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South Ribble

Community Infrastructure Levy Viability Evidence Study

Final Draft Report

Final Draft Report 25th January 2012

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CONTENTS

EXECUTIVE SUMMARY

1. This report is provides the economic viability evidence to inform the Community Infrastructure Levy (CIL) charge for the South Ribble charging authority. It is part of a joint commission by the three Central Lancashire authorities which include Preston, South Ribble and Chorley.
2. At the heart of the CIL charge setting process, is the need 'to strike what *appears* to the *charging authority* to be an appropriate balance between the desirability of funding infrastructure and the potential effects of the imposition of the charge on the economic viability of development across its area'. This decision is informed by the viability and infrastructure evidence. A number of local considerations such as the development taking place in the area, the planning pipeline, past and anticipated future delivery and the authorities own attitude to 'development risk' have informed the charging options being consulted on.
3. Our viability assessments, for both residential and non residential development used a simple residual approach. For residential appraisals, we assessed the implications of a number of different affordable housing and S106 contribution scenarios. The appraisals are intentionally undertaken at on a broad, strategic level to avoid focus on the implications on individual development sites.
4. Our findings suggest that a CIL charge range for residential development of £40 to £70 per sq. m is viable, depending on some flexibility over S106 / affordable housing contributions.
5. With regard to the standard base charge for all other uses, views are invited on whether this should be zero or a nominal charge of £10. Table 1 below summarises the charge variations by use being consulted on as part of the preliminary draft consultation stage.

Table 1 CIL charge variations by use being consulted on

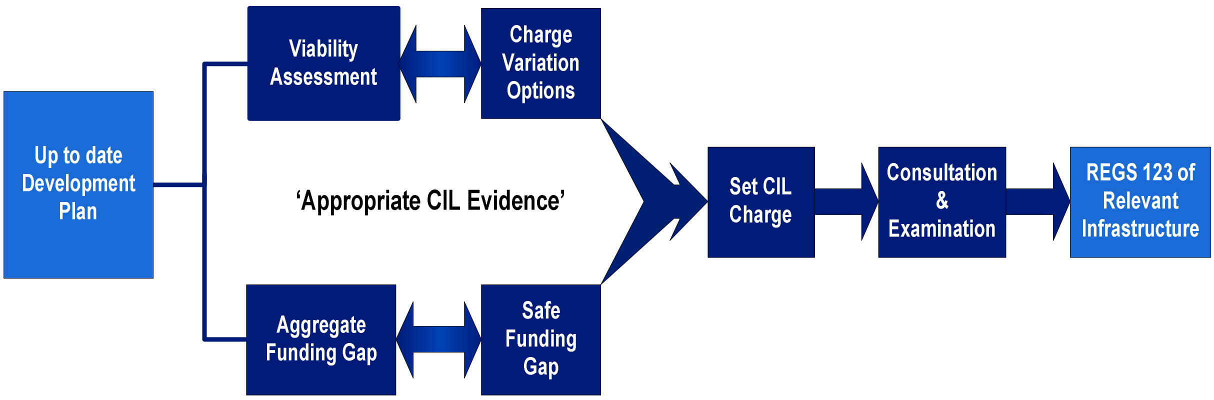
Development	CIL charge
Residential (dwellings)	**£70 Sq. m**
Convenience retail	**£160 Sq. m**
Retail warehouse	**£40 Sq. m**
Non-residential institutions	**£0 Sq. m**
All other uses	**£0 - £10 Sq. m range**

1 INTRODUCTION

1.1 The Planning Act 2008 introduced the power to charge a Community Infrastructure Levy (CIL) and the details of setting the charge are set out in the CIL Regulations and guidance. The purpose of CIL is to provide a simple transparent way of paying for a range of strategic growth related infrastructure.

1.2 Before a charging authority can apply a CIL, it has to produce a CIL charging schedule. This charging schedule has to be informed by relevant infrastructure funding gap and viability evidence. The process of developing a CIL charging schedule is illustrated in Figure 1.1 below.

Figure 1.1 Evidence to inform CIL charging schedule



Source: Roger Tym & Partners 2011

1.3 The main steps towards developing the CIL evidence base comprise of:

- Gathering infrastructure evidence base to arrive at a funding gap to inform the 'CIL target';
- Undertaking a viability assessment to reflect the scale and type of planned growth;
- Assimilating the findings of the above to arrive at a CIL charge that the majority of development can afford.

Purpose and scope of study

1.4 The three Central Lancashire authorities, consisting of Preston, South Ribble and Chorley Councils have commissioned Roger Tym & Partners to produce the viability evidence to underpin the Community Infrastructure Levy (CIL). Each of these three local authorities are 'charging authorities' in their own right and so are required to prepare a separate CIL charging schedule. We have prepared a separate viability evidence base for each authority but account has been taken of the cross border inter-linkages.

1.5 The Central Lancashire authorities are jointly undertaking work to understand infrastructure needs to support identified levels of growth and will produce a joint infrastructure evidence base to inform their CIL charging schedules.

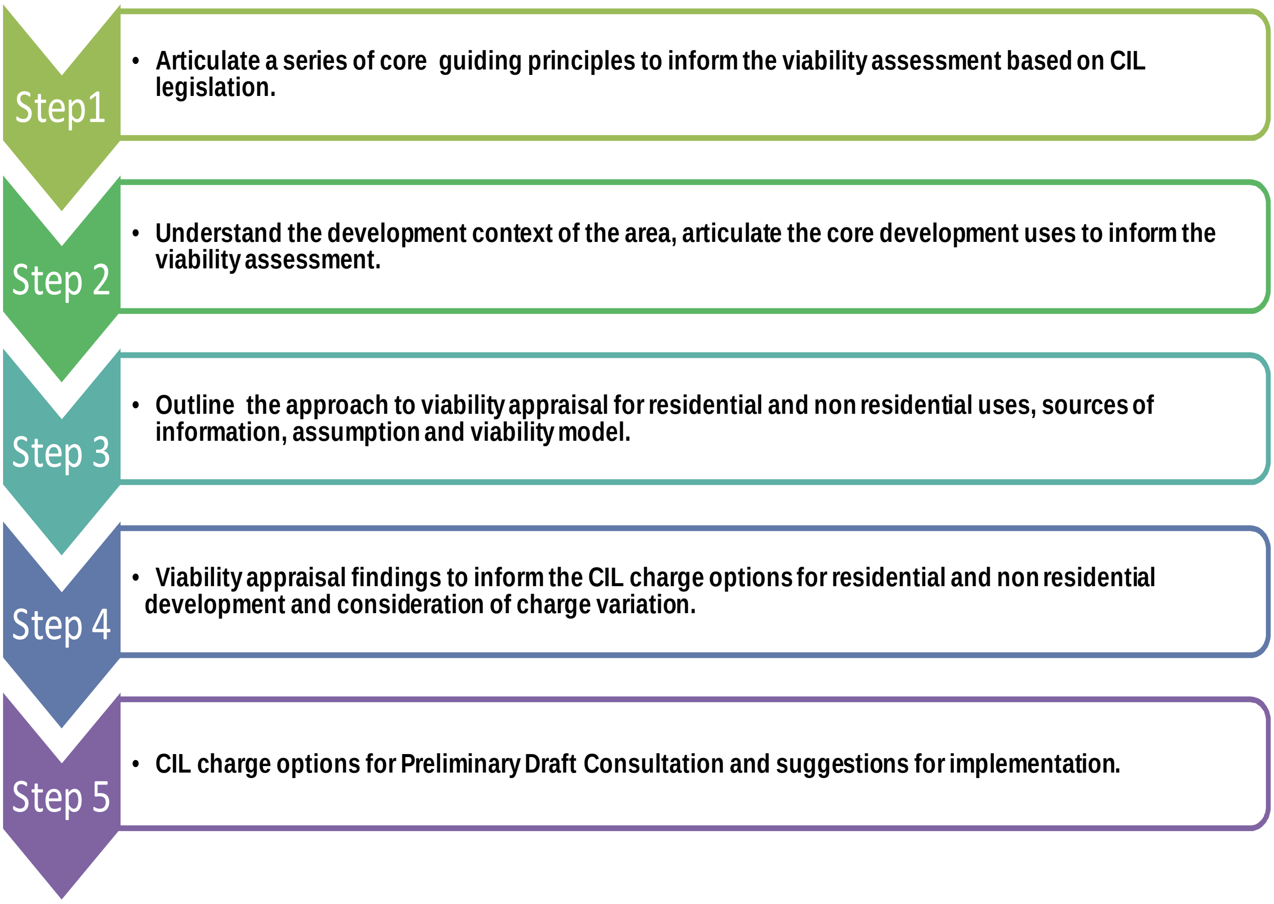
1.6 It is important to emphasise that the three authorities are working jointly on the Central Lancashire Core Strategy (currently at examination stage) and are intending to have a joint examination of their CIL charging schedules.

Approach to Study

1.7 Our approach has been guided by the Planning Act 2008, the CIL Regulations (2010 and 2011) and the March 2010 Charge Setting and Charging Procedures statutory guidance document. The fundamental premise is that the CIL is intended to enable the delivery of growth and it must be set at a level that does not put at risk the overall level of development in the area.

1.8 Figure 1.2 sets out five steps in our approach in assessing the strategic economic viability to inform the South Ribble CIL charging schedule.

Figure 1.2 Study Approach



2 GUIDING PRINCIPLES

2.1 The following section outlines the principles that have guided our assessment of viability to inform the community infrastructure levy.

