing approach, it has agreed a range of small scale contributions equivalent to about £6 to £12/sq m using section 106 procedures, given the impact on local infrastructure that Business developments can have. We note that these types of sums are effectively nominal in that they do not have a material impact on development viability outcomes in isolation. A variety of appraisal sensitivities (e.g. minor values or costs variations) could produce a more significant viability impact than figures of this nature. However, the Council will wish to consider how this existing approach fits with its local CIL implementation given the no-negotiable nature of CIL.

2.11 Land value comparisons

2.11.1 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the outturn results of the development appraisals (the RLVs) and some level of benchmark or known land value. As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of 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 in coming years, including from greenfield sites to schemes coming forward on previously developed land (PDL) comprising former commercial / employment uses and in some cases the reuse and intensification of existing residential sites, garden and ancillary areas or similar.

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

2.11.3 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. No firm evidence of such was available from the various soundings we took. We reviewed data sourced from the VOA, previous research / studies provided by the Council, consultation, EGi and from a range of property and land marketing web-sites. Each of the RLV results is compared to a range of land value levels representing typical values for sites of varying types, both greenfield and brownfield (PDL) based on these considerations. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will in practice be variable.

2.11.4 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report; with data provided only on a limited regional basis in the later reporting. None of the information in the latest report is sufficiently local to East Cambridgeshire for anything other than a general / relative picture between regions and certain locations which are listed. Information has been sourced from existing data and research together with general indications and soundings - all as far as were available source.

2.11.5 As can be seen at Appendices IIA and IIB, we have taken the view that the minimum land value likely to incentivise release for development is around £100,000/acre in the East Cambridgeshire context; say £250,000/Hectare. This fits with a range of pointers we found and could be relevant for consideration as a base point for enhancement to greenfield land values (with agricultural land in Cambridgeshire reported by the VOA to be valued at £15,000 - £20,000/Ha in existing use). This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. From this type of comparison level we consider that there is a range up to about £1m/Ha within which a variety of scenarios would be viable (i.e. with the land value becoming increasing likely to mean that sites come forward). At land values in excess of £1m/Ha (RLV results which compare favourably with those levels of land value) we feel that there would be high degree of confidence in a wide range of scheme outcomes in the East Cambridgeshire context of mixed values and viability outcomes, especially in the current market. As this suggests, there is a range of potentially viable scenarios between these points, and our results summary tables in Appendices IIA and II B develop this theme.

2.11.6 As well as a level of value relating to an existing or alternative use driving a site's value ('EUV' or 'AUV'), there may be an element of premium (an over-bid or incentive) required to enable the release of land for development. In our view, this would not apply, however, in situations where there is no established ready market for an existing or alternative use. The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide Viability Model suggests that "*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development*". This benchmark is referred to as threshold land value in that example: "*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely"*. Further it goes on to say that "There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied". These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

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

2.11.8 To recap, then, this approach leads to the comparison of the RLV results in £s per hectare (having taken into account all values and costs including varying levels of CIL) to a range of potential land values representing various greenfield and / or previously developed land value indications. The range of land value comparisons (overall at £250,000 - £1m/Ha) is set out beneath the results tables (at Appendices IIA and IIB) and further information as far as was available 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

3.1.1 Results summaries are included at Appendix IIA (residential scenarios) and Appendix IIB (commercial/non-residential); in each case reflecting the scenarios explained in Chapter 2 and set out at Appendix I. Within Appendices IIA and IIB there are different tables according to the type of host site assumed for the scenarios and bearing in mind the variables / dynamics introduced at 2.1.5 and discussed at section 2.11 above – e.g. greenfield and PDL (e.g. former commercial).

3.1.2 In the case of the commercial results, there are 2 sets covering alternative yield views of 6.5% (on retail and hotel uses) and 7.5% (on all uses); as discussed, in relation to exploring the sensitivity of the results to these factors.

3.1.3 In summary the Appendix IIA and IIB results tables show:

- Left side column: Scheme scenario (dwelling numbers/scheme type and, where relevant, affordable housing proportion).

- Under each residential scheme type: Increasing value (GDV) level (VL 1-6).

- Under each commercial scheme type: Increasing value (GDV) – L (low); M (Medium); High (H). The 'M' value levels considered the key area regarding current time balanced interpretation of results, 'L' and 'H' looking at the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements.

- Left hand side of main table area: RLV appraisal results expressed in £s.

- Right hand side of main table area: RLV appraisal results expressed in £s per Ha equivalent, given the assumed scenarios on type, density/coverage, etc.

- Within each of those sections the coloured cells (see below) are the key areas in terms of reviewing trends. The trial CIL rates – in £s per sq m are shown across the top row - applied as a key part of the iterative process of exploring the affect on likely viability (or risk to the scheme proceeding) of those rates increasing. As discussed earlier, realistically this has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Providing these trial rates span a sufficient range and the steps between each trial level are not too large, the iterative process can be applied and considered successfully. It is not necessary, and would not be practical or economic to further extend this process. In East Cambridgeshire's case, we considered rates of £0 to £120/sq m for residential and £0 to £140/sq m for commercial scenarios – covering the range of scenarios that in our experience and from review of emerging results provided us with suitable parameters and context for review with the Council.

- It is important to note that the colour-coding at Appendices IIA and IIB provides a rough guide to trends only – it helps to highlight the general results trends. Based on the accepted nature of such an exercise, i.e. not being an exact science, this must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs. We can see the results trends as indicative outcomes vary with increasing sales values (GDVs – as expressed through increasing VLs 1 to 6; L, M & H values for commercial); increasing CIL trial rate; changing scheme type and affordable housing content with that.

- Taking into account the above comments, the colours therefore indicate general trends as follows:
    - Darkest green coloured table cells (results) - Considered to be good viability prospects (RLVs > £1m/Ha)

   - Paler green coloured table cells (results) - Considered to be reduced viability prospects – potentially ranging from marginal to more clearly viable, depending on particular details i.e. potentially viable (RLVs £250,000 - £1m/Ha)
   - Palest green coloured table cells (results) – Positive RLVs, but which are under our base land value comparison of £250,000/Ha.
   - Red coloured table cells (results) – negative RLVs – schemes in financial deficit representative of clearly poor viability outcomes – no prospect of viable schemes based on assumptions collection used.

- Footnotes at the bottom – reminder of land value benchmark (comparison) indications and ranges; all bearing in mind the context and explanations provided within this report.

