D|S|P Housing & Development Consultants

Shepway District Council

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

CIL & Whole Plan Economic Viability Assessment

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Final Report

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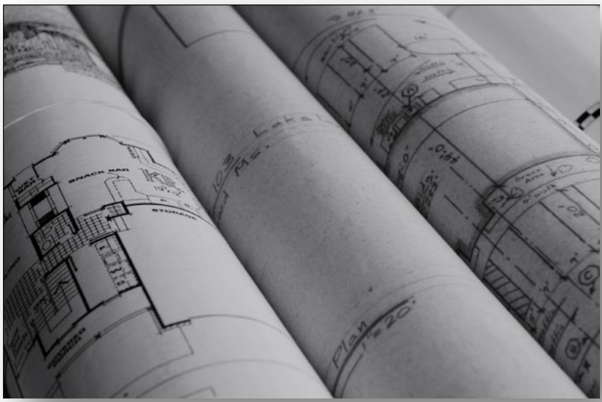
Contents



Figures

Appendices

Executive Summary

1. Project scope – the Council's brief

The scope of this study is to:

i. Provide robust viability evidence base to inform and support the development of a Community Infrastructure Levy associated with and based on the Local Plan.

ii. Provide recommendations on the appropriate level of CIL whilst maintaining viable development taking into account the cumulative impact of Local Plan policies.

2. National planning and Community Infrastructure Levy (CIL) context

The National Planning Policy Framework (NPPF) & CIL Regulations require and provide for:

i. Local Plans to be deliverable; and identified development should not be subject to such a scale of obligations and policy burdens that viability is threatened.

ii. Assessment of the cumulative impact of existing and proposed local and national standards; and those should not put at serious risk the implementation of the Plan.

iii. CIL is expected to have a 'positive economic benefit' and an 'appropriate balance must be struck between additional investment to support development and the potential effect on the viability of development'.

iv. The CIL Regulations have changed recently (February 2014) to include:

- Limitation on the pooling of s. 106 obligations delayed until April 2015

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

- New mandatory exemptions for self-build housing, and for residential annexes and extensions.

- A change to allow charging authorities to set differential rates by the scale of development (e.g. in response to varying viability driven by the amount of floorspace or number of units).

- An authority's ability to accept payments in kind through the provision of infrastructure either on-site or off-site.

- A new 'vacancy test', as part of determining when existing floorspace reduces the CIL payment.

3. Viability assessment – principles

i. It is accepted that not all development may be viable either before or after the impact of CIL or other planning policies – what counts is that delivery of the Local Plan, as a whole, will not be put at undue risk through the influence of requirements that place too high a level of collective costs on developments (through the CIL levels and policies).

ii. Charging Authorities need to show how their CIL proposals contribute positively to plan delivery; and how they will operate alongside s.106 (so as to ensure no "double-dipping" in terms of overlaps between costs and obligations used to support particular infrastructure provision).

iii. The assessment provides appropriate, proportionate evidence. It is a high-level overview based on scenarios and site-specifics research and development appraisals.

iv. In very basic terms, through the study we are looking at the strength of relationship between development values and costs.

4. Study methodology – principles and brief outline

i. The viability of a scheme is based on '*the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site* *value for the landowner and a market risk adjusted return to the developer in delivering that project' (RICS Guidance – 'Financial viability in Planning' - August 2012).*

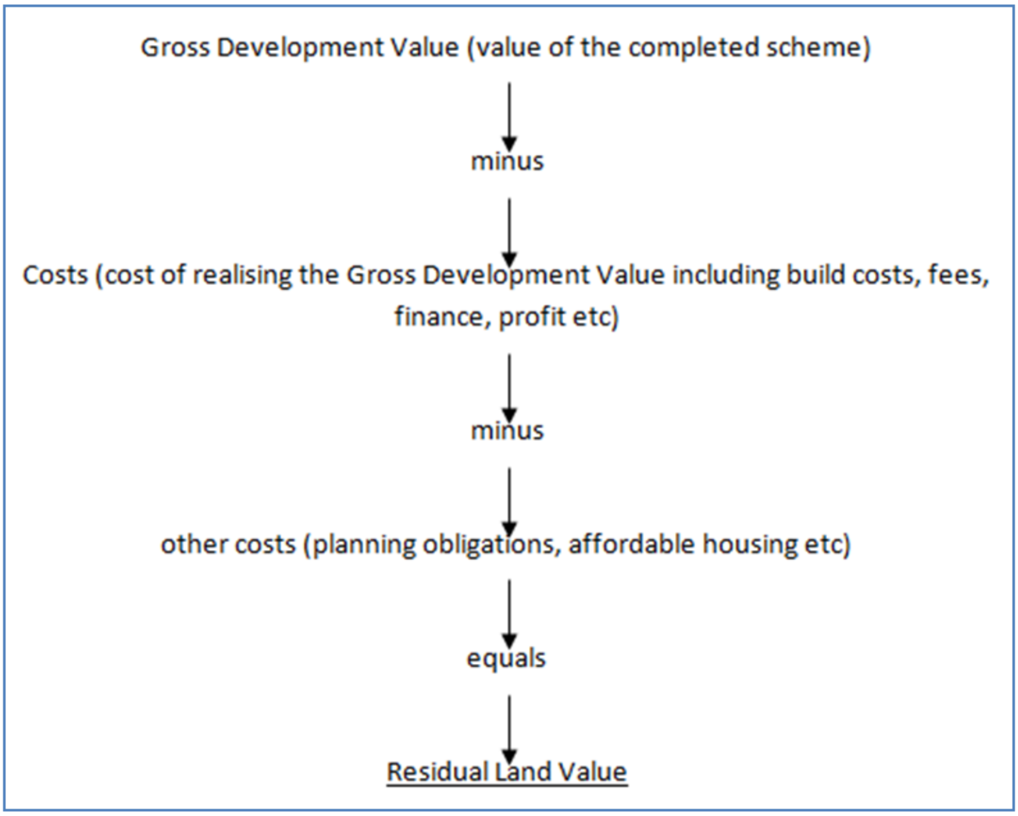
ii. This means that there needs to be sufficient land value and profit once all the costs of development have been met. The assumptions take into account planning obligations, CIL and affordable housing but also any policy requirements that may have a cost impact on development – e.g. sustainability, density, unit mix, affordable housing type / tenure, etc.

iii. The methodology basis is the same for all parts of the study – it uses residual land valuation techniques.

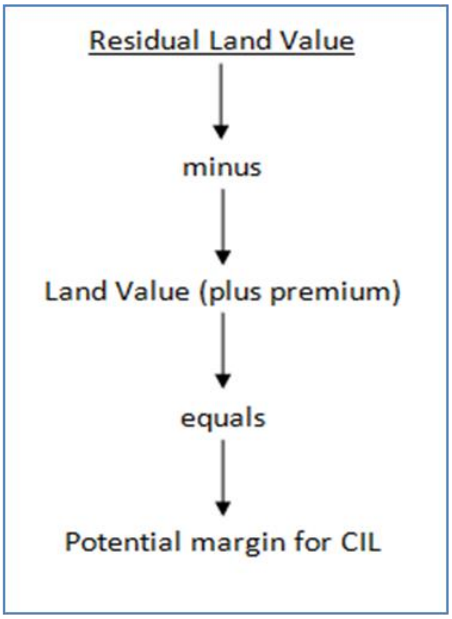
iv. The assessment process involves calculating the residual land value (RLV) produced by a range of scheme types and sizes (including non-residential for CIL) and comparing the results to benchmark or threshold land values. For CIL this includes trialling a range of potential CIL charging rates – an iterative approach following the initial assessment of the viability of key policies, allowing a review of the general viability picture and, from there, any in-principle surplus available to support CIL funding.

v. The process may be visualised as follows (see the following diagrams – steps 1 and 2):

Step 1: Appraisal produces a 'RLV':



Step 2: Considering the RLV and whether it is sufficient to provide a surplus for CIL:



5. Findings in Shepway

i. In high level terms, values across Shepway vary significantly across the district but also with significant variation within the main settlement of Folkestone (which contains amongst both the highest and lowest values seen in the district). Higher values are also seen within Hythe and the northern rural AONB areas of the district with amongst the lowest values seen in parts of Folkestone and Lydd. A range of values is seen in other areas of the district as described in more detail within this report.

ii. This points to CIL differentiation being a necessary and appropriate consideration for the Council, certainly at least at the level that parts of Folkestone and the southernmost area including Lydd will in our view need some significant differential treatment.

iii. As an overview, there are a range of characteristics relevant to proposed CIL setting in our view and experience. It is considered that overall, CIL will need to be set in a range between £0 and £125/m². The Council need to consider CIL rates differentiation by location of residential development and this has been discussed at length with officers, reviewing our information and combining that with local delivery experience. This need not produce a complex schedule of proposed rates for the PDCS but it is recommended that 4 CIL charging rate zones will be required respecting the viability evidence as follows. For ease of reference each of these set of characteristics is lettered (A to D):

   a. Folkestone (lower end values) & Lydd area (viability scope – A) ;
   b. Romney Marsh (rural and coastal) and north Folkestone fringe / Hawkinge (B);
   c. West of Folkestone (Sandgate) and Hythe (C);
   d. North Downs rural area settlements (D)

iv. In terms of the CIL considerations for non-residential development, we do not consider that there will be a need to differentiate geographically.

v. In summary, from a viability point of view we recommend the following for consideration by Shepway District Council - taking account of its adopted affordable housing policy and avoiding the setting of CIL charging rates at the margins of viability:

CIL Charging rates Parameters & Rates for Consideration
1. <u>Residential</u>
Overall parameters - £0 to £125/sq. m. **Recommend a 4 zones approach based on figures within this overall range and responsive to the variation in values and area characteristics:** **A:** **Lower-Folkestone (based on ward areas of Foord and Harbour, together with much of Cheriton and Moorhill)** **>> Recommended rate for consideration at the current time: £0/sq. m** **B:** **Mid-Folkestone, New Romney/Romney Marsh and Hawkinge** **>> Recommended rate for consideration at the current time: £50/sq. m** **C:** **Upper-Folkestone & Hythe area (west)** **>> Recommended rate for consideration at the current time: £100/sq. m** **D:** **North (Kent) Downs rural area settlements** **>> Recommended rate for consideration at the current time: £125/sq. m**

vi. With regard to non-residential development, the findings are for CIL charging scope applicable to any new larger format retail – i.e. supermarkets and similar, retail warehousing – at a rate not more than £100/sq. m. This rate would also be applicable to extensions of any size.

vii. All other retail, where applicable, should be charged at £0/sq. m. in terms of current viability.

viii. Any differentiation by type of retail, if following the above, should be linked to use rather than simply based on size.

ix. In testing other forms of commercial / non-residential development, it was found that any level of CIL charging could generally either exacerbate the viability issues associated with marginal schemes or unviable schemes by placing undue added risk to other forms of new development coming forward. This added risk needs to be balanced against the likely frequency of such schemes, their role in the development plan delivery overall and perhaps also the level of CIL "yield" (total monies collected) that they might provide. We are seeing some authorities looking to charge CIL on development uses such as hotels and care homes where those are shown clearly to be viable and of planned local relevance, but experience of such areas is highly variable and in Shepway we consider that the viability evidence does not support that at the current time.

x. Business (B use class) development (i.e. offices, industrial, warehousing) were found to show consistently poor viability outcomes. Assumptions need to be made too optimistic to reliably evidence any CIL charging scope. Therefore a nil charge (£0/sq. m) is recommended at the current time.

xi. The same applies to range of other uses except the larger format retail developments. So for all other development uses such as community, health, leisure, hotel, care homes, etc. again a nil CIL charge (£0/sq. m rate) is recommended at the current time.

2. Retail
Overall parameters – £0 – £100/sq. m. **Recommend larger format retail – retail warehousing and supermarkets – a charging rate of not more than £100/sq. m**. This rate would also be applicable to extensions of any size. **All other retail at £0/sq. m.** Any differentiation by type of retail should be linked to use rather than simply based on size (see 3.6.12 and associated text).