Guiding principle one: Appropriate balance between infrastructure funding and viability of development is at the heart of the CIL charging process

2.2 At the heart of the CIL charge setting process, is the need 'to strike what appears to the charging authority to be an appropriate balance between the desirability of funding infrastructure and the potential effects of the imposition of the charge on the economic viability of development across its area' (set out in CIL regulation 14 and expanded further in the guidance). The fundamental premise is that the CIL must be set at a level that does not put at risk the overall level of development in an area.

2.3 A judgment must be made on this, as there are no hard and fast rules, it is up to the charging authority to decide 'how much' potential development they are willing to put at risk through the imposition of CIL. The guidance acknowledges that by setting a CIL charge, some development will be put at risk. The charging authority will need to decide how much development it is prepared to put at risk in setting it's CIL in order to generate a levy to pay for strategic infrastructure.

2.4 A key requirement in the guidance is that evidence should be provided to show that the proposed CIL rate "would not put the overall development of the area at serious risk"[1]. The examiner will consider the implications of CIL for the priorities identified in the Charging Authorities Development Plan such as housing targets.

Guiding principle two: Avoid setting the CIL charge up to the ceiling

2.5 The overarching aim of CIL is to enable the delivery of growth. Thus it is important to avoid risking too much development at the margins of economic viability, by setting the CIL charge up to the maximum viability of an area. Our findings thus begin with a detailed understanding of the strategic development context of the area to ensure that the bulk of the development of an area will not be priced out by the CIL charge.

Guiding principle three: An up to date development plan will inform the infrastructure and viability evidence

2.6 It is important in setting the CIL charge to have a good understanding of the development context of the plan to appreciate the impact of the authorities charge on the quantum and type of development in its area and the infrastructure requirements stemming from the proposed growth. The Joint Central Lancashire Publication Core Strategy and the proposed Housing Related Changes to the Core Strategy have informed this study.

[1] DCLG CIL Charge Setting and Charging Schedule Procedures March 2010, paragraph 9

Guiding principle four: It is important to base the viability assessment on a broad, strategic view of development across the area

2.7 The CIL viability assessment must be based on a broad, strategic level to avoid focus on the implications on individual development sites. As the viability assessment is not focused on specific site calculations, the viability assessments of this strategic nature involve a high degree of generalisation. Thus our objective is to ensure that the CIL will be set at a level which maximises the likelihood of sufficient development land coming forward so as not to put the overall development strategy at risk. This will be based on an understanding of the strategic development context of the area so as to ensure that high level estimation of the assumptions inputs reflects the major development of the area.

Guiding principle five: The viability evidence will inform the CIL charge

2.8 A strategic viability assessment of this nature will have a high margin of variance from an actual site specific assessment. There can be major variances between 'objective viability evidence' and what is actually being delivered on the ground due to wider economic influences such as the ability to borrow development finance and general market confidence. For this reason, the legislation[2] acknowledges that the viability evidence will 'inform' the charging schedule and is not required to exactly *mirror* the evidence. We aim to adopt a pragmatic approach between using the viability evidence and market intelligence to inform the CIL charge.

Guiding principle six: Avoiding complexity in charge setting

2.9 CIL Regulation 13 also allows the charging authority to introduce charge variations by area, by different use and by area and use – if this is supported by development viability evidence. Where adopting charge variations by area, it is crucial to ensure that charge variation boundaries are drawn on viability evidence and not policy or administrative boundaries.

2.10 A key message from our national work on CIL charge setting is to aim to keep the CIL charge variation options as simple as possible by avoiding unnecessary charge variations which detract from the intended simplicity of the CIL charge, open greater scope for State Aid challenges and creates further administration complications for collecting the charge.

Guiding principle seven: Zero CIL charging should be justified on economic viability grounds

2.11 The guidance[3] advises that zero charging / exemptions should be justified on viability terms. The general thrust of the guidance, is that where there is low marginal viability then a low CIL charge should be applied in that area / sector so as not to provide an economic advantage to any particular site. However, we find that where development has come to a virtual standstill and there is no sign of any development taking shape in an area, then it is

[2] Planning Act 2008 (Section 212 (4) (b))

[3] Paragraph 37 & 38 of the March 2011 CIL Charge Setting Guidance and Charging Schedule Procedures

easy to see that development is simply not taking place due to wider economic viability factors.

Guiding principle eight: Sites currently with planning permission are excluded

2.12 There are a number of sites, as at August 2011, with planning permission but where development has not commenced. Under CIL Regulations 128, any development that is approved by grant of full or outline planning permission is exempt from CIL if, on the date of approval, there is no Charging Schedule in operation.

2.13 In view of the procedures required to adopt a CIL Charging Schedule including a formal examination, it is estimated that the South Ribble Charging Schedule may not be in place until autumn 2012 at the earliest. It is therefore assumed, for the purposes of this study, that all sites with planning consent and those highly likely to have planning permission by then will not pay the CIL charge.

Guiding principle nine: Account must be taken of regulatory requirements

2.14 Development costs arising from policies such as affordable housing, code for sustainable homes, open space provision and other policy requirements such as open space standards will all impact on the viability of a site. These requirements should be taken account of in the viability assessment as these will impact on the residual viability evidence. Note that the charge itself cannot be based on policy, it must be evidence.

Guiding principle ten: The evidence should seek to reflect any significant changes

2.15 The guidance recommends that the charge should reflect projected trend levels in property prices and land values and ensure the rate is robust over time. In reality, we are going through very turbulent times, and it would be critical not to 'price growth out' with a high CIL charge based on past high levels. Whilst an argument could be made that the CIL should be set at a level that reflects normal circumstances (i.e. not those presently being experienced); this does open up a debate about what constitutes 'normal' circumstances?

2.16 The use of current values may lead to low levels of delivery that are being experienced in most areas due to the current economic climate, and some judgement should be taken of the future expectations. The key we find is the interpretation of the viability evidence to inform the CIL charge setting.

3 UNDERSTANDING THE DEVELOPMENT CONTEXT

3.1 This section sets out an overview of the development and market context to inform our understanding of the core uses for South Ribble's future growth. The findings from this assessment will help to inform the development of the viability appraisal.

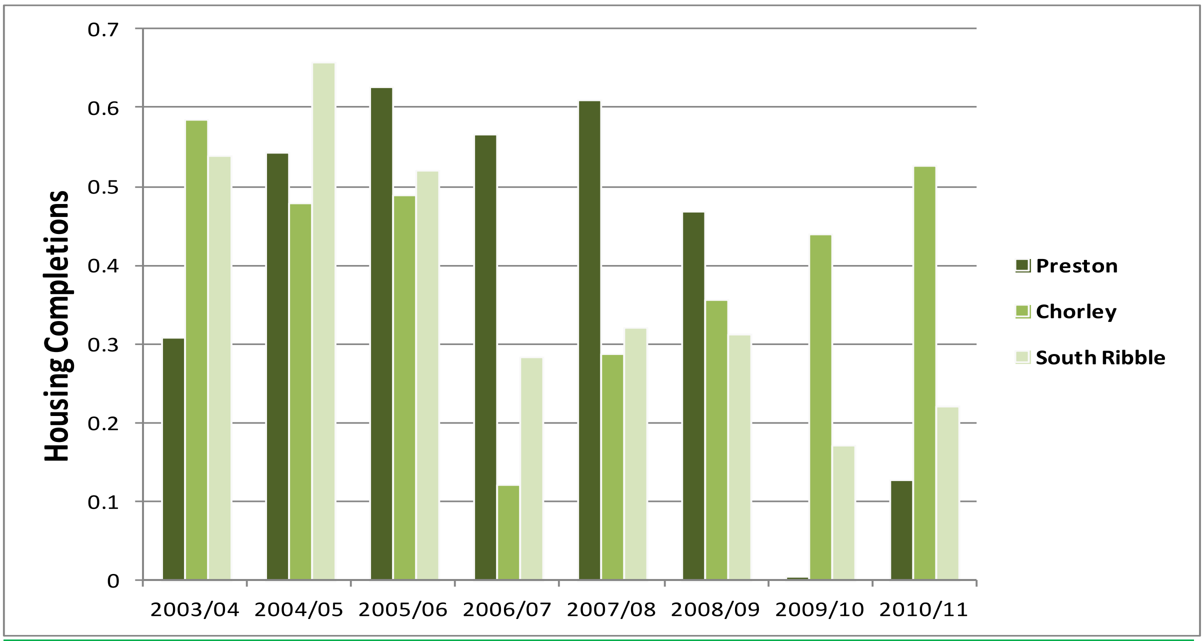
3.2 Our understanding of the development context has been informed by officer input and the Publication version of the Central Lancashire Core Strategy December 2010 along with the proposed Housing Related Changes to the Core Strategy November 2011 prepared jointly by the three Central Lancashire authorities of Preston, Chorley, and South Ribble.

Understanding the residential development context

The past and recent delivery trends for residential development

3.3 Historically, South Ribble has seen significant levels of growth, in-particular, during 2003 – 2006, though has experienced a marked decline in delivery of growth since 2007 and this trend has continued. Figure 3.1[4] below illustrates the housing completions (net of demolitions) in Central Lancashire since 2003 to 2010.