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

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

a. The CIL charging rates should not be set up to their potential limits. Bearing in mind that in practice:

   i. Costs will vary from these assumptions levels (build costs being a key example) – we have allowed appropriately and have not kept these to what might be minimum levels by any means. Some scope may be needed where costs are higher, however, by reason of site specific abnormals, increasing national level carbon reduction agenda requirements, etc.

ii. Land owners' situations and requirements will vary. While, as stated, those will need to be realistic (and, as part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from existing or alternative uses in the prevailing market), they could be outside the ranges we have explored in making our overviews; including at higher levels.

iii. The market remains uncertain and could continue to falter, including to an increased view (reducing sales volumes and further impacting on prices – directly impacting the GDV assumptions; hence the range of value levels explored for sensitivity).

iv. Affordable housing provision (as has been assumed, where required, alongside the trial CIL rates) and other wider planning objectives such as sustainability remain key priorities of the Council. HCA funding for affordable housing appears to be uncertain and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions have been made.

v. Developer's profit level (and related funders') requirements could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed. However, we felt it appropriate in particularly depressed commercial market conditions to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs/risks. This, again, is part of setting assumptions which fit with arriving at a balanced approach overall; not looking to remove cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving correct in practice. All will vary, and so how they inter-act will too, when it comes to site specifics.

b. The potential CIL charging rates need to be considered alongside other factors relevant to the locality and development plan (Core Strategy), for example regarding:

i. Location and frequency of key parts of the local growth planning – considering where will development in the main be coming forward (in relation to the values patterns for example).

ii. Types and frequency of schemes likely to be relevant; including accepting that, in practice, variation is very wide – particularly for commercial/non-residential development, where schemes could be seen in many shapes and sizes, uses and combinations thereof. However, it is necessary to consider the local relevance of those alongside their likely typical viability in terms of any scope to support viability. Focus needs to be on the main relevant types, given this is all about plan (Core Strategy) delivery and the area as a whole.

iii. Respecting any clear values patterns but also understanding that there are bound to be imperfections in defining any viability zones or similar – in practice values can change over a very short distance (within schemes, different sides or ends of roads, with different aspects, school catchments, with other local variations, etc). A suitable overview needs to be made and the charging regime not becoming overcomplicated by aiming to respect too many of these detailed aspects. It would not be possible to respect them all fully in any event.

iv. Understanding that some schemes may not be able to support the collective requirements, but looking at the bigger – District-wide – plan delivery picture.

v. On the flip-side, also understanding that some schemes / scheme types may in theory have been able to fund a greater level of CIL payment than the recommended levels (and/or greater levels of other obligations) – in the context of balance in setting levels, not adding undue risk to delivery and therefore moving forward with the local economy and growth.

vi. The variety of site types that is expected to come forward – meaning reviewing the results scales in the context of a range of potential land value comparison levels. We do not consider it appropriate to rely on comparisons at a single land value level for each scenario as development will come forward in various forms, and on a range of site types over time. In assessing results it has been necessary to consider viability outcomes across the results sets, and various land value comparison levels.

vii. The scale of local infrastructure needs, and therefore likely funding gap, in assessing the balance. There is still a substantial funding gap; meaning that the Council needs to secure a meaningful but realistic level of funding through CIL as a key ingredient of the overall funding packages.

viii. The collection of CIL payments from net new development. In practice we understand that a number of developments will entail some level of "netting-off" of existing floorspace in the payment calculations. This is provided for under the operation of the CIL Regulations (whereby CIL payments are collected in respect of additional floorspace, after deducting for any that has been demolished; provided that certain stipulations are met about the previous use and occupation of the buildings). This means that the 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 be a highly variable influence on scheme outcomes. Refurbishment costs may also be relevant to overall viability calculations on site specifics. 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 up to the margin of economic viability" as part of this overall theme (see 3.1.7 below).

3.1.6 The results are highly variable in line with the broad overview nature of this assessment, which is to be used as a viability health-check from a strategic perspective alongside the Council's wider work on, and consideration of, a range of other factors such as these.

3.1.7 This all links to avoiding "setting a charge right up to the margin of economic viability"[3] in accordance with the tone of the Government (CLG) guidance. Local authorities have significant scope to consider exactly how they will assess and arrive at the right balance in a particular area.

3.1.8 A common theme running through all of the results (commercial and residential) 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 assumption areas can have a significant effect on the result.

3.1.9 This assessment process explores the degree to which changes in key assumptions produce varying results. In this way it is not a specific valuation exercise (it cannot be) but it has enabled us to consider the likelihood of a wide range of potential CIL charging rates being achievable and suitable. In the case of poor viability results (no or low viability prospects), this included looking at the extent to which assumptions would need to vary in order to improve the viability appraisal outcomes sufficiently to create workable scenarios. The opposite was considered for scenarios with good viability prospects (i.e. the potential leeway for those outcomes to decline but still be potentially viable). In both of these cases we considered whether those changes in assumptions amounted to realistic scenarios or not, given what we can currently see of market conditions and the circumstances under which schemes could be brought forward.

3.1.10 Potentially there are almost infinite variations of assumptions that could be worked through. It is important therefore that an overview is made. In doing so, we can review the trends shown in the results; i.e. it is also possible to consider what type of outcomes would be found between the points (appraisal assumptions combinations) that have been modelled. Ultimately there will be no getting away from the reality of a range of outcomes, within and potentially outside the scope of appraisal inputs we have used.

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

3.1.11 There may be cases where specific developments are unable to bear some or all of the additional cost of CIL (in the same way that is sometimes seen with other obligations on a scheme). Such viability outcomes are unlikely to be solely limited to CIL charging, however. They are more likely be associated with market conditions (arguably the biggest single factor), 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 – bearing in mind that CIL payments will be non-negotiable. Consideration of the detail on this could be relevant to this Council. For example, and as noted at 2.10.2 above, from the Council's monitoring information we can see that it has been agreeing small scale s.106 contributions from some Business (B Use Class) developments – in the order of £6 - £12/sq m. Clearly the Council and planning applicants have had the flexibility to deal with this aspect detail through part of the negotiated approach associated with s.106. We confirm that this order of cost will not make any material difference to scheme viability generally, and is only equivalent to a very small movement in any one of a number of other assumptions. Nevertheless, this sensitivity might be viewed differently under the non-negotiable umbrella of CIL and the Council may wish to consider how best to deal with the balance between infrastructure needs and viability in this particular context and given this local background.

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

- This is not just an East Cambridgeshire area factor, but one that we firmly believe will have to be recognised in any similar assessment and practical local application of the Government's CIL regime – regardless of location.

- These characteristics would apply regardless of the CIL rate(s) set, so that with particular scheme difficulties (for all development types) setting a significantly lower CIL rate would not necessarily resolve any viability issues; we could still see a range of unviable or marginally viable schemes with even a zero (£0) CIL rate. As above, other more significant factors are likely to be tipping such schemes in to non-viable territory. The overall results include a range of unviable results in relation to particular scenarios; and especially on some commercial types (including negative CIL potential) as will be seen.

Values Patterns

3.1.13 In the assessment stages, we relied on the market research before deciding on whether any sufficiently clear values patterns were evident for a reliable link with CIL charging rates for the District – i.e. that might be varied in some way by geography – particular zones / key settlements / localities or similar.