3. **All other development uses**
Nil CIL charge (£0/sq. m)

6. CIL and the Council's approach – Delivery considerations

i. The Council will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). CIL will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.

ii. This again is not just a local Shepway factor, but is a widely applicable principle.

iii. Under the latest CIL guidance, prospective charging authorities will need to make clear how CIL and s.106 will operate together in their area, including setting-out what each will be used for so as to ensure no 'double-dipping' (as it has been referred to) for funds towards meeting the infrastructure costs or for the provision of works in-lieu of financial contributions (known as 'works in kind').

1 Introduction

1.1. Background to the Study

1.1.1. Shepway District Council (SDC) is at an advanced stage in preparing its Local Plan, with the NPPF compliant Core Strategy formally adopted in September 2013. The Core Strategy sets out the long term vision for the district up to 2031.

1.1.2. The Council is currently producing a 'Places and Policies' Local Plan (the second and final part of the development plan) alongside an update of the Strategic Housing Land Availability Assessment (SHLAA).

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

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

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

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'[1].

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

1.1.6. Alongside the Local Plan, the Council is also introducing a Community Infrastructure Levy.

1.2. Background to the CIL

1.2.1. 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, Shepway District Council will be the charging authority.

1.2.2 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[2]. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.[3]

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[1] Communities & Local Government – National Planning Policy Framework (March 2012)
[2] DCLG – Community Infrastructure Levy Guidance (February 2014)
[3] Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

1.2.3 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area, in accordance with its Local Plan.

1.2.4 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept. Under the Regulations the money would be paid directly to the neighbourhood planning bodies (usually Parish / Town Councils) and could be used for community projects. The Government has said that it will issue further guidance on exactly what the money can be spent on.

1.2.5 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area. This announcement was first formalised through the Community Infrastructure Levy 2013 (Amendment) Regulations on 25th April 2013. The Guidance was also updated at that stage to reflect these changes[4]. As will be noted below, further review and consolidation of the regulations and guidance has been put in place subsequently (see 1.2.13 below).

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

1.2.7 The levy rate(s) 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.

1.2.8 Shepway District Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the Local Plan. This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key

[4] DCLG – Community Infrastructure Levy Guidance (April 2013)

infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.

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

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

1.2.11 An authority wishing to implement the CIL locally 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 development within the authority’s area (as a whole, based on the plan provision) is not put at serious risk.

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

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

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.

As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened" [5].

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

- Limitation on pooling of s.106 obligations delayed until April 2015;
- new mandatory exemptions for self-build housing, and for residential annexes and extensions;
- a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);

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

- the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;

- a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

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

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

1.2.14 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion the preparation of this study meets the requirements of all appropriate Guidance (see 1.3 below).

1.2.15 Shepway District Council commissioned Dixon Searle LLP to carry out an Economic Viability Assessment (EVA) to inform and support the development of a Community Infrastructure Levy associated with and based on the Local Plan. This involves assessment of the potential impact of development standards, policies and the potential levy rates on the viability of residential and non-residential development. The approach builds on the existing evidence supporting the Local Plan development process, including a previous viability assessment of affordable housing, the Strategic Housing Land Availability Assessment (SHLAA) and an employment land review (ELR). The EVA will provide the viability evidence base for further development of the Local Plan and in doing so considers the cumulative impact on viability of the stated development standards, policies, affordable housing requirements policies and a level of CIL that strikes a balance between the need to fund infrastructure and the potential impact on economic viability across Shepway District.

1.3 Shepway District Council Context

1.3.1 Shepway District is situated on the coast in East Kent less than one hour from central London on High Speed 1 rail-link. It occupies a key strategic position and a gateway to continental Europe, given the presence of the Channel Tunnel and Eurotunnel terminal in Folkestone. The district has an area of 140 sq. miles (35,700 hectares) and a 20 mile coastline. 33 per cent of the district falls in the Kent Downs Area of Outstanding Natural Beauty. About 108,000 people live in Shepway, with 47% of the population residing in Folkestone, and 22% living in the towns of Hythe and New Romney.

1.3.2 The Core Strategy builds on the improved connectivity and growing profile of places in the district to regenerate its towns, increase business activity and jobs, and to attract in families (sustaining the local labour force). Three broad character areas are identified:

- The diverse Urban Area of Folkestone and Hythe – featuring several opportunities for additional major investment.

- The Romney Marsh Area, which includes the historic towns of New Romney and Lydd, a variety of coastal and inland villages, and some pockets of relative isolation and rural depravation.

- The North Downs Area, which lies between the Urban Area, Canterbury and several of the main towns in East Kent. It includes generally more prosperous villages and Hawkinge.

1.3.3 The adopted Core Strategy sets out strategic targets for development in the district. It states that the core long-term objective is to ensure the delivery of a *minimum* of 350 dwellings (Class C3) per annum on average until 2030/31. To promote sustainable development and prioritise urban regeneration, a target is set for at least 65% of dwellings to be provided on previously developed ('brownfield') land by the end of 2030/31. The target amount of additional development (2006/7 – 2030/31) includes approximately 8,000 dwellings by the end of 2025/26. This equates to an initial target average delivery of 400 dwellings per annum. Allied to this rate of housing delivery, business activity and the provision of jobs will be facilitated through supporting town centres, the protection of sufficient employment land across the district, allocations and concerted efforts to deliver rural regeneration (especially in south and west Shepway). The target amount of additional development (2006/7 – 2025/26) includes 8,000 dwellings, 20ha of industrial, warehousing and offices (B classes) and approximately 35,000m² of retailing (Class A1).

1.4 Purpose of this Report

1.4.1 This study has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance[6] applicable to studies of this nature. This study has also had regard to recently introduced national Planning Practice Guidance ('PPG' – an online resource live as of 6 March 2014).

1.4.2 In August 2013 the Government also began consultation on a Housing Standards Review to seek views on the rationalisation of the framework of building regulations and local housing standards. On 13 March 2014 the Government set out its response to the consultation with the decision to, as far as possible, consolidate technical standards into the Building Regulations. The Government intends to consolidate the standards into Regulations during this Parliament, with draft Regulations due to be published in the Summer of 2014 with supporting approved documents coming into force towards the end of 2014. At this stage, prior to any Guidance or statutory Regulation, we have applied the Council' policies as set out in the Core Strategy. It is possible that this may need to be reviewed later in the year as more detail on housing standards is known.

1.4.3 The Government has also recently finished consulting on the potential to abolish any locally set affordable housing thresholds with a national minimum threshold of 10 units being put forward. Again, for the purposes of this study, an assumption has had to be made based on current circumstances. However, we provide sensitivity testing to reflect potential changes in national policy on affordable housing thresholds, so that the Council has a complete set of information from which to draw on as it reviews and develops both the Plan policies and its approach to the CIL.

1.4.4 In order to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF, the Council appointed Dixon Searle

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

Partnership (DSP) to provide the viability evidence base to inform the development of the Council's new draft CIL charging schedule. Alongside and integral to the development of the CIL charging schedule is the level of affordable housing that can be viably sought across the district as well as other planning obligations and standards that have a cost impact on development viability.

1.4.5 This study investigates the potential scope for CIL charging in Shepway whilst reviewing and taking into account the adopted Core Strategy policies. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the district; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the Community Infrastructure Levy and affordable housing). The aim is to provide the Council with advice as to the likely viability of seeking developer contributions towards infrastructure provision through the CIL. This includes the consideration of viability and the potential charging rate or rates appropriate in the local context as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.

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

1.4.7 To this end, the study requires the policies and proposals in the Local Plan to be brought together to consider their cumulative impact on development viability. This means taking account of the policy requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

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

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

1.4.10 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward across the district.

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

1.4.12 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £180/sq. m for residential and non-residential / commercial scheme test scenarios. This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results. All policies that have a potential impact on the cost of development have also been included within the CIL viability testing.

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

1.4.14 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs).

1.4.15 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 will be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, 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 allied to the various scenarios tested.

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

1.4.17 This report sets out our findings and recommendations for the Council to consider in taking forward its further development work on the local implementation of a new CIL via, as a first step, a Preliminary Draft Charging Schedule (PDCS). As noted, the approach taken also provides the Council with information to inform and support its ongoing work on and delivery of the Local Plan as a whole, building on the adopted Core Strategy and the evidence supporting that.

1.5 Notes and Limitations

1.5.1 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 including affordable housing and

CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

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

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

1.5.4 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 and Local Plan policies.

2 Assessment Methodology

2.1 Residual valuation principles

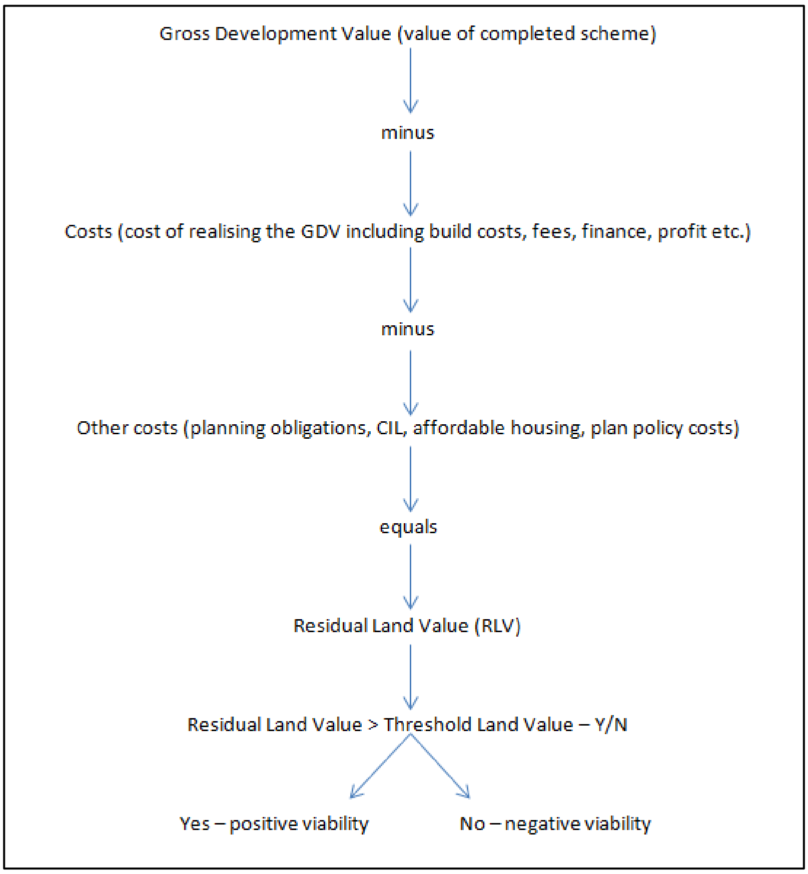
2.1.1 Collectively this study investigates the potential for a range of development types to contribute to infrastructure provision funding across the district through the collection of financial contributions charged via a Community Infrastructure Levy and provides recommendations on the viability of the Local Plan.

2.1.2 There are a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on policies set out in the adopted Core Strategy, in particular the including affordable housing policy which invariably across our wide range of such work we find to be one of the largest influence son viability; secondary only to the market and local property price influences. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the cumulative impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

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

2.1.4 Residual valuation, as the term suggests, provides a "residual" value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



2.1.5 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).

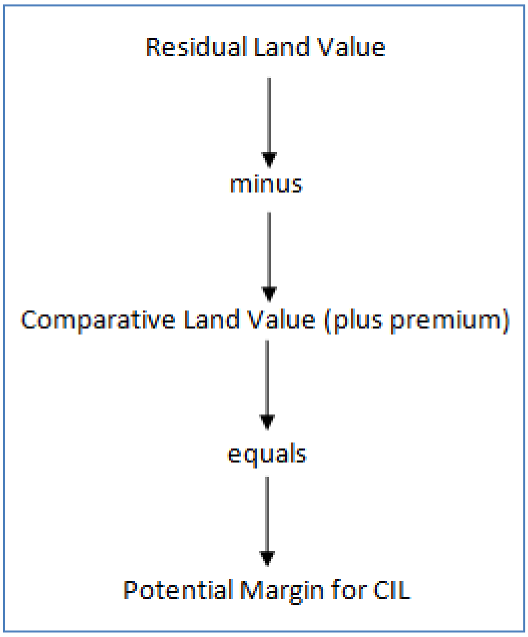
2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including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

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

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

2.1.9 Any potential margin (CIL funding scope) is then considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 2 below):

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



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

2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the Council following a review of the information it provided. Information included the adopted Core Strategy, Strategic Housing Land Availability Assessment (SHLAA), previous viability evidence and other sources. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the district bearing in mind the probable life of this CIL Charging Schedule. In addition the scale of development coming forward across the district also needed to be considered.