Figure 3.1 Housing completions in Central Lancashire - 2003 and 2010



	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Total
Preston	308	544	627	565	609	468	5	127	3253
Chorley	585	479	489	121	288	355	440	527	3284
South Ribble	538	657	520	284	320	312	171	221	3023
Total	1431	1680	1636	970	1217	1135	616	875	9560

Source: Central Source: Lancashire Publication Core Strategy LDF December 2010 and update

[4] Extract from page 67 of the Central Lancashire Core Strategy

What is the quantum of residential development to be provided in the future?

3.4 Table 3.1 summarises the balance of housing growth still to be delivered during the plan period and so potentially liable for any future CIL charge. There are some 4,300 dwellings outstanding that could be charged a CIL.

Table 3.1 Summary of the Outstanding Housing Figures for the South Ribble Area

South Ribble	Units	%
RSS housing requirement (2003-26)	9,591	
Less completions (2003-11)	3,378	3
Less planned consents (at April 2011)	1,492	16
Less estimated planning consents to Autumn 2012	450	5
Total balance to be delivered	**4,271**	**45**
Total %		100

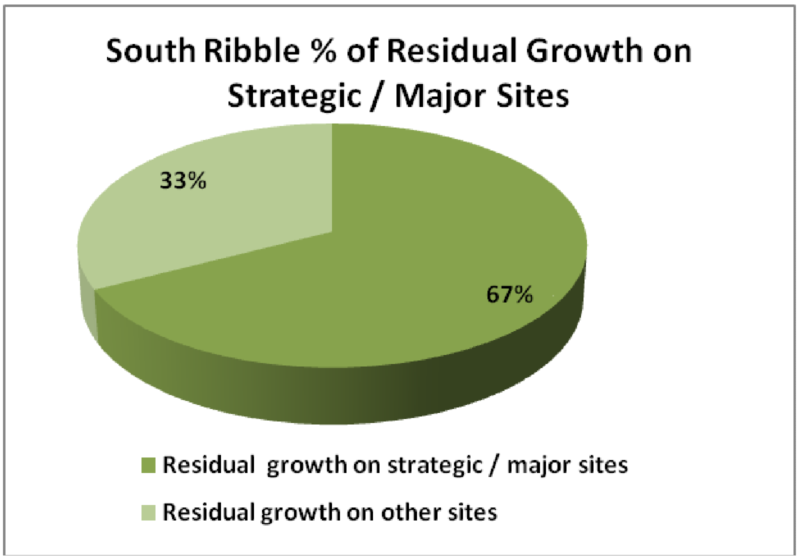
Source: South Ribble officer input August 2011

Where is most of the residential growth planned?

3.5 Figure 3.2 below illustrates, that a large proportion of the remaining planned growth (without planning consent) is likely to take place on a few strategic / major sites in South Ribble, mainly at the Strategic Location south of Penwortham and north of Farington, at Moss Side Test Track and at land south of Leyland. The strategic sites are likely to come forward from 2015 onwards. There are a number of consented sites currently available to serve short term delivery, particularly at Buckshaw village.

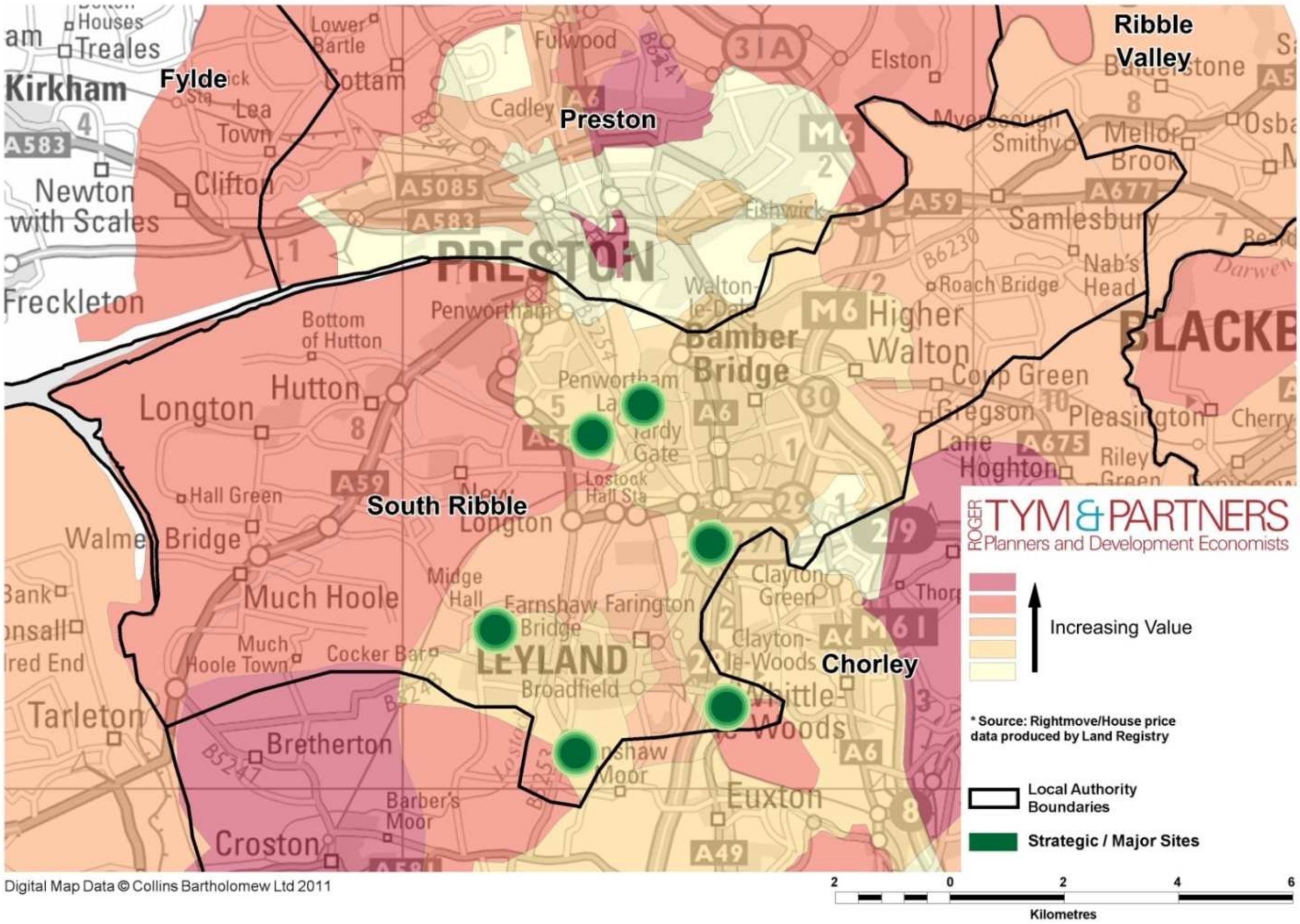
3.6 Most of the major sites are contained in small urban extensions of between 400 – 1200 units. These urban extensions could have a requirement for on site infrastructure. Of the total balance to be delivered, some 3000 units are likely to be in the strategic sites, with some 1,400 units to be dispersed in various locations.

Figure 3.2 Percentage of planned growth at strategic or major sites



3.7 As can be seen from figure 3.3, most of the strategic growth is located within a low to medium value range. Thus, any growth not in the strategic locations is likely to be in higher value area and should be able to afford any CIL charge that has been based on the strategic sites.

Figure 3.3 General location of strategic / major development sites overlaid on house values



Is the short term market saturated?

3.8 As in Chorley, South Ribble's development markets have been heavily influenced in recent years by the scale of development at Buckshaw Village – a major development of some 4,000 new homes and other development which is now well advanced and spans the two authorities. The values of the residential development at Buckshaw have held up relatively well through the recent recessionary period. There is a difference of opinion amongst developers but a number of house builders claim that the local market is now saturated/over-supplied and the demand is somewhat constrained by limitations on availability of mortgages and wider economic climate at present. . It should be noted that this issue will be further explored during the preliminary draft consultation stage, it has not yet been proven.

The location and supply could lower land acquisition costs

3.9 That is not to say that further development will not occur in South Ribble, because these market sentiments are likely to be reflected in land values. If land can be acquired more cheaply, then development may well be a viable proposition, provided that landowners are willing to dispose. In the medium term, as the quantum of over-supply subsides, a pick up in the rate of development may well occur, particularly if credit availability (for both developers and mortgagees) in the wider economy loosens. The fact that a good proportion of the prospective future residential land supply in South Ribble is capable of being developed at the strategic location south of Penwortham and north of Farington and at the Moss Side Test Track site is also beneficial, because it enables developers to work with South Ribble Borough Council to create a vibrant environment and to 'make the market' in that location.

Residential values peaked in 2007

3.10 A review of residential values in Central Lancashire over the last 5 years shows that prices peaked in October 2007 when they were some 11.7% above the current position. The trough of the recent market cycle was in October 2010 when prices were 7.2% below current levels. The more recent picture, within the wider pattern of price volatility, has been one of slow but steady growth. This picture has been mirrored on a national scale as economic conditions and mortgage availability have improved slightly.

Future prospects

3.11 The future prospects in the wider housing markets are likely to be closely pegged to the performance of the wider economy and liquidity in the lending markets. A return to growth is likely to breathe new life into the market as buyers' confidence returns. Conversely, continued economic stagnation or a 'double-dip' recession will lead to buyers staying where they are. There are some signs of increased levels of mortgage availability and more favourable rates being offered. Negative economic data may put the brakes on this emerging trend, although the prospect of additional quantitative easing to improve lending liquidity may protect against this.