3.1.14 With reference to the research summarised at Appendix III, we found a range of clear and relatively consistent pointers to residential values variations and patterns that were seen in the District. These showed:

a. Variable house prices within particular localities – due to specific location and scheme type.

b. There were some geographical areas showing generally lower values than elsewhere in the District – most clearly and typically limited firstly to the settlement of Littleport; and to a slightly lesser extent Soham. Values in these small towns are around the levels where viability outcomes are particularly sensitive to changes in variables (e.g. increasing costs, site abnormals and / or falling values). In this case this area of the values range is represented by VLs 2-3. is We consistently find in our work that once values reach a point where they are clearly exceeding costs (in this case VL4 – indicative of Ely and elsewhere), viability quickly improves beyond that point as generally the costs side does not change so significantly so as to counteract the positive values effect.

c. This provided a picture that some level of viability based distinction between Littleport, Soham and the rest of the District would be positive in recognising this. We refer to the rest of the District here bearing mind the small scale of development likely in many of the smaller settlements, including in the northern area.

d. There is however, an alternative possibility for suitable CIL charging in this District. This would be through a single rate applied District-wide at a level which does not look only to the higher (essentially "rest of District") values but is also informed by those typically lower values – i.e. on a form of compromise basis – find a balance which could work in many situations.

e. As is outlined in Appendix III, we can see from the overall market research the step up in average values beyond Littleport and Soham to other areas.

f. Beyond those, we see a very graduated scale of average values all the way through to the highest values currently typically seen in the likes of Dullingham, Bottisham, Swaffham, Cheveley, Fordham and the Newmarket fringe.

g. In our view it would be very difficult to decide where to draw a line or lines at point(s) within those graduated hierarchy of values – without an approach to differentiating within the District becoming very complicated.

h. We can see that, whilst Ely values are generally positive for values compared to typical (but not all) levels in Littleport and Soham, in fact the smaller settlements / rural areas generally see higher value levels than Ely as well. This indicates that arriving at a workable CIL charging scenario for Ely (at say VL 4) will set up a local CIL approach that should be workable in viability terms in all of those other areas of the District.

i. Overall, given the review work carried out, we consider that it may be most appropriate to differentiate for the variable viability outcomes – as discussed in these sections (one charging rate for Soham and Littleport; one for the remainder)

3.1.15 A similar process was considered with respect to commercial (non-residential) schemes – i.e. whether or not there were any particular values patterns or distinct scenarios that might influence the implementation of a charging schedule on these for this area.

3.1.16 No clear values distinctions were seen. Variations are more specifically driven – i.e. by development quality, type, precise location, orientation, visibility, access and parking provision etc.

3.1.17 In reality, most types of commercial or non-residential development could occur across a wide range of locations within the District. Conversely, but supporting the same thinking, any "out of town centre" larger retail proposals, larger scale office development and industrial / warehousing is likely to occur in a relatively limited range of locations between which it may well be difficult to distinguish values on general location (geographical area) alone – edges of main settlements. This can be seen from existing development. For example it may be difficult to distinguish between values achievable on certain Ely / Littleport / Soham area Business developments and values seen further south. The quality of individual schemes and their particular details seem to be more of a driver of any significant values differences locally.

3.1.18 So, for this strategic purpose it was decided that the local commercial property market should and can only logically be treated as a District wide one in practical terms, which is part of a larger sub-regional market. We consider that otherwise we would be seeking to fragment it unduly, adding complication and not reflective of fairly consistent values seen between the main commercial development locations for the better quality space. Overall, following the consideration of options we are of the opinion that a clear District-wide application of the CIL by commercial / non-residential development type will be most appropriate here; as has been the case in several other local authority cases progressed to this extent to date (including based on our studies).

3.1.19 No clear evidence has been found to support and justify an alternative approach. No amount of attempted sensitivity to particular local value variations is likely to be capable of actually respecting the variations likely to be seen in practice; there are no clear broad patterns without this becoming very complicated. Higher and lower value commercial space of varying types has been delivered in a variety of locations in the District. Appendix III contains information on examples.

3.1.20 The local CIL charging approach should be a single consistent one here for commercial developments.

3.1.21 Therefore, rather than variation by area (locality), in carrying out the research for this study we developed the view that the key variable characteristics associated with different types of commercial / non-residential development require an approach that varies the CIL rate only by development type; not by location as well. Type rather than locality should be the key driver for commercial scenarios.

3.1.22 Therefore the outcomes of the assessments will now be discussed by development type, starting with residential and then moving on to commercial / non-residential development scenarios. For clarity, our intention is that the residential outcomes and recommendations also apply to sheltered housing schemes (where nursing home style care and support is not being provided).

3.2 Residential scenarios – Findings

3.2.1 Here we will discuss features of the results which help us to interpret and the findings overall and make our recommendations.

3.2.2 For example from the greenfield enhancement comparison table within Appendix IIA, we can see:

- Land value for the 15 unit scheme at VL 3 dipping below the £250,000/Ha comparison level beyond a £60/sq m CIL rate (and more clearly under that by the time the CIL rate reaches £80/sq m) – assuming 30% affordable housing in accordance with policy.

- At these value levels we can see that achieving 40% affordable housing (AH) is likely to mean some form of trade-off – for example, to get to a similar result with 40% AH, we need to look at a circa £20/sq m CIL rate.

- 40% AH appears to need the support of VL 4 values on a greenfield site, unless with a low CIL rate (as above – circa £20/sq m) and / or limited application of s.106 contributions alongside CIL – in which case VL 3 values could support a range of scenarios.

- Many examples of the potential "trade-offs" between AH % and potential CIL charging rate can be seen. VL 3 values indicate a switch-point in the results where most of the CIL rates tested (certainly up to £100/sq m or with equivalent s.106 costs) could work on greenfield land combined with a lower, 20%, AH provision – but noting that to be beneath the Council's AH policy target levels. Similar results, indicating potential viability, come from 30% AH combined with a reduced CIL trial rate (e.g. at £40-60/sq m; £80/sq m on the larger 400 dwelling scenario).

- VL 4 values indicated to be capable of supporting up to £100/sq m combined with 30% or 40% AH and more substantial s.106 obligations on larger scale greenfield scenarios (tested at £10,000 per dwelling s.106 in addition on the 400 dwellings scenario).

3.2.3 The looking at the residential summary table for indicative PDL comparisons with Appendix IIA, we can see similar trends - for example:

- VL 4+ potentially supporting 30% affordable housing on PDL; with a CIL charging rate at no more than £100/sq m – in several cases results seen to deteriorate potentially too far beyond that CIL charging level. However potentially only supporting 40% AH on PDL sites when combined with lower CIL charging rate of not more than say £60/sq m.

- VL 5+ (higher-end values for the District – some southern settlements and some other rural areas) appear to be needed to support more clearly viable results with greater collective planning obligations requirements – e.g. 40% AH with CIL charging up to the higher end of the range explored and particularly on some PDL sites.

- In all cases (including with greenfield enhancement comparisons) we need to bear in mind that with increasing house prices (i.e. with increasing VL) we would tend to see more frequent cases of higher land price expectations within our overall considerations; and bearing in mind how variable this can all be.

3.2.3 We consider that a single (District-wide) rate would need to be set at no higher than the range £60-£80/sq m; given that it would need to work most of the time in the context of a range of values and alongside meaningful AH proportions.

3.2.4 For a differentiated approach, which we consider may well deal better with the local circumstances, we consider that a suitable rate for most of the District (excepting the settlements of Littleport and Soham) would be set no higher than £100/sq m; with those typically lower value locations, where significant development could be seen, being aligned to a CIL charging rate at approximately half of that headline level; i.e. up to £50/sq m.

3.2.5 These are potential routes for the Council to consider. We have identified a range of factors that need to be kept in mind alongside the values levels.