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision and other policy cost areas including sustainable design and construction standards and Lifetime Homes (see Figure 3 below, and Appendix I provides more details):

Figure 3: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
1 House	1 x 4BH
4 Houses	4 x 4BH
5 Houses	5 x 3BH
9 Houses	9 x 4BH
10 Houses	10 x 4BH
15 Houses	10 x 3BH, 5 x 4BH
15 Flats	5 x 1BF, 10 x 2BF
25 Mixed	5 x 1BF, 3 x 2BF, 4 x 2BH, 10 x 3BH, 3 x 4BH
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Flats	8 x 1BF, 42 x 2BF
50 Mixed	10 x 1BF, 6 x 2BF, 8 x 2BH, 20 x 3BH, 6 x 4BH
100 Mixed	10 x 1BF, 15 x 2BF, 15 x 2BH, 40 x 3BH, 20 x 4BH
100 Flats	45 x 1BF, 55 x 2BF

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

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

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

2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test Shepway District Council affordable housing policy thresholds. In all cases it should be noted that a "best fit" of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.

2.2.6 For strategic scale sites (new settlements and large urban extensions) much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. At present and of relevance to the likely life of a first CIL Charging Schedule, major site delivery (strategic sites) is coming forward through existing permissions and current applications considered through the established s.106 regime; with delivery settled and progressing in advance of a CIL being in place for the district. Currently examples coming forward at varying stages include the strategic sites at Folkestone Harbour and Shorncliffe Garrison. A range of typically smaller sites and development types could come forward during the next few years, potentially with the upper end of the size range including those with a capacity in the order of say 100 – 150 dwellings or so; with anticipated limited or later Plan phase occurrence of any larger or further strategic sites. Whilst large relative to the wide range and spread of locations relevant to the more typical smaller sites, currently it is not expected that these larger sites will come with significant on-site / site specific s106 requirements that would require separate treatment with regard to the Community Infrastructure Levy. Further commentary is provided within Chapter 3, so far as possible at this stage, given the results trends indicated by the largest current stage appraisals.

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

Figure 4: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
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

2.2.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These could also be influenced to some extent by the Governments Housing Standards Review. No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits 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 also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as a proportion of the schemes value (see Chapter 3 for more detail).

2.2.9 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. 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.

Commercial / Non-Residential Development Scenarios

2.2.10 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the district.

2.2.11 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure 5 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 5: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
Retail - larger format (A1): convenience	Large Supermarket	2500	40%	0.63
Retail - larger format (A1): comparison	Retail Warehousing - edge of centre	1500	25%	0.60
A1- A5: Small Retail	Other retail - town centre	300	70%	0.04
A1-A5: Small retail	Convenience Stores	300	50%	0.06
A1-A5: Small Retail	Farm shop, rural unit, café or similar	200	40%	0.05
B1(a) Offices: Town Centre	Office Building	500	60%	0.08
B1(a) Offices: Out of town centre	Office Building (business park type - various)	2500	40%	0.63
B1(a) Offices: Rural	Farm diversification, rural business centres, ancillary to other rural area uses	250	40%	0.06
B1, B2, B8: Industrial / Warehousing	Start-up / move-on unit	500	40%	0.13
B1, B2, B8: Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2000	40%	0.50
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	2800	80%	0.35
C2 - Residential Institution	Nursing home / care home	3000	60%	0.50

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

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

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

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

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

2.2.16 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus would not support any level of CIL.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of Shepway and given the values variations seen in different parts of the district through the initial research stages, the VLs covered typical residential market values over the range £2,000 to £4,250/sq. m at £150/sq. m intervals. These are set out within Appendix I – described as VLs 1 to 12.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £180/sq. m. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £180/sq. m potential charging rate level trial was not considered relevant in the district. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

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

2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the settlements, parish areas and Wards (for finer grained analysis within Folkestone) provided the best and most reflective, appropriate framework for gathering information.[7] It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.

2.3.5 The purpose of the settlement hierarchy is to identify the current role and function of settlements based on the number and type of facilities and services they provide, to inform the spatial strategy of the Local Plan. Our desktop research considered the current marketing prices of properties across the district and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available. Together, this informed a district-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

2.3.6 Overall the research indicated that the values seen were variable as expected (a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc.), with some of the highest values seen in seafront

[7] The Folkestone wards used to gather data, and wards across the District, have been subject to a Boundary Commission review. Revised ward boundaries will therefore come into effect during the 2015 local elections

Folkestone, Hythe and the North Downs AONB. Lower values were seen particularly in areas such as eastern Folkestone and Lydd. Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future district development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Shepway. Neither is the relatively small number of current new-build schemes from which to draw information. However these factors do not affect the scope to get a clear overview of how values vary or otherwise typically between the larger settlements and given the varying characteristics of the district; as set out in these sections and as is suitable for the consideration of both the Local Plan and CIL.

2.3.7 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report. However, Figure 6 below indicates some key themes on values patterns across the district as observed through our research:

Figure 6: Indicative Settlement / Locality Relationship to Value Level (VL)

<table>
<tr><th colspan="2">Value (£/m²)</th><th colspan="2">Example Location (see footnotes below)</th></tr>
<tr><td>VL1</td><td>£2,000</td><td rowspan="2">Lydd, Folkestone (1)</td><td></td></tr>
<tr><td>VL2</td><td>£2,150</td><td rowspan="2">Folkestone 2, Dymchurch, Burmarsh, Hawkinge</td></tr>
<tr><td>VL3</td><td>£2,300</td><td rowspan="2">New Romney & Littlestone</td></tr>
<tr><td>VL4</td><td>£2,450</td><td rowspan="2">Rural 1, Folkestone 3</td></tr>
<tr><td>VL5</td><td>£2,600</td><td>Rural 2</td></tr>
<tr><td>VL6</td><td>£2,750</td><td></td><td rowspan="4"></td></tr>
<tr><td>VL7</td><td>£2,900</td><td rowspan="2">Rural 3, Hythe</td></tr>
<tr><td>VL8</td><td>£3,050</td></tr>
<tr><td>VL9</td><td>£3,350</td><td rowspan="2">Rural 4, Folkestone 4</td></tr>
<tr><td>VL10</td><td>£3,650</td><td rowspan="3">Rural 5</td></tr>
<tr><td>VL11</td><td>£3,950</td><td rowspan="2"></td></tr>
<tr><td>VL12</td><td>£4,250</td></tr>
</table>

Folkestone 1 = Ford, Harbour, Morehall, Cheriton Wards

Folkestone 2 = East & Park Wards

Folkestone 3 =	Harvey Central Ward
Folkestone 4 =	Harvey West, Sandgate Wards
Rural 1 =	Etchinghill, Lyminge, St Mary's Bay, Greatstone-on-Sea
Rural 2 =	Densole
Rural 3 =	Lympne, Brenzett
Rural 4 =	Saltwood, Newchurch, Stelling Minnis, Brookland
Rural 5 =	Elham, Stanford & Westenhanger, Ivychurch, Sellindge

2.3.8 The values that are assumed (as being available to support development) affect the consideration of viability of plan policies across the district and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the district - to inform potential options for an appropriate local approach to both Local Plan policy and CIL charging scope.

2.3.9 In addition to the market housing, the development appraisals also assume a requirement for affordable housing. Shepway District Council's current approach is to seek affordable housing from sites of 5 or more units. The requirement is based on seeking 1 unit on sites of 5 to 9; 20% affordable housing on sites of 10 to 14 units and 30% on sites of 15 or more units. As this study seeks to test the viability of Local Plan policies holistically alongside the potential level of CIL that could be viable, we have included the full, policy compliant affordable housing requirement in each case. For the affordable housing, we have assumed that approximately 60% is affordable rented tenure and 40% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario).

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

2.3.11 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input and this has been confirmed also by DCLG for the next round of affordable housing spending (Affordable Homes Programme 2015 – 2018). 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.

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

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

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

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

2.4 Gross Development Value – Commercial / Non-residential

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

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

2.4.3 Figure 7 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

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

2.4.5 These varying rental levels were capitalised by applying yields of between 5.5% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (5.5% - 6.5% for large retail formats and hotels) were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

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

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

Figure 7: Rental Value for Commercial Schemes

Development Type		**Value Level (Annual Rental Indication £/sq. m)**		
		Low	Medium	High
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	£200	£250	£300
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£100	£175	£225
A1- A5 - Small Retail	Other retail - town centre	£70	£120	£170
A1-A5 - Small retail*	Convenience Stores	£80	£100	£120
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£60	£80	£100
B1(a) Offices - Town Centre	Office Building	£75	£100	£125
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£100	£125	£150
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£70	£85	£100
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£45	£65	£85
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£40	£55	£70
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£3,000**	£4,000**	£5,000**
C2 - Residential Institution	Nursing home / care home	£110	£130	£150

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

**per room per annum

Economic and market conditions

2.4.8 We are making this viability assessment following what appears to be the end of 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 appear to have come through a period of relatively weak and uncertain economic conditions with the economy and property market in particular beginning to show signs of continued recovery. At the point of closing-off the study, there continues to be mixed messages but the British economy is showing signs that the market is beginning to pick up with house price growth rising at a rapid pace, especially in the South East of England boosted by the Government's Funding for Lending scheme and some forecasts indicating UK house price inflation of between 21% - 24% by the end of 2018[8].

2.4.9 The RICS Commercial Market Survey for Q1 of 2014 - stated that '*The Q1 2014 RICS UK Commercial Property Market Survey highlights a continued strengthening in both the occupier and investment sectors. This improvement is becoming increasingly broad based in both sectoral and regional terms; this is no longer just a London offices story*.

At the all-sector level, occupier demand increased while availability fell. With the market tightening, rents are expected to pick up further and the value of tenant inducements are falling. This broad pattern is also evident across the three subsectors (retail, office and industrial) and the survey's broad four regional groupings (London, the South, Midlands/Wales and the North).

While London offices are still the outperforming market segment, it is increasingly apparent in the survey that the market, ex-London offices, is beginning to shift up a gear. This is a welcome development given how unbalanced the commercial real estate sector had become in recent years and reflects the broader economic recovery underway.

In the investment market, buyer enquiries accelerated further at the all-sector level, pushing up survey respondents' confidence in the outlook for capital values. Again,

[8] Knight Frank Residential Research – UK Housing Market Forecast (Q42013 Edition)

the regional and sector breakdown of the results indicate that this improvement is taking place not just in London and not just in the office sector.

The survey comments bear out a few interesting anecdotal points. First, while conditions in some secondary markets clearly remain challenging, there is a growing sense that some office tenants are beginning to revaluate the economics of renting prime versus secondary office space. Second, availability in some markets is falling not just because of strong tenant demand, but also because part of the stock is being converted for residential use.

Over the next twelve months, rents are projected to rise by around 4.5% in the office sector, by approximately 5.5% in the industrial segment and by just over 3% in the retail sector. On the same basis, capital values are forecast to increase by roughly 5% and 6% in the office and industrial sectors respectively, while retail sector gains are expected to be a slightly more modest 3%.'

2.4.10 As with residential development, consideration was given to the Shepway context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the district so far as the likely location of such development is concerned, focussed in the early Plan timescales on the three main towns. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.

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

2.4.12 Overall, we found no clearly justifiable or readily definable approach to varying the potential CIL charging on commercial / other development types through viability findings based on location / geography – without risking the approach becoming overly complex. 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. In preference to a more complex approach, given the lack of clear evidence pointing towards that, the project ethos was to explore potential CIL charging rates for these various development types in the case of making them workable district-wide. We therefore continued our work based on 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.

2.5.2 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.