3.12 There are tremendous uncertainties in the economy at present, and the drivers for growth in demand such as the availability of loan finance and job security are difficult. However, the announcement by the Chancellor of the Exchequer at the Conservative Party Conference in Autumn 2011 that BAE Systems Samlesbury is to be designated an Enterprise Zone will give added impetus to the long-term development of the aerospace sector at Samlesbury, which is of regional and national importance.

3.13 Table 3.2 below shows Savills estimates of how values are likely to change in each region over the period to 2015 the North West is not expected to pick up for some time, and these figures must be treated with great caution due to the uncertainty of the economy.

Figure 3.2 Future residential market forecasts

MAINSTREAM MARKETS:
Five-year forecast values

Forecasts	2010	2011	2012	2013	2014	2015	2011–2015 inclusive
UK	0.7%	-1.5%	2.0%	3.0%	5.0%	5.0%	14.1%
London	2.7%	3.0%	6.5%	5.5%	5.5%	6.0%	29.4%
South East	2.5%	0.0%	4.0%	6.0%	6.0%	6.0%	23.9%
South West	2.1%	-1.0%	3.0%	4.0%	5.5%	5.5%	18.0%
East of England	3.8%	-1.0%	3.5%	5.0%	6.0%	5.5%	20.3%
East Midlands	1.8%	-2.5%	2.5%	4.0%	5.5%	5.0%	15.1%
West Midlands	0.7%	-4.5%	-0.5%	1.0%	4.0%	4.5%	4.3%
North East	0.8%	-4.5%	-2.0%	0.0%	3.0%	4.5%	0.7%
North West	-1.3%	-4.0%	-1.0%	0.5%	3.5%	4.5%	3.3%
Yorkshire & Humber	-3.4%	-4.5%	-1.5%	0.0%	3.5%	4.5%	1.7%
Wales	-1.5%	-3.0%	0.0%	2.5%	4.0%	4.5%	8.1%
Scotland	-2.0%	-2.5%	0.0%	1.0%	3.5%	4.5%	6.5%

Annual house price growth key:
8% and over | 6% to 8% | 4% to 6% | 2% to 4% | 0% to 2% | Below 0%

Source: Savills Residential Property Focus August 2011

Market demand will be a key factor in shaping the sales value

3.14 Key factors influencing the local residential markets will be the speed with which current new housing stock is taken up by the market. If sales are slow, then developer's fears of over-supply in the local market are likely to be re-enforced, leading to a drop-off in demand for new sites and a reduction in both the rate and the value of development. Having said this, most developers will take a longer term view of delivery. If houses currently on the market continue to be sold relatively quickly with values holding firm, then additional development can be expected in the short to medium term. However, it is particularly important in more marginal markets to identify sites that are likely to be attractive to the market. In this case, it is likely that such sites will be sufficiently large to create their own environment and market in the way that Buckshaw has.

Understanding the non-residential context

Samlesbury and Cuerden strategic employment sites are core uses of strategic importance to the delivery of the Core Strategy

3.15 The land allocated at BAE Systems at Samlesbury and Cuerden Strategic Sites are central to the achievement of the joint Core Strategy; indeed these allocations are of a sub regional / regional importance. The Samlesbury site has been recognised as being important for the concentration of the aerospace sector, based on creating spin outs from links with the BAE Systems already here. The announcement by the Chancellor of the Exchequer at the Conservative Party Conference in Autumn 2011 that BAE Systems Samlesbury is to be designated as an Enterprise Zone will give added impetus to the long-term development of the aerospace sector at Samlesbury, which is of regional and national importance. The Cuerden site, off the M6 / M65 motorway junction at Bamber Bridge is proposed for a mix of uses compatible with a high quality employment site.

3.16 The timing of delivery of these sites will be crucial and although the quantum of employment space is significant, average take up rates are likely to be slow. Aside from precision engineering and manufacturing, warehousing and distribution are likely to be a key sector in influencing demand for employment space. In the short to medium term, pre let and pre sold accommodation will be the primary drivers of the new build market in such locations. Demand for speculative employment space is unlikely to increase until the market conditions improve.

3.17 The development floor area proposed in these locations is very significant (see below), hence, any CIL charge for these locations / uses will have two implications:

- Any CIL charge on these uses / locations could have a major impact on the overall revenues to fund wider strategic infrastructure.
- However, an imposition of a CIL charge here could possibly add another ‘obstacle’ to the delivery of employment. However, the CIL regulations are clear that the CIL charge levels would have to be justified on viability evidence and not policy drivers to support the delivery of employment.

3.18 Our assessment has taken account of rentals, yields and costs of schemes of a similar nature, to ensure that the assessment for the CIL charge for these significant developments carefully reflects the type of development proposed. The locational advantage near motorways means that B Class uses are likely to be attractive

3.19 The relative accessibility of South Ribble, given its location close to both the M6 and M61 means that peripheral industrial and warehousing developments remain attractive to manufacturing and distribution businesses, maintaining moderate rental levels. Cuerden Strategic Employment Site will benefit from this location advantage. However, the national economic conditions and outlook have impacted significantly on the perceived risk of commercial development and industrial development in particular, leading to an increase in yields that has pushed down the value of industrial/warehouse floorspace.

There is little office supply, but new business parks have been successful

3.20 There is little or no office market within the town centres of either Leyland or Bamber Bridge, with both supply and demand being extremely limited and therefore little comparable evidence of rental values. Outside of the town centre, there are a small number of business park developments such as South Rings, Bamber Bridge and office space at Matrix Park at Buckshaw Village, which have been relatively successful in attracting tenants.

There have been a number of retail developments in the past ten years

3.21 Town centre retail for comparison goods is marginal with little demand in South Ribble. The retail hierarchy for South Ribble, as set out in the publication version of the Central Lancashire Core Strategy identifies Leyland as the town centre in the Borough. The retail hierarchy also indentifies four district centres at: Bamber Bridge, Penwortham, Longton and Tardy Gate. All of the town and district centres in South Ribble (and Chorley) are subordinate to Preston City Centre. The development of the Tesco Extra store in Southern Towngate in Leyland and the Morrison store, together with the Argos Extra and the Homebase store on the former Farington Business Park site over the last ten years, have resulted in major investment into the town centre.

3.22 The Central Lancashire Retail and Leisure Review highlighted that Leyland has a limited comparison offer and the household survey results found that most households visit the Capitol Centre (in Walton-le-Dale) or Preston City Centre for their main comparison shopping. Bamber Bridge servers localised day to day comparison shopping needs. The Central Lancashire Retail and Leisure Review (2010) did not identify the need to any major new comparison provision in the town centre. Investment now needs to focus on the core of the town centre, focussing on Hough Lane and Towngate.

What is the quantum of employment land?

3.23 Table 3.3 below shows estimated delivery of employment and retail floorspace planned for future delivery. A substantial amount of employment land planned to the east of the M6 motorway junction.

Table 3.3 Summary of planned non- residential developments

Type	Quantity Sq m.
Strategic B Class use at Cuerden and Samlesbury	630,000
Retail warehouse	67,300
Strategic town centre retail	6,900
Supermarket – Bamber Bridge area	unspecified

Source: South Ribble council officers (2011)

Summary of development context

3.24 The core proposed development in South Ribble consist of:

- A sub regionally significant allocation of B class employment highlights the importance of the CIL assessment to reflect this core use.

- The majority of the residential schemes are likely to be within groupings of 800 – 1200 dwellings, hence will require an element of on site infrastructure.
- 70% of the proposed new residential growth is situated in low to medium value areas, but of a large enough scale to create their house values markets.

4 APPROACH TO DEVELOPMENT VIABILITY APPRAISAL

4.1 In this section we explain our approach to appraising residential and non-residential uses.

A broad strategic approach

4.2 CIL viability appraisal must be based on a broad, strategic approach to avoid focus on individual development sites – by its nature, this approach will involve a high degree of generalisation. As such we do not focus on any individual site specific valuation; to do so would render the evidence as non compliant with state aid rules.

4.3 A strategic viability appraisal of this nature will have a high margin of variance from a site specific valuation. There can also be major differences between the outcome of an a viability appraisal and what is actually being delivered on the ground due to wider economic influences such as access to development finance and general market confidence.

4.4 It is clear that across South Ribble, viability will vary considerably depending on the nature of the site, its existing use and location. Viability will also be affected by the extent of other planning requirements (that will still be covered by S106 such as affordable housing and open space). Therefore an understanding of these factors has also been a critical input in informing our assessment of the appraisals and CIL charge.

4.5 This has been carried out by ensuring that we have a good understanding of the strategic development context of the plan area. In the case of residential development, most of the growth is directed within the central areas of South Ribble around Leyland and Penwortham. The critical development overall however, is that proposed at Cuerden and Samlesbury for strategic business employment type uses.

4.6 Our objective is to ensure that the CIL charge is set at a level which maximises the likelihood of sufficient development land coming forward so as not to put the overall development strategy at risk. For this reason, the legislation acknowledges that the viability evidence will 'inform' the charging schedule and is not required to exactly mirror the evidence. We have adopted a pragmatic approach between using locally researched viability evidence and market intelligence to inform the appraisals and pitched the CIL charge at a level that will not put at risk the bulk of development proposed in South Ribble.

Approach to residential viability appraisal

We used the residual method of appraising the residential use

4.7 We use a residual method of appraisal for residential use. There are basically two approaches to assessing residual value as follows:

- Approach one: Assess the level of return generated from a scheme where the cost of buying the land is included as an input to the appraisal.
- Approach two: Establish a residual site value by inputting a predetermined level of developer's profit to see what is left to pay for the cost of acquiring the land.