3.2.6 There may be instances of lower value schemes and localities where developments struggle in viability terms, even without any significant CIL contribution. Wider scheme details or costs and obligations / abnormals can render schemes marginally viable or unviable prior to the consideration of CIL. So far as we can see, no lower level set for CIL could ensure the deliverability of all these individual schemes on a reliable basis; or make sure that some level of CIL charge would always be collectable. This is simply the nature of the CIL. 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 very poor or non-viability. Once again, these are not just local factors; we note them in much of our wider viability work. The same principles apply to commercial schemes too.

3.2.7 Associated with this, we think it will be necessary to monitor outcomes annually as part of the Council's normal monitoring processes, with a view to informing any potential / necessary review in perhaps 2-3 or more years time as other policy developments take place; and in response to market and costs movements and any other key viability influences over time.

3.2.8 The results of the residential appraisals are typically most sensitive to the Value Levels assumed for the market housing that will drive scheme viability. Other factors which can also have a significant effect on viability outcomes are:

- Scheme density – linked to land take (site area occupied) and the land value requirement / expectation.
- Build costs – generally, but including related to sustainable design and construction.
- Other costs side influences – profit levels, finance, fees, etc.
- Any abnormal development costs.

3.2.9 We carried out additional exploratory appraisals on the single unit residential scenarios. These are not included within the final reporting owing to the need to produce a realistically scoped scale of work and documentation; as with many other angles where in theory this type of work could be expanded to even greater levels of detail, beyond the expectations of the CIL guidance on considering viability.

3.2.10 On this point, however, we found that, for low value scenarios, increasing the dwelling size reduced the RLV and viability outcome further; and for higher viability scenarios (scenarios with already positive outcomes) the opposite was seen – viability indications were improved. As seen through those appraisals, this is simply a case of increasing the direction of an existing outcome – either way (depending on whether as a starting point it is a viable scenario given the typical relationship between costs and values seen at the particular point on the values scale). The indications are that larger dwelling sizes, as may be seen more on the smallest schemes, will tend to show better viability outcomes providing they are in situations and locations that support at the mid to upper range values typical for the District.

3.2.11 The assumptions as listed and used within appraisals also include what we consider is a high level of base build cost for small developments (and especially for individual houses – BCIS "one-off generally" category) that are modestly sized in accordance with our main dwelling type assumptions. We think it likely that, generally, dwellings of those sizes would be constructed at a lower base cost reflecting appropriate specification for those in many cases. Larger dwelling types might well be associated with the higher costs levels we have assumed as a default for these single new house schemes. In general, as above, varying costs is a factor which needs to be kept in mind. However, this means that our assumptions allow sufficient cost in any event (they are considered to allow relatively generously for generous build costs in some cases).

3.3 Commercial / Non-Residential Findings

3.3.1 As would be expected, the commercial / non-residential appraisal findings are very wide ranging. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield in presenting a view of sample ranges within which capitalised net rents (GDVs) could fall.

3.3.2 In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from marginal or negative outcomes (meaning very limited or nil CIL scope) to those which produce meaningful and in some cases considerable CIL funding scope. To illustrate the trends we see, the coloured tables in Appendix IIB use the same "coding" principles as the residential results tables (darker green indicating good prospects of viable schemes through to red indicating a lack of viability).

3.3.3 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; the equivalent of residential scheme density. This can affect results considerably, combined with the assumed land buy-in cost for the scheme. We saw the effect of these factors with residential too.

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

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

3.4 Retail scenarios

3.4.1 In general, we saw good viability prospects from the sample retail scenarios we ran, based on the range of assumptions applied. These schemes showed the best viability outcomes from the wide range seen within commercial; and bettered the residential outcomes in many cases.

3.4.2 As a high level outcome this is consistent with our previous and wider work in this field, as well as findings by other consultants engaged in similar work. This tone of results is shown by the largely green coloured cells in the Appendix IIB results summary tables (using this measure of potential CIL scope up to £140 / sq m; and in some cases even potentially beyond that level. However, the results need to be considered in the round and rates not pushed to the margin of viability, as recognised above.

3.4.3 We consider that the CIL charging rate for the larger retail type (supermarkets and retail warehousing) could certainly be taken up to match the headline residential rate pit forward above in the event of a differentiated residential approach (£100/sq m). In fact without pushing too far, and looking primarily at the 6.5% yield results likely to be most relevant to such scenarios, we consider that a rate of £120/sq m could be appropriate for the larger retail schemes. Whilst the rate might be taken higher in this case, the type of factors we have mentioned above also need to be considered - as regards the balance to be reached. Behind this, again, the prospect that relatively high land values may be associated with this form of development needs to be kept in mind, together with the significant overall development costs. We can see also that the supermarket appraisals with lower value assumptions produced results indicating much poorer viability prospects – so that this sensitivity also needs to be considered. The retail warehousing scenario, which produced the most positive outcomes overall, also starts to produce less favourable outcomes at £120/sq m plus with reference the PDL comparison. There are a range of factors which, together, suggest that setting retail up to the highest level explored may not be appropriate here at this stage. We think that £120/sq m for larger retail would strike an appropriate balance.

3.4.4 In looking at potential retail CIL rates by unit type and size, by way of background testing we also considered an intermediate sized retail unit - supermarket - of 1,300 sq m, but were unable to distinguish that, at this level of consideration, from the larger supermarket or retail warehousing scenarios in these overview viability terms. We have therefore not reported that particular variation.

3.4.5 Similarly, whilst appraising the smaller retail (A1 to A5) category, we explored the sensitivity of that scenario type to varied size (floor area). Since this would not trigger varying values or costs assumptions at this level of review, basically the reported values / costs relationship does not change materially; so that we did not see varying viability prospects as we altered its floor area within reasonable bounds in the tests. This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type and cost of the building and the use of that; 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 town stores. Specific floor area will not produce a different nature of use and value /cost relationship, hence we have looked at other ways of distinguishing the type of scenario that is considered most likely to come forward locally in the near future by way of small retailing formats.

3.4.6 Whilst it is not critical in viability terms for these reasons, we consider that creating a link with the scale of sales floor space associated with the Sunday Trading provisions (3,000 sq ft / approx. 280 sq m) rather than the overall floorspace developed may be the most appropriate threshold for any differentiation between CIL charging rates for retail development. This could be a key trading criterion and therefore a key driver of the type and scale of new smaller shop provision. This means the overall unit size (which could vary greatly with ancillary and other space included) would not necessarily need to be determined as the key factor in differentiating for this scheme type. The Council will be able to consider these threshold aspects further though, because in pure viability terms the specific floor area is not so critical as to cause particular switches in outcomes at certain fixed size points – the nature of the value / cost relationship supporting viability is related to the type of use and type of development (site size, nature of the building relevant to the scheme type, etc) rather than being firmly linked to a particular unit size.

3.4.7 Whilst on the face of it the rate (i.e. per Ha) at which these developments potentially create land value appears similar to the larger retail (supermarket/retail warehousing) scenario, the actual sums of money available for land purchase can become relatively small, particularly if the CIL cost trial assumes too high a rate. These types of units could be associated with mixed uses where they will need to provide a positive contribution to overall viability (perhaps as part of supporting other non-viable or less viable uses within local centre improvements or new housing developments, etc). A wide range of scenarios could be seen. Within those, arguably smaller retail units could be more likely to come forward more regularly on PDL than on greenfield schemes which could in some cases host larger retailing formats – possibly linked to other development, including housing growth.