2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the ‘limits’ of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the median figure, rebased to a Shepway location index, is used. Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS Median, Shepway Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses - mixed development	£916
	Houses – one-off (3 units or less)	£1,302
	Flats - generally	£1,056
	Flats – 6+ storey	£1,323
	Flats - Sheltered housing	£1,085
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	£1,086
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£629
A1- A5 - Small Retail	Other retail - town centre	£753
A1-A5 - Small retail*	Convenience Stores – Towns / Service centres	£753
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£753
B1(a) Offices - Town Centre	Office Building	£1,318
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£1,259
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£1,243
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£923
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£640
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£1,224 - £1,712**
C2 - Residential Institution	Nursing home / care home	£1,483

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

**all-in cost – range from budget to 4*+

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

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

2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM). In the residential scenarios, this was applied to all dwellings assuming that construction standards met the requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4). Sensitivity testing on further changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to meeting zero carbon requirements. We have utilised information within the DCLG Housing Standards Review Impact Assessment[9] and Zero Carbon Hub respectively[10]. Appendix I provide more detail.

2.6.5 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.

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[9] DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)

[10] Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

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

2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL. 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 saw build costs fall, but moving ahead they are expected to rise again, if only over the longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, building costs have been at relatively consistent (flat) levels. This trend is forecast to continue with steady tender price increases forecast through to early 2017 (rising from about a 2% per annum increase in 2014 to 3.9% at the beginning of 2018). Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (30th April 2014) stated on build cost trends:

'The General Building Cost Index rose by 0.3% in 4th quarter 2013 compared with the previous quarter, and by 1.3% compared with the same quarter in 2012.

Materials prices rose by 0.4% in the year to 4th quarter 2013 and nationally agreed wage rates rose by 1.6%. General inflation rose by 2.7% over this period.

Materials prices as a whole are expected to rise by under 2% over the first year of the forecast, on the back of weak upward pressure in raw materials prices. As the construction industry and the wider economy improves over the following years, it is anticipated that overall annual price increases will rise from 2.6% in 1st quarter 2016 to 3.8% in 1st quarter 2019. Looking at the global economy, and in particular the emerging economies, growth is not expected to rise fast enough to put significant upward pressure on materials prices throughout the forecast period.

From the standpoint of employees in the construction industry, their wage bargaining position is expected to improve on the back of increasing demand for construction work going forward. As a result, the average of wage settlements is forecast to rise from 2.6% in the year to 1st quarter 2015 to 3.9% over the last two years of the forecast period.

New orders for construction work rose by 2% in 4th quarter 2013 compared with the previous quarter, and by 4% compared with a year earlier. It should be noted that ONS changed the methodology of data collection for construction orders in 2nd quarter 2013, without applying any conversion factor, which may continue to distort the yearly percentage changes through to 1st quarter 2014.

New work output recovered to modest growth in 2013, and growth is expected to become stronger as the economy as a whole picks up. However, some sectors and regions will lag behind. Construction demand is not expected to return to its pre-recession level until 2016.

Tender prices have risen by 7% over the past year, and it is now felt that short term capacity issues may keep increases higher over the next year, as contractors struggle with the increase in workload. This was one of our alternative scenarios given previously. Tender prices are therefore expected to rise by 6.1% over the first year of the forecast period. Tender prices are then predicted to slow to around 4.6% over the following year, as the industry begins to cope with the increased workload. Over the remaining years of the forecast, tender prices are expected to rise by around 5.2% per annum, driven by increasing demand and upward pressure from input costs. Tender prices are forecast to have risen by around 26% above the pre-recession peak by the end of the forecast period.'[11]

Annual % Change	**1Q12 to 1Q13**	**1Q13 to 1Q14**	**1Q14 to 1Q15**	**1Q15 to 1Q16**	**1Q16 to 1Q17**	**1Q17 to 1Q18**	**1Q18 to 1Q19**
Tender Prices	+9.3%	+3.8%	+6.1%	+4.6%	+5.2%	+5.3%	+5.3%
Building Costs	+1.3%	+0.3%	+2.2%	+3.1%	+3.0%	+3.8%	+3.9%
Nationally Agreed Wage Awards	+1.4%	+1.4%	+2.6%	+3.0%	+3.6%	+3.9%	+3.9%
Materials Prices	0	+0.8%	+1.5%	+2.6%	+2.9%	+3.2%	+3.8%
Retail Prices	+3.1%	+2.7%	+3.3%	+2.9%	+3.1%	+3.4%	+3.6%
Construction New Work output*	-11.3%	+1.0%	+5.1%	+6.1%	+5.8%	+6.0%	+6.1%
* Year on Year (1Q12 to 1Q13 = 2012 to 2013)							

(Data Source: BCIS)

[11] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (April 2014)

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

2.7.1 The following costs have been assumed for the purposes of this study alongside those at section 2.6 above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

Professional fees:	*Total of 10% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
Finance:	6.5% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
Marketing costs:	*3.0% - 6.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 20% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

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

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

Professional and other fees:	*12% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*

<u>*Finance*</u>*:*	*6.5% p.a. interest rate (assumes scheme is debt funded)* *Arrangement fee variable – 1-2% loan cost*
<u>*Marketing / other costs*</u>*:*	*(Cost allowances – scheme circumstances will vary)* *1% promotion / other costs (% of annual income)* *10% letting / management / other fees (% of assumed annual rental income)* *5.75% purchasers costs – where applicable*
<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 type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 9 below):

Figure 9: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	1 House	6
	2 Houses	6
	4 Houses	6
	9 Houses	9
	10 Houses	9
	15 Mixed	12
	30 Mixed	18
	30 Flats (Sheltered)	18
	100 Mixed / Flats	24
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	12
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	7
A1- A5 - Small Retail	Other retail - town centre	6
A1-A5 - Small retail*	Convenience Stores – Towns / Service centres	6

Development Use Type	Scheme Type	Build Period (months)
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	6
B1(a) Offices - Town Centre	Office Building	6
B1(a) Offices - Out of town centre	Office Building (business park type - various)	12
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	6
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	6
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	9
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	14
C2 - Residential Institution	Nursing home / care home	16

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

2.10.1 Current guidance states the following with regard to CIL: "*At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions*"[12]. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance[13] states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.10.2 On discussion with the Council it was considered that a great majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar

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

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

2.11 Indicative land value comparisons and related discussion

2.11.1 As discussed previously, in order to consider the likely viability of both the Local Plan and its policies and the 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 (in terms of RLV) and some 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, including the occurrence of greenfield sites and schemes coming forward on previously developed former commercial / employment land as well as reuse and intensification of existing residential sites and garden areas.

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

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

2.11.4 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. However, no firm evidence of such was available from the various soundings we took and sources we explored. We reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, seeking local soundings, EGi; and from a range of property and land marketing web-sites. Details of the research are provided in Appendix III.

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

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

2.11.7 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results respectively), we have made indicative comparisons at land value levels in a range between £500,000/ha and £1,200,000/ha so that we can see where our RLVs fall in relation to these levels and the overall range between them. These benchmarks are based on a review of available information from site specific reviews, local research and research carried out by others in carrying out viability studies both for Shepway and neighbouring authorities. On PDL land, typically we would expect to see a land value benchmark in the region of £750,000/ha.

2.11.8 Where greenfield or other lower value land were to be relevant then the results can be used in exactly the same way; to get a feel for how the RLVs (expressed in per ha terms) compare with a lower land value levels of say £500,000/ha. The minimum land values likely to incentivise release for development under any circumstances is probably around £500,000/ha in the Shepway context. Land values at those levels are likely to be relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the district. This range could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at £15,000 - £20,000/ha in existing use, verified by our own research). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances.

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

2.11.10 RICS Guidance[13] refers to site value in the following '*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations*'.

2.11.11 In the Local Housing Delivery Group report[14] chaired by Sir John Harman, it is noted that '*Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

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

2.11.12 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.

2.11.13 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

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

for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

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

3 Findings

3.1 Introduction, values patterns and relationship with the development strategy options associated with the emerging Local Plan.

A guide to the results and appendices tables

3.1.1 Results summaries are included within the tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (residential scenarios – lower density - tables 1a to 1i and appraisal summaries that follow those tables);
- Appendix IIb (residential scenarios – higher density - tables 1j to 1v and appraisal summaries that follow those tables);
- Appendix IIc (commercial / non-residential scenarios – tables 2 to 5 and relevant appraisal summaries);

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

3.1.3 Within Appendices IIa and IIb (together with equivalent IIc for commercial) the tables refer to the potential relevance / occurrence of the scenarios, on an overview basis and bearing in mind that in practice each site will be different. The process included consideration of the varying site types relevant to schemes on greenfield land and PDL of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such redevelopment of existing housing). Across this range of site types, varying land values will be relevant to some extent. Development, overall, looks set to be a mix of PDF and greenfield site based. In the early years of the Plan supported by the first CIL charging schedule, this is likely to include predominantly a range of smaller sites across a range of sizes to say 100 to 150 dwellings; sites are not expected to be larger in the next few years. Most of the development scenarios considered could occur on host sites with a variety of characteristics. This is a feature of development in the district area, which will be based largely on PDL in the main ('sub-regional') town of Folkestone and a mix of sites at the 'strategic towns' of Hythe and New Romney together with the 'service centres' Hawkinge and Lydd. Smaller scale development could also be scattered amongst the number of smaller settlements within Shepway's rural areas. The Local Plan Core Strategy sites at Folkestone Harbour, Shorncliffe and Sellindge are currently coming forward under the existing s.106 arrangements; those are not relevant to the CIL considerations.

3.1.4 The included assumption on affordable housing, set according to the scenario type and its relationship with the existing policy thresholds, is shown in the grey column at the far left had side of the Appendix IIa and IIb tables. Each of the Appendix IIa and IIb tables shows for that development scenario (as titled at the top alongside the Table number) the resulting RLVs (£) and RLVs/ha (£/ha) from the tests at each value level (VL) across the range of trial CIL charging rates (£0 to £180/sq. m or to £150/sq. m in respect of Appendix IIc commercial, moving from left to right).

3.1.5 Affordable housing (AH) has been tested based on the assumption of the Council's fully applied policy as per the recently adopted Local Plan Core Strategy. That policy set, in general, forms the up to date basis for the viability testing for and consideration of the CIL.

3.1.6 Numbers rounding combined with overly rigid application of the policy target %s can have a significant effect on the detail of this. The 20% AH policy applying from 5 to 9 dwellings means that the scenarios of 5 and 9 dwellings are assumed to contain a single affordable unit. The scenarios of 10 or more dwellings include the 30% AH requirement, as best fits with the rounding and also with the usual dwelling and tenure mix target considerations.

3.1.7 1 and 4 houses schemes (tables 1a, 1b, 1j and 1k), including no (0%) AH but with a higher build cost assumed (see Appendix I), have been appraised given that the CIL would take effect from a single (non-self-build) dwelling upwards.

3.1.8 At this stage, no appraisals have been carried out in respect of financial contributions for affordable housing on smaller schemes (of 1 to 4 dwellings) because with established low affordable housing thresholds already in operation following recent adoption any alteration of the approach to include formal introduction of the requirements for such contributions is unlikely to become a key part of the local approach in the next few years at least. This and other aspects of how viability for CIL may interact with AH provision on sites providing fewer than 10 dwellings could be an area for further consideration by the Council if considered of relevance locally.

However, and of great significance, it is likely that the scope to consider such aspects or indeed any AH policy effecting sites of fewer than 10 dwellings will be dependent on the outcome of recent Government consultations. This report also picks up on the viability switch-point that could be created and therefore be considered in terms of CIL differentiation (related to scale of development), should the Government decide to pursue a national threshold set at 10 dwellings or similar.

3.1.9 The lower section tables 1g (IIa - lower density) and 1p (IIb – higher density) show the results of a further range of sensitivity tests carried out in respect of the 25 units mixed housing scenario, reflecting zero carbon related build costs adjustments compared with the base (CfSH4 or equivalent) assumptions associated with the upper tables sections there. Again, this was considered alongside the adopted 30% AH policy basis as underpins all of the testing of sites over the 15 dwellings threshold. As noted at 2.6.4, this is with a view to forward-looking information for the Council based on current costs estimates. As with all other trial scenarios, the further sensitivities enable the viewing of varying potential cumulative costs impacts based purely on these current stage assumptions.

3.1.10 Following the main results tables sets within Appendix IIa and IIb (as described above), sample appraisal summaries are included to further explain the appraisal structure - for those readers wishing to review.