4.8 Our approach, assesses the overall value of a development then deducts the cost of providing the development (including cost to acquire the site), to arrive at a developer's profit level. This profit level, (pitched at an acceptable level in the market to take account of the risk of undertaking the development) then forms the basis to assess whether there is sufficient margin in the developer's profit to pay a CIL charge and / or other planning obligations. Our approach is based on the emerging RICS guidance[5] as follows:

4.9 *'An objective financial viability test of the ability of a development scheme to meet its costs including the cost of planning obligations, whilst ensuring where relevant an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project'*

4.10 This residual appraisal approach is illustrated in figure 4.1.

Figure 4.1 Residual method of appraising residential use

RESIDENTIAL VIABILITY APPROACH
Net development value
Minus
Reasonable land acquisition costs
Minus
Total development costs
Equals
Residual developer's margin
(Determines ability to pay for CIL)

Variations in affordable housing and planning contributions assessed

4.11 The implications of some planning requirements, particularly affordable housing, can add a further complication to the assessment. The affordable housing target is part of a S106 requirement, and increasingly in the current economic climate, this target is becoming part of a wider consideration and negotiation as to the overall cost of planning contributions being sought.

4.12 Given the policy importance of affordable housing and wider developer contributions, the following variables were assessed:

- Affordable housing at 0%, 20%, 30% and 35% of units; and
- Developer contributions (either CIL and /or S106) at £0, £4,000, £8,000 and £12,000 per dwelling.

DCLG consultation on the treatment of affordable housing

4.13 It is important to note that there is currently a DCLG consultation to assess wider views as to whether affordable housing should be classed as 'infrastructure' and so enabling CIL receipts to pay for the delivery of affordable housing. The outcome of this will not be known

[5] RICS draft guidance note – Financial viability in planning, July 2011 https://consultations.rics.org/consult.ti/financial_viability/viewCompoundDoc?docid=1057396&partid=1057876

for some time, and so our assessment has been based on the current position of treating affordable housing in the appraisal is to test various affordable housing cost inputs.

The model used for residential appraisal is entirely transparent

4.14 The financial model used for assessing the viability of residential development in this study is entirely transparent; it uses Microsoft Excel and contains no hidden formulae. The model is based on a hypothetical site of 1ha (2.47 acre) gross area and enables a variety of assumptions on the characteristics of the development and local market conditions to be input, each of which can be varied to show the implications of different scenarios. A disc containing all the model appraisals accompanying this report has been provided to the client.

Assumption inputs to modelling are critical to determining accuracy

4.15 As explained above, it is not possible to accurately determine the assumptions inputs as we are dealing with a broad appraisal and not a site valuation. Thus, a high degree of considered generalisation is involved. The assumptions inputs for this assessment have been kept intentionally conservative and in most circumstances the approach will return a more conservative estimate of what is viable and what is not, than might be expected on the basis of anecdotal information on the price paid for development sites in the past and Land Registry reports.

4.16 Our research and estimation of the assumptions inputs for the appraisal are based on an understanding of more significant development proposed in South Ribble. Where available, we have gathered and assessed readily available evidence, to inform the modelling and this has been adjusted by an assessment of the local transactions and market demand information. We have also sought to ensure that previous viability work was consistent with this appraisal, by checking, and aligning assumption inputs with the Housing Viability Study undertaken in 2010

4.17 A confidential technical report accompanying this study has been provided to the client showing the research and basis for various assumption inputs that has informed the viability appraisals.

Residential viability assumptions

4.18 Appraisals of numerous scenarios based on different variables with respect to four key assumption variables were tested. The assumptions used for the appraisal were:

- land price at £1.2 and £1.5 million per gross hectare;
- sales values at £1,950per sq. m, £2,150 per sq. m and £2,350 per sq. m,
- affordable housing at 0%, 20%, 30% and 35%,
- developer contributions (either CIL or S106 or a combination) at £0, £4,000, £8,000 and £12,000 per dwelling.
- 70% of the gross site area to be considered developable (i.e. not required for open space, infrastructure or other non-housing requirements);
- 35 dwellings per hectare and no apartments;
- Affordable housing to comprise 70% affordable rented and 30% shared ownership;

- Affordable rent to recoup 50% of open market value (OMV) and shared ownership 70% of OMV;
- An average house size of 90sq. m;
- A build cost of £900per sq. m;
- Costs for secondary infrastructure at £300,000 per ha;
- Professional fees at 12% of cost;
- Costs of sales and marketing at 3% of development value; and
- Finance at 7.5% (assessed using a summary cashflow model).

Sources of information to inform the assumptions inputs

4.19 Information on the per sq. m values of new residential development was gathered through an analysis of new properties that are currently for sale. Information on the price and size of new houses and apartments was gathered and used to determine a value per sq. m for each dwelling. These per sq. m values could then be averaged and used as the basis for analysis of differences between areas and development types. The sources of this information included the website of developers themselves and other websites that focus on selling newly built residential property.

4.20 Information on constructions costs for residential development was gathered from a recently published Davis Langdon study that tested the cost implications of achieving Code for Sustainable Homes Level 4/Part L of the building regulations. The sample schemes used for that analysis were in and around London, so an allowance was made to take account of the lower costs of developing in Central Lancashire.

4.21 In respect of residential development land prices/values, we took account of recent Valuation Office Agency reports covering this issue. Until 2009, the Valuation Office Agency's reports were more detailed and identified typical residential development land values specifically for Central Lancashire. Since then, however, a more high level approach has been taken which only provides data from Liverpool and Manchester in the North West. In arriving at initial assumptions on land prices, we took account of both the Central Lancashire-specific 2009 data and factored in changes in market conditions since then, as well as the 2011 data for Manchester and Liverpool, factoring in the perceived strength/weakness of South Ribble as a market location relative to them.

4.22 To provide additional foresight into likely future residential development market conditions, we also undertook a review of published research and market commentaries of agents focussing on residential development markets. Most notably, Savills 'Residential Property Focus of August 2011 was considered (see figure 3.4). Its summary projections show a relatively static to declining position for residential values in North West England until 2014/15.

Assumptions inputs were tested through consultations

4.23 Initial conclusions based on our research findings were then tested through informal consultations with a number of local house-builders and agents and revisions/additional scenarios were made to reflect comments received, where it was justified by evidence to do so.

Approach to non-residential viability appraisal

4.24 Our approach to assessing the viability of non-residential development uses a simplified viability model to estimate the residual value of a single sq. m of development across the following development types identified by the client to inform the charge variation options:

- Town centre and business park offices,
- Small industrial/workshops
- Large industrial/warehouses;
- Convenience retail
- Retail warehousing
- Town centre and local retail

We used the residual method of appraising the non-residential use

4.25 The model itself is a simple residual land value assessment. It follows a similar approach to that taken for residential development but applies a fixed developer's margin as an assumption input.

4.26 This approach assesses the overall value of a development and then deducts reasonable land acquisitions costs, total construction and development costs (including finance) and a developer's profit at an assumed level. Therefore, rather than the output of the model being an estimate of developer's margin, it is a residual value (from which a CIL charge could be drawn) after the developer's margin has been taken into account.

4.27 This residual appraisal approach is illustrated in figure 4.2

Figure 4.2 Residual method of appraising non-residential use

NON-RESIDENTIAL VIABILITY APPROACH

Net development value

Minus

Reasonable land acquisition costs

Minus

Total costs

Minus

Developer's profit

Equals

Residual Value (determines ability to pay for CIL)

4.28 The simplified assumptions which underpin the assessment model are set out below and the assessment underpinning these assumption inputs are provided as a confidential technical report to the client.

Non-residential viability assumptions inputs

4.29 The key assumptions for the non-residential viability assessments, including the rental values per sq. m, yields and build cost across each use are set out in the table 4.3 below, whilst other more generic assumptions are provided below:

- Inducements at 10% of development value;
- External works at 10% of build cost;
- Professional fees at 10 -15% of build cost depending on the likely complexity of development (higher in town centres, lower elsewhere);
- Marketing and sales costs at 5% of development value;
- Contingency at 5% of development cost;
- Interest at 7% on all costs including land and purchase costs; and
- Developer's Margin at 20% of cost.
- Three CIL charge levels were tested – £10, £40 and £160 per sq m.

Table 4.1 Key non-residential assumption inputs summary

Town Centre Office	*Rent per sq.m*	£130
	Yield	9%
	Build cost per sq.m	£1,300
Business Park Office	*Rent per sq.m*	£140
	Yield	7%
	Build cost per sq.m	£1,150
Large Industrial/W'house	*Rent per sq.m*	£55
	Yield	7.75%
	Build cost per sq.m	£430
Small Industrial/W'shop	*Rent per sq.m*	£65
	Yield	8%
	Build cost per sq.m	£550
Major food retail	*Rent per sq.m*	£190
	Yield	5%
	Build cost per sq.m	£1,200
Retail Warehouse	*Rent per sq.m*	£140
	Yield	6.75%
	Build cost per sq.m	£680
Town Centre Retail	*Rent per sq.m*	£200
	Yield	8.00%
	Build cost per sq.m	£835
Local Retail	*Rent per sq.m*	£135
	Yield	8.50%
	Build cost per sq.m	640

4.30 We have made separate provision for Section 106 and other site-specific planning contributions estimations. In practice there will be a wide variation in S 106 contribution requirements depending on the specific site and proposal – for instance site specific transport mitigation costs can vary considerably.