3.4.8 Overall, we consider that a charging rate set at up to around half of the large retail rate would be appropriate. It seems possible to justify more, but again we would question whether that would begin to add an undue effect on likely viability in the local context. This could be kept under review. In the meantime, we recommend that the Council considers a CIL charging rate not exceeding £60 / sq m for small retail scenarios, and this does not have to link to a specific floor area size (although it will be appropriate to define clearly at which point the higher retail rate would apply). We consider that this would be within the viability scope. Again, we consider this to be appropriate given the relatively modest local infrastructure requirements. We are envisaging the most relevant form of small retail development locally being new convenience stores.

3.4.9 In the background to this recommended viability distinction, it is also likely that a less favourable rental capitalisation rate would be applied to smaller retail units such as these (the 7.5% yield scenarios probably better representing these than the 6.5% yields). This reinforces the varied nature of the value levels available to outweigh the costs. We can again see the sensitivity to lower values, and the outcomes deteriorating at the assumed mid values as the CIL trial rate increases. With medium values and the 7.5% yield, we see the actual RLV £ sum dipping significantly beneath £100,000 once the CIL rate exceeds £40 - £60/sq m. This is not a specific cut-off, but the sum available for site purchase or as a site value contribution within a mixed scheme should be meaningful for a proposal to viable. We also consider that the scale of the potential CIL sum in balance with the remaining land value may be relevant in such circumstances – it would not be appropriate for the CIL sum to become disproportionate in relation to the land owner's / mixed use developer's position on land value contribution, and this could be seen in the case of small developments in particular. As an example, the erosion of the site value / value contribution by £20,000 or more on going from a £60/sq m to £120/sq m CIL rate could be significant in these circumstances.

3.4.10 On the current information the essence of our suggested approach is that, from a viability perspective, large retailing formats (large supermarkets and retail warehousing) should be aligned to higher CIL charging rates than other retail formats.

3.4.11 While we understand the prospect of new build comparison shopping units or other retail formats beyond the key types explored to be relatively limited in planning (and in economic) terms in the coming few years, we consider that – should those forms of development come forward – it would be appropriate to link them to a similar level of CIL charging; rather than the higher (larger retail) rate. This could be relevant in any parades, neighbourhood centres and similar locations, for example. Town centre shopping development would normally come with higher development costs.

3.4.12 There are a range of retail related uses, such as motor sales units and retail warehousing / wholesale type clubs / businesses, which may also be seen in the District, although not regularly as new builds because these uses often occupy existing premises. Whilst it is not possible to cover all eventualities, and that is not the intention of CIL by our understanding, the Council may wish to consider whether any such retail parallels are appropriate in its development plan and local context.

3.4.13 We assume that new fast food outlets, petrol stations etc provided for example as part of retail developments, would be treated as part of the retail scheme and (from our wider research) with values per sq m and viability at broadly similar to supermarket levels this would be an appropriate outcome.

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

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

3.5.1 In terms of likely scheme viability, these are simpler to discuss than retail. Whilst, again, actual proposals could be highly variable in nature, the overview results convincingly show that there is no foreseeable scope for any meaningful level of CIL charge to be applied to such schemes in East Cambridgeshire (at least not without adding further delivery risk to schemes). This reflects similar findings across the country in a growing number of local authorities' work on the CIL to date - due to the recent economic conditions and insufficient demand to underpin development bearing in mind the risks and viability difficulties.

3.5.2 These results indicate that only with the most optimistic GDVs (capitalised rental scenarios produced by yield and annual rent assumptions combinations), higher density (site coverage) and / or lower land value expectations do we see what we consider to be marginally viable schemes for high-end offices on greenfield or other relatively low value land. Even then, there appears to be little room for manoeuvre whereby a moving-out of the yield assumption, minor change in rental level of increase in costs / incidence of abnormals etc could move that into non-viability.

3.5.3 All in all, we consider that, in order to create meaningful CIL scope on any level of regular basis, the collective assumptions would need to be moved to points that are too optimistic overall at the current time - and that this is likely to be the case for these development types for the short-term future at least. The 2-3 years or so potential review period mentioned at 3.2.7 again could be relevant here.

3.5.4 In looking at the results for offices, it should be noted that the scale of the negative RLVs expressed in £ per Ha terms in the right hand (coloured) section of the Appendix IIB tables is so great because those figures are a product of the more modest looking deficits on the left hand side (£RLVs) as applied to small site sizes.

3.5.5 The industrial unit type scenarios reviewed produced worse results than offices on the basis of the assumptions applied. As such, we have not considered it appropriate or necessary to further explore where the potentially workable scenarios may lie in terms of wider views of assumptions. In practice, we could also see less favourable yield and rental combinations than those we have reviewed. We would certainly not want to assume more favourable rental capitalisation than from a 7.5% yield for these scheme types in the current ongoing climate of economic uncertainty.

3.5.6 Any funding yield benefits from seeking the collection of a nominal / modest level of CIL charge would in our view need to be considered in the context of the non-negotiable nature of CIL and associated risk scenario in light of the balance to be sought.

3.5.7 In summary, and in common with other similar reporting that we and other have completed, we recommend that a zero (£0) CIL charging rate be considered for these (Business) development types.

3.6 Hotels

3.6.1 The budget type hotel scenarios reviewed represent a range of outcomes that are again very sensitive to the capitalised rental assumptions (varying combinations of annual rentals and yields) driving the appraisals.

3.6.2 We consider that the 6.5% yield test scenarios could well be more relevant, or if not as relevant, to this development type as those run at a 7.5% yield trial. However, only with the highest value assumptions at the 6.5% yield do we see results that suggest a reasonable to good prospect of viability (with a CIL rate of up to £100/sq m).

3.6.3 We think this represents a case where the Council will need to consider the likelihood of development of this type being pursued or occurring regularly in the coming few years (thinking about potential CIL yield etc) balanced against the potential to add further significant risk to its potential delivery. On balance, therefore, we recommend that at the current point a zero (£0) charging rate be considered for this use type. In looking for the right balance, it appears that the likely limited CIL yield (contribution to funding gap) potential may not outweigh the added risk to the viability of any new build / extension proposals for hotel use. It appears to be a use where potential viability is quite finely balanced, so that as with the high value office scenario discussed above, a number of factors could quickly reduced what at this stage appears potentially workable in certain circumstances. This could be considered further and, again, could be kept under review pending experience of the CIL in operation and of course varying market conditions etc. Experience in practice may influence future reviews.

3.7 Residential Institutions – Care Homes

3.7.1 Proposals falling under this category could again be highly variable in nature, including in terms of the values and other assumptions potentially applicable to varying scheme specifics. Related to the ageing population profile, it is likely to be a form of provision considered relevant as part of the overall accommodation and care offer available within the area.