3.1.11 Tables 2 to 5 at Appendix IIc include the equivalent information for the commercial / non-residential scenarios testing undertaken – only where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing /care home). These tables show in their heading the rental yield % assumed for each set. At the lower yield tests (5.5% and 6.0%), these included only the larger format retail (supermarket and retail warehousing developments) - according to the potential relevance of yield % test by development use type. The 5.5% and 6.0% yield test(s) are considered only applicable to those development types as shown in tables 2 and 3 at Appendix IIc.

3.1.12 Overall, the range of yield %s used assumes high quality, well-located new-build development as relevant to the Local Plan and to CIL. It should be noted that in respect of some development uses in the local context (particularly the 'B' (business) Class uses) the yield % tests shown are at the positive end of the potential range and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, any scope for CIL payments. For the development use types considered, where poor or marginal outcomes are shown generally (B, C1 and C2 Uses – business, hotels, care / nursing homes) we can see that results would deteriorate further with increased yield % trials as may be applicable in practice.

3.1.13 As noted at 3.1.11, only the results relating to key commercial / non-residential development trials are included at Appendix IIc. This is because the early stages consideration of the strength of relationship between the values and build costs quickly showed there to be no point developing the full testing process beyond initial stages. This applied where certain scenarios were seen to be clearly unviable as development uses based on the range of assumptions applied. We will pick up this area with further commentary later in this chapter; see 3.7.8 (Figure 11 below).

3.1.14 In the current climate and Shepway context it is likely that even the higher yield % tests – i.e. those at 6.5% and / or 7.5% yield trials (results at tables 4 and 5) - may well represent too positive a scenario in some cases, and particularly for the B uses together with others outside retail use. However, as above, these trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios (including for hotels and similar uses) produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield % (or other) assumptions that might be seen in practice.

3.1.15 In summary Appendix IIa and IIb results tables show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1v, the AH policy requirement or sensitivity variation tested. For each results set the assumed AH% is stated in accordance with the SDC adopted 5 and 10 dwellings threshold and 0%, 20% and 30% respectively applied targets.

- Across the top grey row: other assumptions headings and the increasing 'trial CIL charging rate' tested from £0/sq. m to £180/sq. m applied across all scheme scenarios and variations at £20/sq. m intervals for residential (Appendix IIa and IIb) and £15/sq. m steps for commercial (Appendix IIc) scenarios given the need to consider small CIL variation impacts once the initial nil CIL base outcomes were viewed.

- Within the table section for each residential scenario type and AH assumption variation, the increasing market sales value level (VLs 1 to 12 key basis) used to test the sensitivity of the outcomes to the varying values of new-build (rather than existing (re-sale) housing. Overall, this covers values from £2,000 to £4,250/sq. m (approximately £186 to £395/sq. ft.). This range enables us to consider viability as influenced by location and by the market (e.g. including values falling or rising from current typical levels). This provides full context for considering the potential for the varying value levels to support viable developments with reference to the delivery of the Plan and for considering the CIL funding scope. It should also be noted that for the 30 unit apartments scenario included at this stage, envisaging retirement (sheltered type) housing, we looked at the higher part of the VLs within the range and added a further 2 VLs, 13 and 14, for wider review context – reflecting our view of the expected location characteristics and premium level pricing of most new-build schemes of that type; a common observation made through our wider work (table 1q within Appendix IIb refers).

- VL1 represents the lowest market values sensitivity test, relevant only to lower-end Folkestone town and Lydd; through a scale including the highest market values sensitivity test at VL12 (VL14 upper end test for sheltered / retirement scenarios) representing at that end in the main higher value smaller rural settlement developments.

- The range of values currently most relevant to the Local Plan and to the CIL that will support it, is represented by VLs 1 to 10 overall in respect of the main settlement areas of Folkestone and Hythe or new development adjoining those. Within that, a narrowed range of VLs 2/3 to 8 is likely to be most relevant. There is the potential for great variation to be seen within that wide range, but we consider it to be variation that may be appropriately categorised into areas having similar values and outcomes to each other in terms of CIL funding scope. Nevertheless, aiming to differentiate for the whole range of values variation subtleties is very likely to over-complicate matters and not be justified.

- Under each commercial / non-residential scheme type: Increasing value (this time meaning rental value that underpins the completed scheme (sale) value – OR GDV - in combination with the yield %) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. ‘L’ and ‘H’ allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through any further weakening of commercial property market conditions. For context here, in our wider work we are seeing that for prime sectors and locations the commercial market is beginning to show signs of picking-up from the recession period in some respects. To date, however, the signs of market pick-up are not so evident in areas such as Shepway, which do not have a well-established prime commercial property offer.

- Main areas of results in table sets 1 and 2 to 5: RLV appraisal results for each set expressed in £s within the white / grey and white areas (top section – residential tables 1a to 1v); left-side section (commercial – tables 2 to 5) and in £/ha within the coloured table areas (lower section – residential; right-side section - commercial) given the assumed scenario type, density / site coverage, etc. generated by each individual appraisal within the set and stated by table (to be viewed alongside the overall assumptions outline at Appendix I).

- Within each of those sections, the coloured table cells (see below) act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the scope for potential CIL charging in the context of the emerging plan. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability. These trial rates are considered in combination with the key areas of potential policy that impact on viability. The noted affordable housing %s are the key factor in that respect, but also allowances were made for other Plan policies / wider requirements that at this stage are considered likely to have a direct development cost implication.

- The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as those trial CIL charging rates increase (moving from left to right within all Appendix IIa and IIb – and for commercial, IIc - tables).

- As discussed earlier, realistically this testing of trial CIL rates has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise. Provided that these trial rates span a sufficient range, and the steps between each trial level are not too large, an element of interpolation can be applied and considered. It is not necessary, and would not be practical or economic to further extend this process. In this case, we considered potential charging rates of £0 to £180/sq. m for residential and commercial scenarios to give a sufficient range for review; we could see that higher rates were likely to be unsuitable. In our experience and from a review of emerging results, this provided us with suitable parameters and context for review with the Council. The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the proposed Plan policy directions.

- It is important to note that the colour-coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs 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. This is all in the context of the emerging Plan development strategy so far as it was possible to make financial assumptions at this Options review stage; in advance of the proposals for more settled policy and delivery details.

- The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative or very low RLVs failing the lowest tests considered – i.e. clear non-viability) to the boldest green-coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types). There are no precise cut-offs or steps in terms of the results interpretation. In practice a range of outcomes within the non-red table areas could prove viable depending on particular scheme and site circumstances. The foot-notes to the Appendix IIa and IIb tables describe these as a series of 'viability tests', referring to the various land value comparison levels considered:

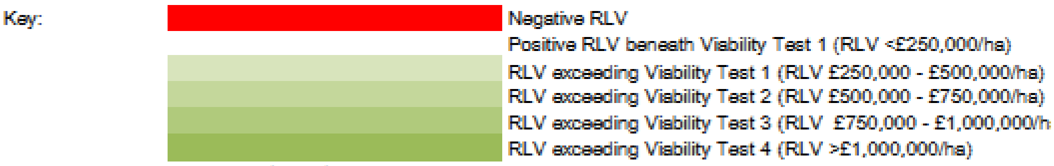
- Red coloured table cells (results) – negative RLVs – schemes in financial deficit or in any event representative of clearly poor viability outcomes – no prospect of viable schemes based on the collective assumptions used in each case. In most of the table rows that have part red or part red shading, the CIL trial rate is seen to have relatively little impact on scenarios that are inherently unviable. In a small number of cases, however, it can be seen that a nil or very low CIL rate might contribute to supporting a level of viability in greenfield or other lower land value scenarios. That effect could be relevant for example in the case of any larger scale developments relevant at future stages, where carrying significant site-specific costs sought through s.106, or where similar cost impacts are involved in bringing those forward.

- Pale green cells – Positive RLVs, but which are under our higher land value comparisons and therefore indicating reduced confidence in results in respect of PDL scenarios in particular. Potentially representative of scenarios that may be workable on some lower value PDL (commercial) or (usually with greater confidence) on greenfield sites.

- Mid-green cells - considered to provide improving to good viability prospects in a range of circumstances meeting a wide range of likely former commercial use and lower residential values expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels for a limited range of high-value commercial / non-residential developments (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of previously developed land (PDL) site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above) that are considered capable of working even on the highest value PDL scenarios in the Shepway context.

- Boldest green coloured cells - considered to provide very good viability prospects; the best results from the range produced; likely to be workable across the full range of site types.

- The above colour scale, showing the results trends within Appendices IIa and IIb (as per the table foot-notes there) appears as follows (extract):



Source: Dixon Searle LLP (2014)

- As seen here the table footnotes provide a reminder of the land value benchmarks (comparisons) applied in arriving at this picture; all bearing in mind the context and explanations provided within this report. The same principles are applied in respect of the Appendix IIc tables 2 to 5 commercial scenario outcomes.

- DSP considers that within the bracket to £250,000 to £500,000/ha, outcomes represent potentially workable greenfield scenarios where the RLVs exceed the minimum expected land price level of around £250,000/ha. With increasing land value comparison covering the overall range £250,000/ha (potential minimum greenfield enhancement land value) to £1m/ha (upper PDL level), those are noted there as 'Viability Tests' 1 to 4. However, it can be seen that the RLV outcomes from a wide range of residential and large format retail scenario testing exceed this level in any event, so that we expect many schemes to have the capacity to support higher land values than these example comparison levels (benchmark indications).

3.1.16 In addition, each results Appendix contains sample appraisal summary information. Bearing in mind the study purpose and nature, these are not the full appraisals or sets, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used here. The summaries included represent a selection of scheme / use types with a focus where, ultimately, positive CIL charging scope and recommendations have been made. To reiterate, appraisal summaries are not included for the full range of scenarios that were considered non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).

3.1.17 The results discussion within this section, and the reported CIL positions / scope that is supported by our findings, is based on current stage assumptions. In turn, these are based on the policy positions within and the next phase of developments associated with the delivery of the Shepway Local Plan Core Strategy. That is the up to date plan for CIL purposes; the key policies impacting viability from site to site are not subject to review at the current stage. Key aspects influencing the cumulative impact on viability are seen from the policies on affordable housing and, to a significantly lesser extent, sustainability. These matters are included within this scenario as fixed costs – applied fully alongside the CIL trial rates, because the impacts need to be taken account of together.

3.1.18 Government guidance states that CIL charging rates should not be set up to their potential limits (up to 'the margins of viability', or similar phrases). On reviewing the results and for the Council taking this further into the wider consideration of its Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, a number of key principles have been and will need to be considered as set out below (at 3.1.19 to 3.1.39) .

3.1.19 Costs will vary from these assumptions levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormals and / or increasing national level carbon reduction agenda requirements longer term, scheme-specific design / materials, etc. When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the Shepway characteristics where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the plan and to informing the associated approach to any updated CIL proposals by the Council.

3.1.20 Land owners' situations and requirements will vary. Expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the prevailing market. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.

3.1.21 The wider economic backdrop remains mixed, although at the point of writing-up this study there are increasingly established signs of an improved level of housing market stability - local house prices have remained relatively flat and have recently shown signs of uplift. The more positive climate has been noted through bank and government figures, house prices indices and also through some performance reporting coming out from the house-building sector. In addition, a level of continued development activity and interest in promoting sites, including challenging sites, suggests that there is some underlying strength in the local market. Nevertheless, the uncertainties and experiences of the last few years could still resurface to some extent. These are unknowns, particularly with a general election approaching next year, a number of potential Government initiatives and changes effecting the planning and development environment and recent moves towards more stringent mortgage lending criteria, introduced as at May 2014. Such factors could be seen to have a dampening effect on the recent market pick-up. We cannot rely on any assumptions related to increasing house prices and improved viability that may flow out of that trend; the use of the residential values levels (VLs) sensitivities provides indications of the potential effect on outcomes of values changing. Looking at the range of values expected, from the information currently available, this is a part of the process that we use to inform the CIL viability scope put to the Council. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.22 Certainly a significant factor for the residential scenarios, as is always the case, is the affordable housing (AH) provision to be secured from market developments based on the policy targets.

3.1.23 HCA funding for affordable housing appears to be uncertain at best, and likely to continue being limited in application to non s.106 provision for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant or any other external subsidy. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormals or other requirements).