4.31 A land value of £500,000 per hectare is assumed for all non-retail out of centre uses based on the information sources and consultations identified earlier. For town centre and retail development, where land values are likely to be significantly different, assumptions are based on consultation findings and experience of land assembly in comparable locations elsewhere were used to inform land purchase cost estimates.

Non Viability information sources

4.32 The approach taken to establishing the likely values of new development was to review recent rental and investments transactions in South Ribble. The transactional data was derived from the Focus / Co Star database, which provides details of the vast majority of transactions, broken down use.

The transactional data reflected the type of development anticipated

4.33 Where possible, the analysis of transactional data focussed specifically on more modern accommodation in similar locations to where future growth is envisaged, so that the information gleaned from the transactions was most relevant and comparable to the types and locations of development likely to occur. Where transactional data for directly comparable property was not readily available, assumptions were based on informed judgement as to the likely values that new development (of the type envisaged and in the locations proposed) would attract.

4.34 Cost data for non-residential development types have principally been sources from the Building Cost Information Service index of construction prices. This provides build costs for a wide range of different forms of development indexed for Lancashire.

4.35 In addition to transactional data that provided intelligence on prevailing yields for different property types in South Ribble, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE's 'Prime Rent and Yield Monitor Q2 2011. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of South Ribble and prime locations.

4.36 The assumptions on land and purchase costs have been derived from the Valuation Office Agency's Property Market Reports, specifically the July 2009 version (the most recent to include figures for Central Lancashire) and the January 2011 version (the latest report, but which only provides figures for Liverpool and Manchester). These reports provide information on the value of a cleared development site situated in an established industrial location with a site area of 0.5 to 1.0 hectare. This information was supplemented by consultations with local agents and developers.

Assumptions inputs were tested through consultations

4.37 After drawing initial conclusions as to the likely rental values and yields of each development type a series of consultation with local agents and developers were undertaken in order to test the assumptions with revisions made to reflect comments received, where it was justified by evidence to do so.

4.38 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing investments or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prime facie evidence that achieving viability is a challenge at the current time.

5 APPRAISAL FINDINGS AND CIL CHARGE OPTIONS

5.1 This section sets out the findings of the viability assessment for both residential and non-residential developments and considers the implications of this on the CIL charge variation options. In the case of both residential and non-residential development, we have classified the likely viability using a traffic light system, whereby green represent viable development, amber represents development at the margins of viability and red represents development that is unlikely to be viable[6].

Residential viability appraisal findings

5.2 We have tested a wide range of residential development scenarios with differing land costs, sales values, levels of affordable housing provision and developer contributions (through CIL and S106). The scenarios assume land costs at either £1.2m per ha and at £1.5m per ha, reflecting our research on residential land values in the area. Our research also revealed that sales values typically range between £1,950 per sq. m and £2,350 per sq. m. The £1,950 sales values broadly reflects those seen at the bottom of the market during the recent recession and is principally shown to demonstrate the implications on viability of a return to recession and house price deflation.

5.3 Clearly, land is likely to cost more in locations where sales values are at the higher end of this range and cost less where sales values are at the lower end of this range. Given the location and characteristics of the sites identified for residential development in South Ribble, our view is that the land cost is likely to be at the lower end of the £1.2 - £1.5m per ha range set out above. Our analysis suggests sales values in the middle of the range of tested values at around £2,150 per sq. m. That said, it remains plausible that a good site in South Ribble could cost more than £1.2m per ha and achieve sales values up to £2,350.

5.4 With these principal parameters, a number of separate viability assessments were undertaken, reflecting different scenarios in terms of the percentage of affordable housing (0, 20%, 30% and 35%) and developer contributions of 0, £4,000 per unit, £8,000 per unit and £12,000 per unit (S106/CIL). The findings of the residential viability appraisals are set out in table 5.1, which summarises the assessed developers return expressed as a percentage of development costs.

[6] This traffic light assessment must be treated with caution, as explained in the previous section; the appraisals are based on a strategic approach and in no way prejudice any site specific valuations.

Table 5.1 Residential viability assessment summary findings

Land @ £1.2/ha																	
Affordable		0%	0%	0%	0%	20%	20%	20%	20%	30%	30%	30%	30%	35%	35%	35%	35%
S106/CIL per unit		£0K	£4k	£8k	£12k	£0K	£4k	£8k	£12k	£0K	£4k	£8k	£12k	£0K	£4k	£8k	£12k
Value	**£1950psm**	21.0%	17.5%	14.1%	11.0%	10.6%	7.4%	4.3%	1.4%	5.4%	2.3%	-0.6%	-3.4%	2.8%	-0.2%	-3.1%	-5.8%
	£2150psm	33.8%	29.9%	26.2%	22.7%	22.3%	18.7%	15.3%	12.1%	16.6%	13.1%	9.9%	6.8%	13.7%	10.3%	7.1%	4.2%
	£2350psm	46.7%	42.4%	38.3%	34.5%	22.9%	30.2%	26.6%	26.2%	27.8%	24.0%	20.5%	17.1%	24.6%	21.0%	17.5%	14.2%
Land @£1.5m/ha																	
Affordable		0%	0%	0%	0%	20%	20%	20%	20%	30%	30%	30%	30%	35%	35%	35%	35%
S106/CIL per unit		£0K	£4k	£8k	£12k	£0K	£4k	£8k	£12k	£0K	£4k	£8k	£12k	£0K	£4k	£8k	£12k
Value	**£2350psm**	36.9%	33.1%	29.6%	26.2%	25.2%	21.7%	18.4%	15.3%	22.8%	16.0%	12.8%	9.9%	16.3%	13.1%	10.0%	7.1%

Notes and key to table 5.1

- Developer's 'profit' expressed as a % of cost
- Trade-off between affordable housing and CIL/S106

5.5 The shading in each of the cells in table 5.1 reflects the broad viability of development. If the developer's return is over 20% then the cell is shaded green reflecting the fact that it is likely to be very attractive to house builders. Where this return on cost is between 15% and 20% cells are shaded amber because the viability of the development and its attractiveness to the market is variable and much will depend on the level of risk, development finance package and site specific characteristics. A return on cost of less than 15% has been considered unlikely to be appealing to developers and as such is shaded red.

What are the residential CIL charge options?

5.6 From the summary in table 5.1, it is clear based on sales values at £2,150 per sq. m, combined with land costs at £1.2m and a target for affordable housing at 30%, then development is only likely to be viable with little or no developer contributions and event then viability is relatively marginal. If affordable housing requirement is reduced to 20%, then it would be possible to seek developer contributions nearer to £4,000.

5.7 However, taking a slightly optimistic view of housing development value at £2,350 per sq. m (still within the range of values currently being achieved in the area) suggests that 30% affordable housing and £8,000 per unit in contributions is viable (21%).

5.8 In reality, individual schemes may perform better than our conservative strategic appraisal. The details of any individual development are almost certain to vary in a number of ways to the generic assessments depending on the detailed design and density, land price agreed, the build costs a developer can achieve, the level of affordable housing provision negotiated and the capacity of existing infrastructure amongst many other factors.

5.9 If individual viability valuations demonstrate higher profit margins, then it will be possible to negotiate on the level of affordable housing closer to the target level of affordable and greater levels of on-site S106 contributions if required.

A CIL range of between £40 to £70 for South Ribble

5.10 Given that there is some scope for negotiating on the level of affordable housing and S106 contributions (based on individual site assessments), we consider a CIL charge range of

£40 - £70 to be reasonable to consult on the preliminary draft consultation stage. This is set out in table 5.2 below.

Table 5.2 CIL charge range for residential development

CIL charge range for residential development
CIL charge £40 - £70 Sq. m

Our view on where to pitch the CIL charge

5.11 The final decision on the balance on housing delivery / risk to delivery and funding strategic infrastructure will be for the charging authority to determine. However, the client team requested a view from the consultants on the level at which to set the CIL charge.

5.12 Based on our understanding of the wider area, and particularly the following assessment:

- Feedback from the developer sector that in the current market, delivery will be 'to order' to avoid over supply of new housing stock in the short term;
- There are existing sites in the planning pipeline to support short term delivery (some 2000 units);
- The remaining quantum of housing supply (approximately 4,300) that will be chargeable for CIL to pay for strategic infrastructure.
- The scale of most of the remaining major development sites (about 800 - 1200) could require some 'on site' infrastructure[7], and so will affect the level of CIL.
- The conservative nature of our assumptions.
- The need for strategic infrastructure funding to support new growth.

5.13 We would suggest pitching the CIL charge between the mid to higher level in South Ribble for the Preliminary Draft Consultation stage.

Charge variations by land zone was considered and ruled out

5.14 It was not considered necessary to vary the residential charge by different land zones within South Ribble, as our assessment of the development context (see figure 3.3) earlier showed that the majority of strategic unconsented development is concentrated within a similar value zone. The option of a higher value zone was considered but ruled out for the following reasons:

- The majority of growth is within the same lower value zone. Any development in higher value areas will be able to afford this charge and should be able to provide greater contribution towards affordable housing requirements (policy targets of up to 35%).
- There are difficulties in justifying a variation based on a boundary line without a very clear separation in viability boundaries.

[7] Will be properly assessed by the infrastructure delivery plan.

5.15 For these reasons it was not considered necessary to add additional complexity to the charge options by introducing additional zone variations. The non-residential viability appraisal findings outline the scope for some CIL charge variation by use type.