3.7.2 We have not been able to identify nor been provided with any recent development examples or other comparables / guides as to clear financial assumptions associated with this form of development as would be relevant to East Cambs. In the absence of such information, it has been necessary to make high level assumptions as befits this level of study. In a similar way to the reviews carried out for other development types, it was possible to consider what would need to change within the assumptions to create scenarios with reasonable viability prospects on a regular basis.

3.7.3 On the assumptions applied, based around a typical suburban low rise development for this type of use, we began to detect a very similar tone of results to those associated with hotels. Therefore, we did not continue with all higher levels of CIL rate trials only to produce another set of negative RLV results. So, similarly, our evidence suggests poor viability prospects unless assumptions are moved in favour of viability by increasing values and / or reducing costs from the levels assumed. Again, at this point we consider that would need to occur to too significant a degree in order to reliably support good viability outcomes. Therefore, in our view the discussion on these becomes a similar one about balance and potential added risk to development. Experience in practice could show that will happen, but we are not able to clearly evidence viability to that point at present.

3.7.4 Based on very similar thinking to that above in relation to budget hotels, therefore, currently we are not able to support any meaningful level of CIL scope in respect of such developments. Within the general monitoring scenario, however, the Council should again keep this under review so as to see how experience in practice may influence any future review – as for hotel developments.

3.7.5 A zero (£0) CIL charging rate is recommended.

3.8 Equine (horse) related development

3.8.1 Given the largely rural nature of the District but also the Newmarket fringe area, the Council also asked us to consider the development viability of equine related development. Again there is a wide variety of potential scenarios, so this too involved interpretation and making significant areas of assumption. We considered two types of scenarios, to date principally with commercially driven developments in mind.

3.8.2 These are both summarised along with the other scenario assumptions in Chapter 2 and outlined at Appendix I. They have been considered only in relation to Greenfield land.

3.8.3 Should the Council consider these further, though will need to be given to defining the relevant scenarios, and here we will simply summarise on viability.

3.8.4 We consider that the equine hospital / clinic type scenario is an example of a very specialist scenario and facilities where the development cost is likely to outweigh the value assessed in this context of development viability – similar to a range of other uses as will be outlined below. As can be seen at Appendix IIB (commercial results summary tables) a range of poor viability outcomes is seen.

3.8.5 However, the lower costs that BCIS indicates are more typically associated with stud farming, stabling, riding schools and the like, combined with similar value levels (as indicated by VOA rating list entries) suggests that these types of developments indicate some capacity to bear a CIL charge. This would be relatively modest in our view, bearing in mind that this is based on a 7.5% yield view so that outcomes could deteriorate from the positions shown. The results point to say £30/sq m as being appropriate for further consideration and review by the Council.

3.8.6 As part of it should again consider the likely frequency and nature of these developments. Referring to the research outlined in Appendix III, we found no evidence of sales of such facilities, and we noted that many developments are provided at a very small scale (or may be extensions or similar) which might often fall beneath the CIL Regulations 100 sq m additional development threshold.

3.9 Agriculture

3.9.1 Again with the rural setting in mind, we considered agricultural facilities at a high level – with barns, animal sheds, stores, packing sheds and the like in mind.

3.9.2 We formed the view that whilst by definition these types of development would generally be on Greenfield / low existing use value land, in the great majority of cases they would be examples of schemes that require investment because they would not have a sufficient market value on completion to support their development cost. Many of these facilities would be akin to light industrial construction, but usually it appears with lower still end values.

3.9.3 Research confirmed this (as very briefly outlined at Figure 11 below) so that we did not pursue it further and recommend that agricultural development of this nature be subject to a £0 (nil) CIL charging rate,

3.10 Other uses – including Community Uses

3.10.1 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.10.2 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that the even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

3.10.3 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of "lost opportunity" as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.

3.10.4 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL scope.

3.10.5 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.

3.10.6 In any event, from our viability perspective, a zero (£0) CIL rate is recommended in these instances.

3.10.7 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA's Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are no dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).

3.10.8 Figure 11 below provides examples of the review of relationship between values and costs in a range of these other scenarios. This is not an exhaustive list by any mean, but it enables us the gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and complication in the local CIL regime. We consider that these types of value / cost relationships are would be seen in a wide variety of locations.

Figure 11: Other uses – example value/cost relationships

Example development type	Annual rental value £/sq m	Indicative capital value	Base build cost –BCIS**	Viability prospects and Notes
Halls – community halls, etc	£10 - 30	£100 - 300	Approx. £1,500 (General purpose halls)	Clear lack of development viability
Community centres, clubs and similar	£20 - 40	£200 - 400	Approx. £1,400 (Community centres)	Clear lack of development viability
Garages & depots	£40 – 75 (max £125)	£400 – 750 (max £1250)	£780 (Builders yards, highways depots and similar)	Similar to low grade industrial (B uses) – costs generally exceed values
Storage – e.g. on farms / other	Up to £60 - 90	Up to £600 - 900	Approx. £470 - £530 (agricultural storage to purpose built warehouse)	As above – assumed B type uses. Costs generally exceed values. No evidence in support of regular viability.
Surgeries / similar	£90 - 185	£900 – 1850	Approx. £1,400 - £1,500 (health centres, clinics, group practice surgeries).	Insufficient viability to clearly out-weigh costs on a reliable basis.
Day nurseries	£80 - 125	£800 - 1250	Approx. £1,500 - £1,600	Costs generally exceed values. Lack of development viability
Leisure – other bowling / cinema	£115 - £125	£1533 (@7.5% yield)	Approx. £1,100- £1,200	Likely marginal development viability at best.
Leisure – private health / fitness	£120	£1600 @7.5%yield)	Approx. £1,700 (Gymnasia, fitness centres etc)	Costs outweigh values. No evidence in support of regular viability.

*£/sq m rough guide prior to all costs allowances (based on assumed 10% yield for illustrative purposes - unless stated otherwise)

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

3.10.9 With the exception, potentially, of retail linked types such as mentioned at 3.4.11 - 3.4.12 above (should the Council consider those sufficiently relevant to the plan delivery and include those with the CIL charging scope), our recommendation is for the Council to consider a zero (£0) CIL rate in respect of a range of other uses such as these. As in other cases, this could be reviewed in future - in response to monitoring information. Our over-riding view is that the frequency of these other new build scenarios that could support meaningful CIL scope is likely to be very limited.

3.10.10 As alternatives, and we understand that there is no guidance pointing either way, the Council could consider leaving such other proposals to "default " to a nominal rate; or to a higher rate to capture contributions from a small number of developments - but with the risk that a wide range of any others that come through as new builds or extension schemes exceeding the 100 sq m CIL Regulations threshold could present difficulties.

3.11 Charge Setting and CIL Rate Review

3.11.1 To further inform the Council's rate setting and ongoing work, we have considered the range of potential CIL rates that have been viability tested in terms of their proportion of completed development value (sales value or 'GDV') and proportion of development cost. In looking at proportion of cost, we have considered alternative comparisons – firstly against build costs (including external works, fees and contingency), and then at the potential CIL rates as a proportion of the wider development costs.