3.1.24 Developer's profit level requirements (and in some cases related funders' stipulations) could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed; potentially significantly lower than 20% GDV. However, we felt it appropriate given particularly depressed recent commercial market conditions overall 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 and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.

3.1.25 The potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery; not based on viability only in terms of reaching an appropriate balance between that and the local infrastructure needs associated with supporting new development.

3.1.26 Amongst these, the location and frequency of site and scheme types forming key parts of the local growth planning options is key – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns for example).

3.1.27 The types and frequency of schemes likely to be relevant under the next phase of the Local Plan delivery relevant to the first CIL charging schedule will influence the selection of the Council's approach to implementing its CIL; and may subsequently vary for future CIL charging schedules updated at points when market, government policy or other influences together with review of the Council's monitoring information suggest that to be appropriate. In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council's proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.

3.1.28 Under the next phase of Local Plan Core Strategy delivery, strategic scale housing developments[15] with potentially significant specific infrastructure / mitigation requirements looks set to have reduced importance compared with recent years and current delivery. Hence the focus for review on typically smaller sites, with sites in excess of the range 100 to perhaps 150 dwellings unlikely to form part of the supply on a known or regular basis, viewed at this stage. Therefore, for the first charging schedule CIL looks set to be most relevant to the scattering of generally smaller development proposals - as represented by the appraisal scenarios approach adopted in the assessment. As the Council's longer term picture on the sites likely to be contributing to later Local Plan delivery phases becomes clearer, the implications of CIL charging alongside the typically higher site-specific costs and planning obligations levels that tend to apply on larger / strategic sites will need to be considered further as part of future CIL review(s).

3.1.29 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected Shepway District delivery.

3.1.30 Some individual schemes (residential and commercial) may not be able to support the collective requirements; they may not be viable either prior to or following the imposition of CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market conditions (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider

[15] The Core Strategy strategic sites requiring significant infrastructure / mitigation requirements are Folkestone Harbour and Seafront and Shorncliffe Garrison. Other key sites that may also require significant infrastructure / mitigation requirements include Sellindge, New Romney master plan sites, and remaining large sites in Hawkinge.

planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that the CIL will be non-negotiable.

3.1.31 Under the CIL principles this is accepted, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL. This also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured, including to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk. Given the nature of CIL and the need to keep it as simple as possible, in any event this could in some cases mean that other planning obligations aspects may need to be negotiated with CIL in place at levels suitable for the majority of sites.

3.1.32 Conversely, this means also understanding that in theory some schemes / scheme types may have been able to fund a greater level of CIL than the recommended levels (and / or greater levels of other obligations). This is again in the context of seeking an appropriate local balance in setting the charging rate(s); not adding undue risk to delivery and therefore moving forward with the local economy and development to support that, whilst collecting contributions towards meeting the infrastructure needs associated with the required new development. The latter points here tie in with the Government's latest CIL Guidance (February 2014 - as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. The Council will need to be able to show that it has struck an appropriate balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.1.33 As above, the variety of site and scheme types that is expected to come forward is an important consideration – meaning reviewing the scale of results in the context of a range of potential locations and 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 range and against various land value comparison levels. In some cases it can be seen that the land value comparisons are greatly exceeded, showing that higher levels of land value expectations could be met in those scenarios (assumptions sets) if needed under certain circumstances. Whilst the reducing boldness of the green colour-coding within the results tables indicates scenarios that are unlikely to be viable against the higher land value benchmarks, in many cases those outcomes meet or exceed requirements where lower land values are likely to be sufficient. The range of results should be viewed in this wide context.

3.1.34 The reality is that site-specifics will involve a wide range of land value scenarios. Whilst in the main these will be within or well within this upper benchmark given that a mix of greenfield and PDL sites are likely to be relevant, higher levels should also be considered, however, in order to provide the full context for review of results. As noted previously, many results support higher land values than the benchmarks that have been considered for comparison purposes.

3.1.35 Consideration is to be given to the scale of local infrastructure needs that require funding contributions and development viability amount to opposing tensions. The Council needs to strike the right balance with its approach to CIL and other policy requirements in order to reach the most appropriate mix of ingredients to allow and promote appropriate development by ensuring that the viability impacts are not too great, and yet ensuring that an optimal level of affordable housing and infrastructure is also provided. At the time of this study, work on infrastructure requirements is ongoing and is likely to be further updated. Nevertheless, there is a notable funding gap in Shepway; meaning that the Council needs to secure a level of CIL that is as meaningful as possible, but realistic. This is a key ingredient of the overall growth and funding packages, in support of its development strategies; focused on the emerging plan.

3.1.36 CIL charging calculations relate to net new development – added floor-space. As is typical, in practice we understand that in line with the CIL regulations a number of developments in the district will entail some level of “netting-off” of existing floor-space within the charging calculations. This means that the selected CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any netting-off in this way, because this will have a highly variable influence on scheme outcomes. The netting-off effect is expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set right 'at the margins of viability' [16] as part of this overall theme.

3.1.37 Local authorities (the charging authorities, including SDC) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area.

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

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

- These are not factors that only affect Local Plan and CIL considerations in Shepway. They have to be recognised in any similar study and applied through practical local application of the Government's approach – through the NPPF, more recent Planning Practice Guidance (PPG) and the 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. In practice, we could still see a range of unviable or marginally viable schemes with even a zero (£0/sq. m) CIL rate in place – as the results show for many non-residential scheme types (Appendix IIc and Figure 11 below – 3.7.8) and the lower value residential sensitivities, particularly above the AH threshold.

3.2 Values and other local characteristics

3.2.1 The following sections first consider residential development and then commercial / non-residential.

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

Residential – values and characteristics

3.2.2 Adjustments from asking price, as are usual to some extent, are often handled by way of bespoke incentives to particular purchasers, rather than by headline price adjustments. In whichever form, adjustments will vary by developer, by scheme and often by individual plot in practice. Nevertheless, in the current market we consider that a 5% deduction from asking prices in most cases is likely to represent a reasonable current approach to the sales value estimate, especially given the recent more positive market trends and continued signals that we are seeing. This depends of course on the approach to marketing price setting, and will be influenced by the nature of the market, however we consider it a reasonable current stage assumption amongst the range of property values information that we reviewed to inform the study.

3.2.3 Any clear values patterns that influence viability and are critical to the relationship between viability and housing (or other development) supply in terms of ensuring overall plan delivery are to be respected. However, it also needs to be understood that there are bound to be imperfections in defining any viability zones or similar (linked to any differential CIL charging rates). In practice values can change over very short distances (even within schemes, between different sides or ends of roads, with different aspects, particular surroundings, school catchments or other specific local influences). This, again, is not solely a Shepway issue.

3.2.4 These blurring factors are seen in the district on several levels – from the site / street or local area specific level to the higher level characteristics varying between the 3 main settlements and most other areas. However, in terms of general values patterns (as seen through overall market research), we found the following general picture relevant to considering the viability of both affordable housing (for setting target %s and considering any policy variance by area) and CIL (for setting a rate or differential rates):

- Diverse characteristics and values within the Folkestone town urban area – generally with notably higher values on the south western side running out towards Hythe compared with the typical lower town centre, eastern and north western Folkestone values – e.g. as seen generally in the Foord and Harbour ward areas;

- Typically lowest values are seen in the Foord ward area of Folkestone. Whilst still amongst the lowest value areas in the District, typically Harbour ward area values are higher than in Foord;

- Folkestone's Cheriton and Morehall wards in the north western part of the town show typical values that exceed those in Harbour ward, perhaps by up to around 10%. However, for the most part those are also generally lower value areas in comparison with the southern central and, more so, the south western portions of the town;

- The Park and East ward areas of Folkestone, broadly to the north of Foord ward and the town centre show what we consider may be regarded as mainly intermediate values in the Folkestone town overall context. These fit to some extent with the western town centre fringe values – in areas such as Harvey Central ward and also not dissimilar to the values levels seen running out to the north of the main urban area and the M20 motorway (such as at Hawkinge). We found that a broadly a central swathe of the urban area (largely to the west and north of the main town centre and the lowest value areas there) has typical property values that fall in between the higher levels seen to the south west of the town and the lower values in its south eastern and north western areas.

- Overall Folkestone exhibits amongst the lowest and some of the highest values in the District;

- Looking at the south western section of the Folkestone urban area, Sandgate, and west to Hythe and Lympne; typically the property values step up significantly and reach levels only exceeded in some of the northern rural area settlements (see below – North Downs area);

- Beyond Hythe and Lympne, moving south west into the Romney Marsh area, values typically fall away (e.g. relevant to New Romney, St Marys Bay, Dymcurch);

- Moving further south still, to the southern extreme of the district, Lydd values are typically amongst the lowest district-wide; at a similar level to the lower end of Folkestone town values (e.g. at Harbour ward);

- A further and distinct characteristic of the district is found broadly to the north of the M20 moving away from the Folkestone fringe within the North Downs rural area where in settlements such as Stelling Minnis and Sellindge are found to have values typically higher than elsewhere. There is variety seen within this area, but in broad terms appropriate to CIL principles this is another area with a particular character and values on the whole reflecting that.

- In practice, a variety of values will continue to be seen within all settlements and from one locality or neighbourhood to another, or even at a street by street / site-specific level. However, we found a picture that fits broadly with the above findings bearing in mind that an overview has to be made;

- This points to CIL differentiation being a necessary and appropriate consideration for the Council, certainly at least at the level that parts of Folkestone and the southernmost area including Lydd will in our view need some significant differential treatment. This theme is developed further below;

- As is usually the case in our experience, there is of course some blurring of this general picture but, again, in CIL terms it is not necessary or appropriate to create too complex a set-up that in any event would still be likely to have many imperfections when looking at the street level of detail.

3.2.5 As a reminder, this picture is again demonstrated by the following (see Figure 10 below), as per the overview basis also included at Figure 6 within Chapter 2 of this report (at 2.3.7 above) and as summarised also at Appendix I:

Figure 10: Residential value levels range and patterns

<table>
<tr><th colspan="2">Value (Value level – VL)
(£/sq. m)</th><th colspan="2">Example Location (see footnotes below)</th></tr>
<tr><td>VL1</td><td>£2,000</td><td rowspan="2">Lydd,
Folkestone (Lower)</td><td></td></tr>
<tr><td>VL2</td><td>£2,150</td><td rowspan="2">Folkestone 2,
Dymchurch,
Burmarsh,
Hawkinge</td></tr>
<tr><td>VL3</td><td>£2,300</td><td rowspan="2">New Romney &
Littlestone</td></tr>
<tr><td>VL4</td><td>£2,450</td><td rowspan="2">Rural 1,
Folkestone 3</td></tr>
<tr><td>VL5</td><td>£2,600</td><td>Rural 2</td></tr>
<tr><td>VL6</td><td>£2,750</td><td></td><td rowspan="4"></td></tr>
<tr><td>VL7</td><td>£2,900</td><td rowspan="2">Rural 3,
Hythe</td></tr>
<tr><td>VL8</td><td>£3,050</td></tr>
<tr><td>VL9</td><td>£3,350</td><td rowspan="2">Rural 4,
Folkestone 4</td></tr>
<tr><td>VL10</td><td>£3,650</td><td rowspan="3">Rural 5</td></tr>
<tr><td>VL11</td><td>£3,950</td><td rowspan="2"></td></tr>
<tr><td>VL12</td><td>£4,250</td></tr>
</table>

Folkestone 1 = Ford, Harbour, Morehall, Cheriton Wards
Folkestone 2 = East & Park Wards
Folkestone 3 = Harvey Central Ward
Folkestone 4 = Harvey West, Sandgate Wards

Rural 1 = Etchinghill, Lyminge, St Mary's Bay, Greatstone-on-Sea
Rural 2 = Densole
Rural 3 = Lympne, Brenzett
Rural 4 = Saltwood, Newchurch, Stelling Minnis, Brookland
Rural 5 = Elham, Stanford & Westenhanger, Ivychurch, Sellindge

As with all references to locations and VLs, these are indications; based on ward based information for initial information gathering, then subject to further review in order to make an overview of the values patterns.