Non-residential viability appraisal findings

5.16 The findings of the non-residential viability appraisals are set out in tables 5.3a, b and c which summarise the residual value margins expressed as a percentage of development costs. These tables also show the results of testing for different CIL charge options – zero, £10, £40, and £160. The shaded row at the bottom of each table shows the viability[8] of development based on the following traffic light assessment:

- Red shaded cells show those uses for which there is a negative residual value after all costs (including developer's margin) are taken into account (i.e. development costs are higher than development value).
- Amber cells show those uses where values exceed costs (including developer's margin), but by less than 15%.
- Green cells show those use types where the residual value if greater than 15% of cost and can be considered viable.

Table 5.3a Non-residential viability appraisal based on CIL at £10

South Ribble		Town Centre	Business Park	Warehousing	Industrial	Convenience Retail	Retail warehouse	Town Centre Retail
Rent		130	140	55	65	190	140	200
Yield %		9	7	8	8	5	7	8
Minus inducements	1	144	200	71	81	0	207	250
VALUES	2	**1,300**	**1,800**	**639**	**731**	**3,420**	**1,867**	**2,250**
COSTS	2							
Land + Purchase Costs	3	75	50	50	50	250	200	250
Basic Build Cost		1,300	1,150	430	550	1,200	680	835
External Works	4	130	115	43	55	120	68	84
Fees	5	215	152	47	73	132	75	138
CIL @ £10/m²		10	10	10	10	10	10	10
Section 106/m²	6	20	20	20	0	100	50	50
Marketing & Sales		65	90	32	37	171	93	113
Contingencies		82	71	26	34	73	41	53
Interest	7	173	148	58	74	171	103	132
Margin	8	408	355	137	174	423	252	321
Total Cost Benchmark		**2,478**	**2,160**	**854**	**1,056**	**2,650**	**1,573**	**1,984**
Values - Costs		**-1,178**	**-360**	**-215**	**-325**	**770**	**294**	**266**
Residual margin (% cost)		**-48%**	**-17%**	**-25%**	**-31%**	**29%**	**19%**	**13%**

[8] This traffic light assessment must be treated with caution, as explained earlier; the appraisals are based on a strategic approach and in no way prejudice any site specific valuations.

Table 5.3b Non-residential viability appraisal based on CIL @ £40

South Ribble		Town Centre	Business Park Office	Warehousing	Industrial	Convenience Retail	Retail warehouse	Town Centre Retail
Rent		130	140	55	65	190	140	200
Yield %		9	7	8	8	5	7	8
Minus inducements	1	144	200	71	81	0	207	250
VALUES	2	**1,300**	**1,800**	**639**	**731**	**3,420**	**1,867**	**2,250**
COSTS	2							
Land + Purchase Costs	3	75	50	50	50	250	200	250
Basic Build Cost		1,300	1,150	430	550	1,200	680	835
External Works	4	130	115	43	55	120	68	84
Fees	5	215	152	47	73	132	75	138
CIL @ £40/m²		40	40	40	40	40	40	40
Section 106/m²	6	20	20	20	0	100	50	50
Marketing & Sales		65	90	32	37	171	93	113
Contingencies		82	71	26	34	73	41	53
Interest	7	176	151	61	77	174	106	135
Margin	8	409	356	138	175	424	253	321
Total Cost Benchmark		**2,511**	**2,194**	**887**	**1,090**	**2,684**	**1,606**	**2,017**
Values - Costs		**-1,211**	**-394**	**-248**	**-359**	**736**	**260**	**233**
Residual margin (% cost)		**-48%**	**-18%**	**-28%**	**-33%**	**27%**	**16%**	**12%**

Table 5.3c Non-residential viability appraisal based on CIL @ £160

South Ribble		Town Centre	Business Park	Warehousing	Industrial	Convenience Retail	Retail warehouse	Town Centre Retail
Rent		130	140	55	65	190	140	200
Yield %		9	7	8	8	5	7	8
Minus inducements	1	144	200	71	81	0	207	250
VALUES	2	**1,300**	**1,800**	**639**	**731**	**3,420**	**1,867**	**2,250**
COSTS	2							
Land + Purchase Costs	3	75	50	50	50	250	200	250
Basic Build Cost		1,300	1,150	430	550	1,200	680	835
External Works	4	130	115	43	55	120	68	84
Fees	5	215	152	47	73	132	75	138
CIL @ £160/m²		160	160	160	160	160	160	160
Section 106/m²	6	20	20	20	0	100	50	50
Marketing & Sales		65	90	32	37	171	93	113
Contingencies		82	71	26	34	73	41	53
Interest	7	188	163	73	89	186	118	147
Margin	8	411	358	140	177	426	255	324
Total Cost Benchmark		**2,646**	**2,328**	**1,022**	**1,224**	**2,818**	**1,741**	**2,152**
Values - Costs		**-1,346**	**-528**	**-383**	**-493**	**602**	**126**	**98**
Residual margin (% cost)		**-51%**	**-23%**	**-37%**	**-40%**	**21%**	**7%**	**5%**

Notes accompanying tables 5.3 a, b and c

Notes	1	A reduction of 10% of development value is made to reflect current market norms for rent free perioods and other tenant inducements
	2	All values and costs per m² unless stated
	3	The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
	4	Works outside built structure. High for business parks where extensive servicing and landscaping is required. Usually negligible in town centres.
	5	Fees are higher for smaller and/or more complex structures.
	6	This covers site-specific infrastructure being mainly social infrastructure on site and access and other works outside the site boundary.
	7	Interest costs vary with the nature and length of a typical project.
	8	Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

Costs exceed values	**Not viable**
Values exceed costs by less than 15%	**At the margins, but viable**
Values exceed costs by more than 15%	**Viable**

Summary of CIL charge impact on non-residential viability appraisals

5.17 The findings of the residual margins expressed as percentage of cost are summarised in table 5.4. These highlight two uses as having sufficient viability to be considered in the green category for a CIL charge.

Table 5.4 Summary of CIL implications on non-residential viability appraisals

South Ribble		Town Centre	Business Park	Warehousing	Industrial	Convenience Retail	Retail warehouse	Town Centre Retail
CIL @ £0		-47%	-16%	-24%	-24%	30%	20%	14%
CIL @ £10		-48%	-17%	-25%	-31%	29%	19%	13%
CIL @£40		-48%	-18%	-28%	-33%	27%	16%	12%
CIL @ £160		-51%	-23%	-37%	-40%	21%	7%	5%

What are the non-residential CIL charge options?

5.18 We outline the non-residential uses that may be included in the CIL charge and explain why some uses may not be charged or could be charged a nominal base rate.

Office use and other industrial uses are not viable and a nominal base rate will be consulted on

5.19 The core non-residential use in South Ribble is B Class employment, as this is where the greatest quantum of growth is proposed. On the basis of current rents, yields and development costs, the range of B Class development in either town centres or business parks does not appear to be viable (even with no CIL charge). In fact, a wide range of B class uses were assessed, by taking account of different locations and quality of development – and most of these developments were found to be unviable at present. In each case, this conclusion is supported by the lack of or very limited extent of development of this type over recent years. Thus there could be either a zero charge or a low base level charge applied.

5.20 Given the quantum of growth proposed in this category in South Ribble, the decision on whether to charge a nominal base rate or not will be very important. Even a small charge, pitched at say 1 -2% of the overall costs, could help to raise a substantial contribution towards the strategic infrastructure revenues.

5.21 Note the development economics for owner occupiers are quite different to that for speculative development. The driver for new development of office or industrial premises by owner occupiers is often to achieve business efficiencies, rather than to generate development profit; as such development by owner occupiers remains a possibility.

Convenience retail and retail warehouse uses are viable and different charge levels will be consulted on

5.22 The non-residential uses where there is evidence to charge a CIL include convenience retail and retail warehouse uses. Convenience retail use generates a significant value. Whilst development costs are relatively high, the strength of covenant provided by their operators and the rents that they can be achieved far outweigh the costs.

5.23 Retail warehouses also generate a positive residual value. In this case construction costs and rental values are generally lower than for superstores; however, we know that there are huge variations between users within this sector with some currently struggling to deliver, whilst others are looking to invest. Most new schemes seem to be locating within existing vacated stores. A charge that is consistent with the other Central Lancashire authorities maybe suitable to avoid unnecessary complexity in collection. It is likely that there will need to be a variation in the level of charge for retail warehouse compared to convenience retail.

Town centre retail is at the margins of affordability

5.24 Town centre retail for comparison goods is marginal with little demand or planned supply in South Ribble, this reflects the retail hierarchy position and nearby provision. The Central Lancashire Retail and Leisure Review highlighted that Leyland has a limited comparison offer and the household survey results found that most households visit the Capitol Centre (in Walton-le-Dale) or Preston City Centre for their main comparison shopping. Bamber Bridge servers localised day to day comparison shopping needs. The study also stated that there is no requirement to proactively plan for new comparison provision.

5.25 Given the relatively high level of development costs (and values) for town centre comparison retail uses, a CIL charge of say up to £100per sq. m represents only a small proportion of the overall development costs (c 2%) and therefore would have only a marginal impact on viability. Nonetheless the residual value is less than 13% of total costs for town centre retail in all the CIL charge scenarios, a separate charge category for this use will add an unnecessary layer of complexity to the CIL charging schedule therefore this use should simply pay either a base charge of either zero or a nominal charge.