3.11.2 The following figures (contained with the tables at Figures 12 to 19) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered them at a selection of the potential CIL (trial) rates tested for viability. The cost and values assumptions used to calculate the following proportions are as assumed within the study. See the figures below:

Figure 12: CIL charging trial rates as % of GDV – Residential

CIL Rate (£/sq m)	Value Level					
	1	2	3	4	5	6
	£1,600	£1,800	£2,200	£2,600	£3,000	£3,300
20	1.3%	1.1%	0.9%	0.8%	0.7%	0.6%
40	2.5%	2.2%	1.8%	1.5%	1.3%	1.2%
60	3.8%	3.3%	2.7%	2.3%	2.0%	1.8%
80	5.0%	4.4%	3.6%	3.1%	2.7%	2.4%
100	6.3%	5.6%	4.5%	3.8%	3.3%	3.0%
120	7.5%	6.7%	5.5%	4.6%	4.0%	3.6%

Figure 13: CIL charging trial rates as % of GDV – Commercial

Scheme Type	CIL Rate (£/m²)	7.50% Yield			6.50% Yield		
		L	M	H	L	M	H
Large Retail - Supermarket	£20	0.8%	0.7%	0.5%	0.7%	0.6%	0.5%
	£40	1.7%	1.3%	1.1%	1.4%	1.1%	0.9%
	£60	2.5%	2.0%	1.6%	2.2%	1.7%	1.4%
	£80	3.3%	2.6%	2.1%	2.9%	2.3%	1.9%
	£100	4.2%	3.3%	2.7%	3.6%	2.8%	2.3%
	£120	5.0%	3.9%	3.2%	4.3%	3.4%	2.8%
	£140	5.8%	4.6%	3.8%	5.1%	4.0%	3.3%
Large Retail - Retail Warehouse	£20	1.2%	0.8%	0.7%	1.0%	0.7%	0.6%
	£40	2.3%	1.7%	1.3%	2.0%	1.4%	1.1%
	£60	3.5%	2.5%	2.0%	3.0%	2.2%	1.7%
	£80	4.6%	3.3%	2.6%	4.0%	2.9%	2.3%
	£100	5.8%	4.2%	3.3%	5.0%	3.6%	2.8%
	£120	6.9%	5.0%	3.9%	6.0%	4.3%	3.4%
	£140	8.1%	5.8%	4.6%	7.0%	5.1%	4.0%
Small Retail / Other (A1-A5)	£20	1.4%	1.1%	0.9%	1.2%	0.9%	0.8%
	£40	2.7%	2.1%	1.8%	2.4%	1.9%	1.5%
	£60	4.1%	3.2%	2.6%	3.5%	2.8%	2.3%
	£80	5.5%	4.3%	3.5%	4.7%	3.7%	3.1%
	£100	6.8%	5.4%	4.4%	5.9%	4.6%	3.8%
	£120	8.2%	6.4%	5.3%	7.1%	5.6%	4.6%
	£140	9.5%	7.5%	6.2%	8.3%	6.5%	5.4%
Equine related	£20	1.5%	1.0%	0.8%	N/A	N/A	N/A
	£40	3.0%	2.0%	1.5%	N/A	N/A	N/A
	£60	4.5%	3.0%	2.3%	N/A	N/A	N/A
	£80	6.0%	4.0%	3.0%	N/A	N/A	N/A
	£100	7.5%	5.0%	3.8%	N/A	N/A	N/A
	£120	9.0%	6.0%	4.5%	N/A	N/A	N/A

Scheme Type	CIL Rate (£/m²)	7.50% Yield			6.50% Yield		
		L	M	H	L	M	H
	£140	10.5%	7.0%	5.3%	N/A	N/A	N/A

Figure 14: CIL charging trial rates as % of Build Cost – Residential

1-Unit: CIL Charge (£/m²)	Total Build Costs*	CIL Rate as % of Cost
£20	£1,966	1.0%
£40		2.0%
£60		3.1%
£80		4.1%
£100		5.1%
£120		6.1%

3+-Units: CIL Charge (£/m²)	Total Build Costs*	CIL Rate as % of Cost
£20	£1,312	1.5%
£40		3.0%
£60		4.6%
£80		6.1%
£100		7.6%
£120		9.1%

*average including base build, externals, contingencies and fees

Figure 15: CIL charging trial rates as % of Build Cost – Commercial

Scheme Type	CIL Rate (£/m²)	Total Build Costs*	CIL Rate as % of Cost
Large Retail - Supermarket	£20	£1,854	1.1%
	£40	£1,854	2.2%
	£60	£1,854	3.2%
	£80	£1,854	4.3%
	£100	£1,854	5.4%
	£120	£1,854	6.5%
	£140	£1,854	7.6%
Large Retail - Retail Warehouse	£20	£955	2.1%
	£40	£955	4.2%
	£60	£955	6.3%
	£80	£955	8.4%
	£100	£955	10.5%
	£120	£955	12.6%
	£140	£955	14.7%
Small Retail -convenience (and other related, comparison, A1-A5)	£20	£1,160	1.7%
	£40	£1,160	3.4%
	£60	£1,160	5.2%
	£80	£1,160	6.9%
	£100	£1,160	8.6%
	£120	£1,160	10.3%
	£140	£1,160	12.1%

Scheme Type	CIL Rate (£/m²)	Total Build	CIL Rate as % of
Equine related	£20	£1,446	1.4%
	£40	£1,446	2.8%
	£60	£1,446	4.1%
	£80	£1,446	5.5%
	£100	£1,446	6.9%
	£120	£1,446	8.3%
	£140	£1,446	9.7%

*average including base build, externals, contingencies and fees

Figure 16: CIL charging trial rates as % of Total Development Cost – Residential

1-Unit: CIL Rate (£/m²)	Total Development Costs*	CIL Rate as % of Cost
£20	£2,578	0.8%
£40		1.6%
£60		2.3%
£80		3.1%
£100		3.9%
£120		4.7%
£140		5.4%

3+Units: CIL Rate (£/m²)	Total Development Costs*	CIL Rate as % of Cost
£20	£1,930	1.0%
£40		2.1%
£60		3.1%
£80		4.1%
£100		5.2%
£120		6.2%
£140		7.3%

*total development cost assuming 20% developer profit and £1m/ha land value

Figure 17: CIL charging trial rates as % of Total Development Cost – Commercial

Scheme Type	CIL Rate (£/m²)	Total Development Costs*	CIL Rate as % of Cost
Large Retail - Supermarket	£20	£3,038	0.7%
	£40	£3,038	1.3%
	£60	£3,038	2.0%
	£80	£3,038	2.6%
	£100	£3,038	3.3%
	£120	£3,038	4.0%
	£140	£3,038	4.6%
Large Retail - Retail Warehouse	£20	£1,996	1.0%
	£40	£1,996	2.0%
	£60	£1,996	3.0%
	£80	£1,996	4.0%
	£100	£1,996	5.0%
	£120	£1,996	6.0%

	£140	£1,996	7.0%
Small Retail -convenience (and other related, comparison, A1-A5)	£20	£1,937	1.0%
	£40	£1,937	2.1%
	£60	£1,937	3.1%
	£80	£1,937	4.1%
	£100	£1,937	5.2%
	£120	£1,937	6.2%
	£140	£1,937	7.2%

3.11.3 The Council may also wish to consider potential charging rates in the context of levels of existing planning obligations (sought and collected) – e.g. per dwelling or per development. The following tables may assist in considering these comparisons (the commercial scheme examples appraised are included here after the residential ones).