3.2.6 Given the Local Plan development delivery in the coming few years in particular, the variety of potentially relevant locations and scheme types, our research and results picture on residential development suggests that the Council should consider the following themes:

- Generally, aside from the market influences as affect sale prices, affordable housing is the primary viability consideration. The CIL rate(s) should be set so that undue additional pressure on its delivery is avoided;

- The sub-regional centre, Folkestone, contains a variety of characteristics - ranging from relatively low value areas within some of the central, eastern and northern parts of the town typically supporting only difficult to marginal development viability; to more affluent outer coastal urban areas with significantly higher values, especially to the west side of the town. The strong pointers are that CIL charging differentiation will not only be justified but will be needed within this main town urban area in response to these characteristics, particularly given the PDL biased nature of development here. Overall, we find that a suitable CIL charging set up for Folkestone will include a range from nil-rated (£0/sq. m) zones to charging rates set towards the upper-end appropriate for the district as a whole.

- Similarly increased typical viability levels moving westwards from the Folkestone urban area to adjoining Hythe and its surrounding area indicate that together these areas share similar overall characteristics in terms of viability outcomes and prospects.

- Moving further south / south west to the southern extreme of the district through the Romney Marsh area to Lydd, as the settlements in these areas will continue to see a level of development on a mix of sites considered relevant to the plan overall, the indications are that CIL charging differentiation will also be necessary here. This is likely to mean looking at two levels - firstly reducing back to a mid-Folkestone rate and then, to Lydd, reducing further – equivalent to the low-end Folkestone picture (nil-rating, as above).

- Broadly to the of Folkestone and Hythe (in essence north of the M20 motorway) the remainder of the district amounts to a rural area, within which viability will vary but where the Hawkinge area provides lower values for potentially significant further development in this northern Kent Downs area context. The remainder supports typically higher values and viability prospects in relation to typically smaller and a limited occurrence of larger potential (greenfield) sites; including the highest values and most of the better viability prospects in the district.

- As an overview, there are a range of characteristics relevant to proposed CIL setting in our view and experience. We consider that this picture points to the Council considering CIL rates differentiation by location of residential development. This has been discussed at length with officers, overviewing our information and combining that with local delivery experience. We consider that this need not produce a complex schedule of proposed rates for the PDCS. It is likely to include, as a basis for consideration, a range of 4 CIL charging rates - broadly for, and increasing with respect to, the following hierarchy. For ease of reference in developing the report findings and potential CIL rates mapping by the Council for the PDCS following its consideration of the DSP recommendation on CIL charging scope and realistic rates, each of these set of characteristics is lettered (A to D):

  - Folkestone lower & Lydd area (viability scope – A) ;
  - Romney Marsh (rural and coastal) and north Folkestone fringe / Hawkinge (B);
  - West of Folkestone (Sandgate) and Hythe (C);
  - North Downs rural area settlements (D)

- For current stage CIL context, the nature of true strategic type development is not considered to be a key factor. As noted above, larger sites as envisaged currently are not considered to be at the scale that will require very significant on-site community infrastructure / site-specific mitigation or other strategic site type works or development costs. However, whilst we do not expect such development proposals to influence the first charging schedule set-up, this may well be a factor for potential re-consideration and review at a future points because any new identification of strategic sites is likely to need an accompanying specific CIL treatment depending on the nature of sites and the works scope / requirements needed to support those.

3.2.7 Further commentary and advice on these residential development themes and the potential CIL scope that arises from them is provided below.

Commercial / non-residential – values and characteristics

3.2.8 Similar consideration of the relevant values ranges and any clear patterns was also given in respect of the various commercial / non-residential development use types reviewed.

3.2.9 DSP considered that the main types of commercial / non-residential development, and particularly the viable types relevant to potential CIL charging (i.e. any larger scale retail proposals only in the Shepway context at the current time of review), would be likely to occur in a limited range of location types within the district and Local Plan context. Between these (assumed based on the Folkestone / Hythe urban areas for any further supermarket or retail warehousing type development) it would be difficult to distinguish values and costs for these uses with any real clarity at this level of review. Such developments appear highly unlikely to occur elsewhere in the district. Beyond those, the other forms of retail development that DSP has discussed with the Council as potentially occurring are within the town or smaller settlement and rural provision as part of farm diversification or local community shops etc. In practice, it is most likely that any ongoing provision of smaller units for retail use will occur through proposals for the re-use of or extension to existing buildings that do not trigger significant CIL liabilities.

3.2.10 In terms of local relevance and seeking an appropriate balance in the Shepway context, overall our research supports a simple approach to limited non-residential / commercial CIL charging whereby any differentiation should be as needed based on viability associated with varying development use; and not by location as well.

3.2.11 This view is reinforced by and linked to the nature of the commercial scenarios results which, as will be discussed below and can be seen at Appendix IIc, currently do not show CIL charging scope in respect of the key area of B Use Class (business) development, regardless of the specific assumptions in any event. Away from the potential for the Council to consider CIL charging for some forms of retail (larger formats – supermarkets and retail warehousing), the results clearly indicate there to be no CIL charging scope at the current time. This should be reviewed at the point of considering future charging schedules.

3.3 Overview of results – Residential scenarios – CIL charging scope

3.3.1 The following commentary is provided by reference to the 4 broad sets of area and associated values and viability outcomes characteristics as were noted at 3.2.6 above.

3.3.2 This is based on consideration of the most relevant VLs and scenarios from within the overall range studied and appraised. The Council will need to consider this information not in isolation, since the viability evidence need not be followed slavishly, but alongside its site supply and monitoring information together with the recent and current delivery experience in the context of the adopted Local Plan Core Strategy policies and operation of s.106 planning obligations agreements.

3.3.3 We look at these by reference to the review scenarios undertaken to date based on the information available. Necessarily this means also acknowledging that further more site-specific discussion and review of particular proposals, and especially with regard to the details of any further future strategic scale development scenarios, may well need to take place as part of the delivery process – in the normal way. The Council has work on-going on the further building and updating of its Infrastructure Development Plan (IDP) understanding and this will need to be factored into the rolling review type process that we envisage, usually carried out through joint working with the service providers and any larger site promoters.

3.3.4 The current stage involves reviewing the findings as best represent the relevant areas of the scenarios range and value levels (VLs) in the context of the Shepway district's characteristics – again as per A to D purely for the purposes of starting to describe how we think this viability picture comes together. The indications of potential occurrence by locality are simply that. In practice a range of scheme types could come forward in many localities, and particularly within or around the main settlements ('sub-regional town' of Folkestone and 'strategic towns' of Hythe and New Romney), so the discussion is necessarily aligned to example scenarios considered representative of sample situations from the emerging overall site supply picture. The use of the VLs in conjunction with Figure 10 above (3.2.5) and 3.2.6 regarding Shepway's variety and area characteristics informs and supports the review of this.

3.3.5 It is not practical or necessary to cover all results variations, so here we provide an overview.

3.3.6 This process and the outcomes from its findings does not tie-down the Council to a particular CIL charging approach or details for other Core Strategy amplification at this stage. The Council will also consider other information.

3.3.7 The Government's recent consultation on a potential national affordable housing threshold of 10 dwellings, ended in May 2014, could be set to override any local approach to affordable housing provision / contributions sought from smaller developments than that. From our viability perspective, this will have an effect on the CIL charging scope aligned to the potential introduced in February 2014 for local authorities to set up differential CIL charging by scale of development. In this event, the 10 threshold would move a number of Shepway developments out of the adopted affordable housing policy (5 dwellings lower threshold 20% target) scope and therefore significantly boost their viability relative to the existing situation; and relative to the overall position on sites above that threshold.

3.3.8 In general the 1 and 4 dwellings units scenario results indicate that the Council's current policy approach to request affordable housing from such schemes (of fewer than 5 dwellings) mean that it is in our view unlikely to be appropriate to complicate the CIL approach by seeking to differentiate for the smallest, sub-AH threshold developments and so apply a higher charging rate to schemes of fewer than 5 dwellings. Doing so may have the effect of taking-up some of the viability flexibility that may be needed in respect of increased build or land plot costs relevant to some smaller schemes, perhaps especially in rural area / smaller settlement or high value instances. Whilst a revised approach / added differentiation may be appropriate in the event of a raised lower threshold (e.g. as a result of national criteria) if things continue as they are we suggest no differentiation based on (smaller) scale of development.

3.3.9 Therefore, in Shepway, for residential development we consider that at this stage, and unless the national position changes, the CIL charging differentiation should be limited to location – with the significant variations in values and viability seen across the district driving that.

3.3.10 In any event some of these smallest schemes will now be classified as self-builds, which will not attract CIL – those have been exempted from CIL charging under the 2014 Regulations changes. So far as we can see, and for general information only at this stage, any policy development to include the setting-aside of self-build plots within a larger market housing scheme (that also included a proportion of affordable homes) would allow the overall development to remain viable. From a high level review of the principle of acquiring and servicing land, facilitating the selling-on of plots to self-builders at likely profitable prices, it appears that development viability prospects would at least be maintained and may even be enhanced dependent on the pricing of the "ready-to-go" plots. This aspect could be considered further at a subsequent point if relevant to any approach developed by the Council.

3.3.11 Whilst within the CIL viability study assumptions approach the smallest scenario (sub-AH threshold) results are pulled down by the significantly higher build cost assumptions used, in our view those costs levels will not always be applicable. Where they are, schemes are likely to be supported by significantly higher sales values characteristic of relevant sites and locations, and in order to make them work. At the mid to higher VLs often likely to be appropriate to this form of development in our opinion an appropriately set level of CIL (see the parameters and recommendations provided below) would not pose a significant threat to the deliverability of schemes, especially while those continue to provide no affordable housing financial contribution.

3.3.12 In general, the results tables at Appendices IIa and IIb can be used to consider alternative scenarios (VL and CIL rate combinations) that provide similar, potentially workable RLV and viability outcomes when considered in the context of the range of land value comparisons (viability tests / benchmark indications). The review includes the lower density Appendix IIa tables 1a to 1i results since those allow a more cautious view to be taken of the CIL charging scope from the wider range of appraisal results. On the same theme, we focus on the "with affordable housing" (AH) results and particularly the scenarios where the AH impact is at its greatest – i.e. 30% AH on schemes of 15 or more dwellings (tables 1f to 1i). Considered in this way, we can view the range of impacts of the CIL trial rates, including in circumstances where the overall combination of viability influences may be amongst the most challenging.

3.3.13 With reference to the varying values and viability outcomes associated with the different broad area characteristics (see 3.2.5 and 3.2.6 above), looking first at A (lower Folkestone – meaning essentially Foord, Harbour plus the majority of Cheriton and Morehill Ward areas; together with Lydd) in the main at present we can refer to the VL1 and at best VL2 results.

3.3.14 On the 15 unit scheme (the first point at which 30% AH applies – Appendix IIa table 1f) at VL2, the first point at which meaningful RLVs are created, the lowest land value comparison of £250,000/ha is met is maintained with no more than approximately £60/sq. m CIL maximum. Higher greenfield or PDL land value expectations are not met until we rely on VL3 values, and then only with a nil or nominal CIL trial rate (no more than £15/sq. m maximum) or values at VL4 plus. The appraisals for the mixed unit scenarios (tables 1g to 1i) are shown to provide reduced results in comparison, due the influence of the flatted element higher build costs whilst the £/sq. m values are the same for those.

3.3.15 The higher density (Appendix IIb) equivalent results are seen to improve, as expected. In this scenario the VL2 result supports a land value of £500,000/ha, so a result that may be viewed with increased confidence but most likely only in respect of greenfield sites; and with nil CIL. In that scheme scenario the RLV exceeds £500,000/ha with a maximum of £120/sq. m but does not reach the next land value comparison of £750,000/ha with a CIL trial rate exceeding approximately £15/sq. m maximum.

3.3.16 Particularly bearing in mind the likely role of schemes on PDL, we consider that the outcomes point to a nil CIL rate (£0/sq. m) in respect of the identified low value areas within Folkestone and at Lydd, where similar relatively low values only are available to support viability.