Institutional uses are not viable and will not be charged

5.26 Non-residential institution (D1) type uses vary from public sector or charitable institutions such as health centres, Children’s Centres, libraries, museums and schools. We have not sought to test these individually, it is suffice to note that most have cost side implications to deliver and no revenue and so will have a negative residual value, and are often treated as 'infrastructure' in their own rights. These uses should not be charged any CIL.

5.27 No major private school is known to be delivered in South Ribble, though recent changes in Academy status may create a replacement of existing state schools for privately run school provision. A further consideration is that a large proportion of the D1 type uses are likely to have charitable status, and therefore could be exempt from CIL.

Leisure uses are not a core use for South Ribble and are highly specialist and will be charged a nominal base rate

5.28 The assessment was not extended to D2 use class including cinemas, music venues, swimming baths, skating rinks, etc – because such uses are, of themselves, very specialist. For the most part, leisure uses and especially those on a large scale, do not generate significant land values; the economics are inherently marginal and development only occurs when market conditions are favourable and on especially suitable sites. Thus it was felt would add an unnecessary layer of complexity to the CIL charging schedule therefore these uses should simply pay either a base charge of either zero or a nominal charge.

Sui generis uses will be charged a nominal base rate

5.29 By their very nature, sui generis uses cover a very wide range of development types. Our approach to this issue has been to consider the types of premises and locations that may be used for sui generis and assess whether the costs and value implications may have similarities with other uses.

- **Theatres** – very few new theatres are being developed in the UK and the exceptions – such as Chester – are in locations with large catchments, an existing foundation of extensive artistic activity and a local authority with the means and inclination to pay. We do not consider it likely that a new theatre will be developed in South Ribble during the plan period as there are existing facilities in place.
- **Hostels** these are likely to be either charitable or public sector uses such as probation hostels, half-way houses, refuges etc., or low cost visitor accommodation such as youth hostels. Our view is that the charitable uses are dependent upon public subsidy for development and operation, and therefore not viable in any commercial sense. Youth Hostels are operated on a social enterprise basis with small financial returns. Neither of these scenario's offer significant commercial viability uplift to capture a CIL.
- **Scrap yards** – it is unlikely that there would be many new scrapyard uses in the South Ribble in the future. A further consideration is that these uses are likely to occupy the same sorts of premises as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Petrol filling stations** – we are aware that recent new filling stations have generally been as part of larger supermarket developments, with independent filling stations closing. It seems unlikely that here will be significant new stand-alone filling station developments.
- **Selling and/or displaying motor vehicles** - sales of vehicles are likely to occupy the same sorts of premises and locations as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.

- **Nightclubs** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Launderettes** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Taxi businesses** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Amusement centres** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Casinos** – There is no national policy determining the location of major casinos and we are not aware of any such proposals in South Ribble.

The CIL charge options for non-residential uses

5.30 Based on the viability and market assessment, the following range of CIL charge options could be considered for non-residential uses in South Ribble:

- Convenience retail £120 to £160 per sq m.
- Retail warehouse - £20 to £40 per sq m.
- Non-residential institutions £0 per sq m.
- All other B class uses - £0 to £10 per sq m.
- All other uses - £0 to £10 per sq m.

5.31 We have been requested to advice on a charge for the preliminary draft consultation based on our assessment. Our recommendation is summarised in table 5.5.

Table 5.5 CIL charges for non residential development

Development Type	CIL Charge
Convenience retail	**£160 Sq. m**
Retail warehouse	**£40 Sq. m**
Non residential institutions	**£0 Sq. m**
All other uses	**£0 to £10 Sq. m**

5.32 If the charging authority preferred to have a very simple CIL levy structure, it could have a base rate CIL charge of zero for all other uses, £40 sq. m for retail warehouse and a £160 sq. m for convenience use.

6 CIL CHARGE LEVELS AND IMPLEMENTATION

6.1 This section pulls together the findings from the previous section to inform the level of CIL to consult on as part of the Preliminary Draft CIL charge consultation. We also put forward some suggestions to guide the implementation of CIL and delivery of infrastructure.

Preliminary draft CIL charge

6.2 The viability and wider market analysis has informed the recommended CIL charge levels for consultation as part of the preliminary draft charge consultation. These have been assessed to ensure they do not undermine the delivery of the bulk of growth proposed in the Core Strategy.

6.3 The charge levels proposed in table 6.1 are based on a pragmatic view, that factors in the need to negotiate on certain S106 agreements for site specifics requirements, particularly affordable housing.

Table 6.1 CIL charge levels for Preliminary Draft consultation

Development	CIL charge
Residential (dwellings)	**£70 Sq. m**
Convenience retail	**£160 Sq. m**
Retail warehouse	**£40 Sq. m**
Non-residential institutions	**£0 Sq. m**
All other uses	**£0 - £10 Sq. m range***

*see discussion below on where to charge all other uses £0 or £10

Views will be invited on whether to charge 'all other uses' a nominal rate

6.4 Views will be sought from stakeholders at the preliminary draft consultation stage on whether to include a nominal charge of £10 Sq m CIL levy on 'all other uses' to help fund strategic infrastructure or to simply to levy a zero charge on all other uses.

6.5 Some uses that are not necessarily critical to the overall delivery of the plan, will take place, and the CIL guidance permits charging authorities to either charge a zero CIL or charge a nominal level. Having considered the viability evidence and taking a broad position, it is clear that some development will come forward will be. Thus should some charge for all uses that come forward to contribute to infrastructure?

6.6 A small nominal charge could help to raise a contribution towards the strategic infrastructure revenues, whilst having a negligible impact on the overall scheme costs. However, collecting a small amount from all schemes could create an onerous task, and the efficacy of doing this will depend on the collections systems in place.

6.7 A decision will need to be taken on whether to charge a nominal rate or not – at this early stage, there is much to be said in keeping early charging procedures as simple as possible and so pitch the base rate at zero for all other uses. It will be useful to gauge wider views on this through the CIL consultation process.

Some suggestions for implementing the CIL charge

Consider a joint mechanism for CIL charging and spending

6.8 Given the strong nature of joint working between the three Central Lancashire authorities and the nature of various strategic cross border infrastructure projects, it will be worth looking to set up a CIL charging and implementation mechanism jointly. This is likely to provide you with economies and savings in terms of systems, processes and staff resources. Early consideration should be given to this, so that you can forward plan and have in place the charging mechanism.

Have you considered the Neighbourhood funding pot?

6.9 The Government is currently consulting on what should be a 'meaningful proportion' to be given over to neighbourhoods / parish councils from the CIL receipts to provide local infrastructure associated with the growth. It will be important for the client team to have a view on this and to piggy back on any wider community consultations as part of the LDF to seek community views on this.

Consider a simple CIL instalments policy to help viability

6.10 The charging authority has the opportunity to instigate an instalments policy for CIL payments to be phased over a period. It will be useful to assess the general timeframes for the delivery of different developments and then consider a simple policy, based on lesson's learned from S106 instalments. A possible starting point to consider this could be based on a phased payment schedule of two payments spread over two years. This is likely to be very welcomed by developers and could be more important than slight variations in the level of CIL charge itself.

Consider triggers for review of CIL charging schedule

6.11 There are no prescribed review periods for CIL charging schedule, it is up to the charging authority. We expect this is likely to be between three to five years, but much will depend on changes in development viability. B - Class viability tends to flow in cyclical trends; we are currently near the tough. Regular checks should be made, possibly via some simple annual monitoring report that assesses general trends to determine if viability has changed sufficiently to affect the CIL charge levels. Similarly a close watch should be kept on the average house prices and if these start to either go much above or below the levels factored in the viability assessment, then it may be opportune to review the viability assessment and CIL charge levels.

Start early preparations of the Regs 123 list of relevant infrastructure

6.12 A critical new element of infrastructure planning that the authority will need to get an early handle on is the Regs 123 list. This list is optional, and intended to avoid duplicate funding of S106 obligations. The list will spell out how the charging authority will use the CIL funding to pay for infrastructure. We would advise that work on this is commenced at an early stage and included as part of the Preliminary Draft CIL Consultation. This is not required, but it appears to be an area that causes the greatest level of debate from developers and it is useful to initiate an early dialogue on this.

A new approach to infrastructure planning and delivery is needed

6.13 The client team are preparing the infrastructure funding gap evidence base, and we have been informed of some of the early findings of this work and indeed have used some of the emerging findings to highlight the enormity of the potential funding gap. It is clear that we are working in an ever changing and uncertain economic and funding climate.

6.14 The historic approach to planning and infrastructure delivery will no longer be suitable for the new way of delivering growth. Previously, it was enough to allow the planning process to determine what and where development took place; and the funding and delivery simply followed, led either by private sector or individual government agencies e.g. transport and education. However, this is no longer the case, private sector markets are depressed, and public sector funding is restricted.

6.15 So a massive shift in infrastructure planning, funding and delivery is required to inform the important choices of how future growth will be delivered. The authority and particularly the political champions and corporate leaders of the authorities need to decide how you will approach this challenge to help support the delivery of future growth and provide proactive infrastructure planning and delivery management.

6.16 CIL is part of the bigger picture of infrastructure delivery, it is not intended to be the only source of funding, but it provides freedoms and flexibilities to use the CIL income to forward fund infrastructure delivery. There are opportunities to use this mechanism to generate new sources of income which in turn will help to pay for wider infrastructure requirements, however, some critical thinking will be needed, along with strong leadership and partnership working.