Figure 18: Residential CIL trial rates - Charge per Dwelling Equivalent

	£20/m² CIL Charging Rate		
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge	Equivalent Charge per Private Dwelling
1 House	125	£2,500	£2,500
3Houses	250	£5,000	£2,500
15 Houses	890	£17,800	£1,187
100+ Mixed	7200	£144,000	£1,440

	£40/m² CIL Charging Rate		
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge	Equivalent Charge per Private Dwelling
1 House	125	£5,000	£5,000
3Houses	250	£10,000	£5,000
15 Houses	890	£35,600	£2,373
100+ Mixed	7200	£288,000	£2,880

	£60/m² CIL Rate		
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge	Equivalent Charge per Private Dwelling
1 House	125	£7,500	£7,500
3Houses	250	£15,000	£7,500
15 Houses	890	£53,400	£3,560
100+ Mixed	7200	£432,000	£4,320

	£80/m² CIL Rate		
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge	Equivalent Charge per Private Dwelling
1 House	125	£10,000	£10,000
3Houses	250	£20,000	£10,000
15 Houses	890	£71,200	£4,747
100+ Mixed	7200	£576,000	£5,760

	£100/m² CIL Rate		
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge	Equivalent Charge per Private Dwelling
1 House	125	£12,500	£12,500
3Houses	250	£25,000	£12,500
15 Houses	890	£89,000	£5,933
100+ Mixed	7200	£720,000	£7,200

	£120/m² CIL Rate		
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge	Equivalent Charge per Private Dwelling
1 House	125	£15,000	£15,000
3Houses	250	£30,000	£15,000
15 Houses	890	£106,800	£7,120
100+ Mixed	7200	£864,000	£8,640

Figure 19: Commercial CIL trial rates - Charge per Unit Equivalent

	£20/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£80,000
Large Retail - Retail Warehouse	1000	£20,000
Small Retail (principally convenience stores)	400	£8,000

	£40/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£160,000
Large Retail - Retail Warehouse	1000	£40,000
Small Retail (principally convenience stores)	400	£16,000

	£60/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£240,000
Large Retail - Retail Warehouse	1000	£60,000
Small Retail (principally convenience stores)	400	£24,000

	£80/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£320,000
Large Retail - Retail Warehouse	1000	£80,000
Small Retail (principally convenience stores)	400	£32,000

	£100/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£400,000
Large Retail - Retail Warehouse	1000	£100,000
Small Retail (principally convenience stores)	400	£40,000

	£120/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£480,000
Large Retail - Retail Warehouse	1000	£120,000
Small Retail (principally convenience stores)	400	£48,000

	£140/m² CIL Rate	
Scheme Size / Type	Total Chargeable Floor Area (m²)	Total CIL Charge
Large Retail - Supermarket	4000	£560,000
Large Retail - Retail Warehouse	1000	£140,000
Small Retail (principally convenience stores)	400	£56,000

3.11.4 The Council may wish to use the above information to consider the potential CIL charging rates recommended, and the wider potential rates / options, as part of its balancing of objectives and overall assessment. Comparison of potential CIL charging rates with current s.106 contributions levels could be a useful aspect for context / benchmarking what the potential CIL rates mean in practice.

3.12 Summary – CIL Charging Rate and other Recommendations

3.12.1 In summary, from a viability point of view we recommend the following for consideration by the East Cambridgeshire District Council in taking forward the setting of rates within a preliminary draft charging schedule:

Figure 20: Recommendations Summary - CIL rates

Preliminary draft charging schedule – Rates for consideration
A. Residential
Recommendation: Rate – Up to £50/sq m (Littleport and Soham) Rate – Up to £100/sq m (Rest of District) Alternative potential: Rate - £60-(max) £80/sq m District-wide (but noting accompanying comments)
B. Retail – large format (large supermarket / retail warehousing)
Recommendation: Rate – suggested not exceeding £120/sq m
C. Retail – smaller/other formats (**Principally convenience stores** but also applicable to all other categories including A1-A5, comparison shopping and - should the Council place any such developments within the charging scope - potentially to retail linked; e.g. motor sales, retail warehousing/wholesaling clubs or similar)
Recommendation: Rate - Up to approximately half large retail format rate – not exceeding £60/sq m
D. Business Development - Office and Industrial (B1, B1a, B2, B8)
Recommendation: Zero rate (£0)
E. Hotels and Care Homes
Recommendation: Zero rate (£0) on balance in preference to a low / nominal rate (Alternative: nominal / low CIL rate, but difficult to justify in viability terms and added risks to development)

F. Equine related (Commercial stables, riding schools, stud farms and the like)
Recommendation: Potential to consider a modest rate – suggested at not exceeding £30/sq m; but not in relation to equine hospitals / clinics.
G. Community and all other uses (including agriculture)
Recommendation: Zero rate (£0) on balance in preference to a low / nominal rate (Alternative: nominal / low CIL rate, but difficult to justify in viability terms in the context of schemes largely showing non-viability).

3.12.2 ***Additional recommendation*: To consider monitoring and review.** The DCLG Charge Setting Procedures (paragraph 75)[4] state that: 'The Government has not specified a recommended lifetime for charging schedules and there is no requirement in the Act placing charging authorities under a duty to review their charging schedules. However, charging authorities are strongly encouraged to keep their charging schedules under review. This is important to ensure that CIL charges remain appropriate over time – for instance as market conditions change, and also so that they remain relevant to the gap in the funding for the infrastructure needed to support the development of their area. Although there is no fixed period or frequency for this we recommend that the Council begins to consider its more detailed implementation strategies around CIL, including how it will monitor and potentially review CIL collection and levels – informed by the experience of operating it in practice.' (Italics section quoted from the CLG document).

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

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

CIL Overview[5] document (at paragraphs 19 and 20) touches on the intended open and transparent nature of the levy and in doing so states that charging authorities must prepare short monitoring reports each year.

3.12.4 ***Additional recommendation:*** As has been the case with s.106 obligations, **to consider the scope (as far as permitted) to phase CIL payment timings** where needed as part of mitigation against scheme viability and / or delivery issues. Through all of our development viability work, particularly in relation to larger developments and especially longer running / phased residential schemes, we observe the impact that the particular timing of planning obligations have. The same will apply to the payments due under the CIL. Front loading of significant costs can impact development cash flows in a very detrimental way, as costs (negative balances) are carried in advance of sales income counteracting those. Considering the spreading of the cost burden to some extent - as far as may be permissible - even on some smaller schemes, may well provide a useful tool for supporting viability in the early stages.

3.12.5 Allied to this, the Council may wish to consider the extent to which pooled funds might be used to forward-fund or part fund key early infrastructure elements that may be required to facilitate schemes progressing, or proceeding more smoothly. This is not a new principle. Discussions with developers on the timing of affordable housing provision and / or financial contribution obligations, for example, could also continue to be important in this regard. In some cases, an affordable housing element provides valuable and relatively secure cash flow; in others there may be overall scheme benefits from phasing its provision differently.

Text of study report ends.
December 2011.

[5] DCLG – The Community Infrastructure Levy - An Overview (May 2011)