3.3.17 Moving to the areas broadly characterised as 'B' - mid-range Folkestone, New Romney (Romney Marsh) and Hawkinge – and looking at the VL 3 and 4 outcomes, we see the lower density Appendix IIa 15 unit scenario RLV exceeding £500,000/ha at VL4 with between £135/sq. m and £150/sq. m CIL trialled. The higher density scenario at table 1n shows the next land value comparison level of £750,000/ha attained at VL4 with the same CIL level trialled. We consider the outcomes at these VLs to be relevant typically to new-builds also in areas such as Dymchurch, St Mary's Bay, Burmarsh and Littlestone. Overall a £50/sq. m CIL rate is considered to provide more than sufficient buffering beneath the maximum levels that might be supported in theory.

3.3.18 Assuming a similar development scenario located in the coastal zone to the west side of Folkestone area (e.g. Sandgate, and out to Hythe and adjoining areas) where the values pick-up further and VLs 7 and 8, possibly higher, are relevant, as expected the viability outcomes improve significantly again. The RLV produced by the same scenario with the lower density assumption (table 1f) just exceeds the highest of the land value comparisons, at £1m/ha, with the highest CIL rate trial of £180/sq. m. The VL8 scenario improves the outcome by approximately £200,000/ha. The higher density equivalent scenario (table 1n) shows further improved RLVs of just over

£1.5m and £1.8m/ha for VLs 7 and 8 respectively. Overall, and again allowing for rates set well away from the margins of viability indicated by apparent maximums, across a range of relevant circumstances within this bracket of values we consider that a £100/sq. m CIL rate would be suitable and would not impact unduly so as to threaten overall viability. The results from this point upwards in the VLs scale show that at this or a higher CIL rate (see below), developments have the capacity to underpin higher land values than the range of indicative comparisons shown in the table foot-notes.

3.3.19 This theme develops further in respect of the highest new-build values typically seen in Shepway; those within the Kent Downs area, the northern rural portion of the district. Allowing for the possibility of higher land values and / or development costs to be met if needed, however, we consider that a highest charging rate for the District at say £125/sq. m, ideally not higher from a viability point of view, would be appropriate.

3.3.20 As a general observation, and based on the assumptions used at this time, larger all-flatted scenarios appear unlikely to be clearly viable in a range of locations across the district – i.e. unless they are underpinned by values towards the top of the scale that we have considered. In our experience this is not an unusual finding, owing to the increased build costs that are usually appropriately assumed – as here. Taking the 100 flats at 150 d.p.h. scenario (final Appendix IIb table - 1v) we can see very mixed results, with a switch to potential viability and then significant improvement in RLVs as the increased scheme costs are met and then out-weighed at VL 9-10 plus. This is indicative of such a scheme being likely to work in viability terms in the highest value urban locations – e.g. Folkestone and potentially Hythe waterfront / coastal areas. As the only location type likely to support and host such a scheme, we consider that the west of Folkestone / Hythe area suggested CIL rate proposal of say £100/sq. m would not in itself be prejudicial to any future development of this type bearing in mind the relatively high value levels that the research indicates should be supported in such circumstances.

3.3.21 The retirement (sheltered type) housing apartments scenario expected to achieve values amongst the higher levels appraised in the context for the district - results at Appendix IIb table 1q - indicate at VL 10 plus a capacity to exceed a land value equating to £1m+/ha with CIL trialled at a rate not exceeding £135/sq. m. As with other scenarios, the effect of an increasing sales value assumption is then seen to significantly improve the outcomes. Although, as in other cases, it must be acknowledged that land value expectations could in some scenarios rise beyond the comparison levels noted, they will need to reflect the Council's and other development requirements. Overall, and particularly as 30% AH has been factored-in to the assumptions rather than any ultimately negotiated amount / financial contribution, it is considered that the same CIL rates should apply to this from of C3 market housing development as to all others. Given the most likely locations for this form of development in the district this would mean that a £50 or £100/sq. m charging rate would apply depending on particular location in respect of the area / value characteristics identified above; or £0/sq. m as put forward by DSP if located within the lower value Folkestone / Lydd areas.

3.4 Wider Information

Sustainability - Carbon reduction sensitivity

3.4.1 Turning to the further sensitivities reviewed, the lower sections at tables 1g and 1p of Appendices IIa and IIb respectively (higher and lower density test assumptions) indicate the outcomes from increased costs assumptions in respect of a current view zero carbon basis. The deterioration in results from the upper table base assumptions RLVs can clearly be seen; broadly a reduction equivalent to around £200,000/ha on the higher density scenario or £130-150,000/ha on the lower density one (bearing in mind the lower land value starting point and hence similar proportional reduction effect in the lower density case).

3.4.2 For wider context in reviewing these results sensitivities, it is worth noting that this clear deterioration of results with increasing requirements is not unusual by any means. There is a national level issue building around the viability impact of increasing carbon reduction standards; even though the approach to using currently known / estimated costs with current / projected trial level values may well not be reflecting how this will move with developing technologies and a greater market place for those. Having also noted the further uncertainties around the Government's proposed wholesale review of housing standards; only further time will allow us to see how these aspects develop and settle down to further inform the review of viability.

3.4.3 These same principles apply to other areas that increase scheme costs.

At the current time, we can only advise that the Council should consider any aspect of its further Local Plan policy development building on the adopted Core Strategy (and the practical operation of it) and particularly any detail that may be considered in regard to going beyond the scope of building regulations or other equivalent requirements, and should monitor and keep under review such areas. This means review in the context of other collective requirements on development (affordable housing %s or make-up, just for example), as have been reflected in this study; not just single policy effects in isolation. The outcome of the Government's Housing Standards Review, as has been noted, may well be a key factor in determining how the detailed consideration of these matters progresses generally – not just in Shepway's case.

3.4.4 In the meantime, whilst the potential for significantly increased build costs relating to sustainability to influence the CIL charging rates setting process may be more a matter for future review, at the current stage this direction is one of a number of factors that, as above, means avoiding CIL rates set towards or at their maximum potential levels.

Potential future review in respect of any future strategic scale development

3.4.5 DSP anticipates that it may well be necessary to consider a differential CIL charging rate approach for any future strategic developments; potentially at £0/sq. m subject to the Council's ongoing review of the type and cost of site-specific infrastructure obligations / works necessary to support any further schemes of this type. Certainly, it appears that the CIL scope alongside likely s.106 requirements will be very limited in those circumstances given the relatively modest sales values available to support the high levels of costs that seem likely to be relevant. As a general observation rather than firm finding at this stage, based on experience from other recent studies the more likely to provide the most flexible and appropriate delivery mechanism. As above, above all this is simply a flag suggesting particular review should this type of scheme form part of the longer term housing growth delivery proposals as further work is done by SDC on the Local Plan.

Government consultations and reforms – Affordable housing thresholds

3.4.6 A key aspect of the CIL reforms brought in by the 2014 regulations and guidance is the change to allow differential rates to be set with reference to scale of development. DSP's view and experience is that this does not necessarily affect our recommendations on some areas (e.g. retail differentiation) - covered later in this chapter – but could have some significant effects on residential CIL charging depending on the Council's choice of affordable housing policy targets and especially given the Government's current consultation on a potential national policy threshold of 10 dwellings. There is a key viability differential related to scale of development between sites with a requirement for affordable housing and sites without – e.g. a site of 10 with a requirement for affordable housing has very different viability characteristics from a site of 9 units with no affordable housing requirement even though the site costs and values may be very similar.

3.4.7 In the Shepway current context we have worked on the basis that the Council is likely to continue to place a high priority on affordable housing and will if possible continue to spread those obligations to some degree across smaller developments too – through the use of low thresholds where possible, as per the existing equitable approach of the adopted policy. That being the case, with sites of 5 or more dwellings contributing to affordable housing, then there is a significantly less clear viability differential than where a "cut-off" type threshold (i.e. a straight "with and without" affordable housing scenario) exists based on policy. This is especially the case where higher build costs are considered relevant in some cases on the smallest schemes.

3.4.8 If the Government brings in a threshold at say 10 dwellings, so that sites of 9 or fewer dwellings are expected to provide no affordable housing contribution, the Council may wish to consider using this study's results to inform a balancing of the resulting viability step (differential); consistent also with the recently introduced scope for differential CIL charging rates by reference to scale of development. This area will need to be monitored. The type of information provided in this report, including the range of comparative results from different assumptions combinations, could be used by the Council in this regard and could be readily updated in future if required.

Other aspects associated with the residential CIL

3.4.9 Mapping will need to be prepared by SDC to accompany the CIL PDCS and subsequent consultation stages in order to clearly show the extent of any CIL differentials pursued following DSP's finding and recommendations.

3.4.10 The following paragraphs offer additional observations relating to our findings, CIL viability assessment and CIL Examination stages experience.

3.4.11 The CIL principles are such that ideally Charging Schedules should be as simple as possible; i.e. as simple as the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the district and even within the larger settlements (especially in respect of Folkestone as the more detailed picture of values is blurred away from the general trends), such variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. This need to look at high level value and viability patterns, rather than seeking to reflect highly localised effects, is consistent with CIL principles.

3.4.12 For clarity, these residential findings are considered to also apply to sheltered / retirement housing development types that could form part of the wide spectrum of market housing delivery. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites. By sheltered / retirement housing we are referring to housing-led (rather than care provision based) schemes the generally high density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided as the norm. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements on a negotiated basis (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses). They are distinct in our view from care / nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this study purpose. There are various forms of similar developments, so that the Council will need to consider the characteristics of forms such as “extra-care”. As above, the relevant Use Class and applicability of affordable housing requirements is likely to be a key indicator. In DSP’s view, where the care provision is central to the development, so that it is not purely housing-led (where any visiting / part-time care would more likely be incidental), this may indicate characteristics closer to care / nursing homes development rather than market housing. The Council may need to consider the specific nature of development proposals and their fit within this range of types as schemes come forward and early stages discussions with planning applicants take place – in order to inform expectations. All affordable schemes would be nil-rated for CIL in any event, by virtue of the statutory exemption under the CIL regulations.

3.4.13 To reiterate, there may be instances of lower value residential schemes (of a range of types) and localities / particular schemes where developments struggle for viability in any event (i.e. prior to the consideration of CIL). It is important to stress that this could occur even without any CIL or similar (s.106) contribution / obligation. Wider scheme details, costs and obligations or abnormal costs can render schemes marginally viable or unviable before factoring-in CIL. As a common finding across our studies, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all these individual schemes on a guaranteed basis. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. In this sense, CIL is unlikely to be solely responsible for poor or non-viability. These are not just local factors; we find them in much of our wider viability work. The same principles apply to commercial schemes too. The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan delivery; it is accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.

3.4.14 Associated with this, it will be necessary for the Council to monitor outcomes annually as part of its normal monitoring processes, with a view to informing any potential / necessary review of its CIL in perhaps 2 to 3 years’ time or so, as other Government or local policy developments may take place; and / or potentially in response to market and costs movements, or indeed any other key viability influences over time. There is no fixed or universally recommended approach to the timing of view; this depends on the way the wider and more local market and other viability influences (e.g. national and local policy approaches) develop.

3.4.15 In reviewing the findings and putting forward the above, although not part of the viability testing, in the background we have also had some regard to the proportional cost of the potential (trial) CIL rates relative to scheme value (GDV). These aspects are considered further where some guide information and comparisons are provided towards the end of this chapter.

3.5 Values and other characteristics – Findings: Commercial

3.5.1 A similar review process was considered with respect to commercial and non-residential scenarios. Again, this involved a refreshed look first at whether or not there were any particular values patterns or distinct scenarios that might influence the implementation of a next version CIL charging schedule for the Shepway district area (non-residential aspects).

3.5.2 As with the residential oriented review, the starting point aim should be a simple approach to the charging regime as far as development viability, and the relationship of that to the Development Plan (Local Plan) relevance, permits.

3.5.3 In essence, after considering the forms of development most relevant and the research on values, we decided that the focus for differentiation should be on varying development use types as informed by the viability findings. Variance also by locality was considered not to be justified for commercial / non-residential uses. If a route including that were chosen, in our view the local CIL charging approach could well become unnecessarily complex. As with residential and the potential values variety over short distances, we found no clear justification for further complexity in the circumstances. Further and potentially unnecessary differentiation could not be expected make the approach more reflective of actual viability variations in any event.

3.5.4 In arriving at this, a number of aspects were considered alongside the values research (see Appendix III). This also helped to determine the scope of the commercial / non-residential scenarios modelling carried out overall.

3.5.5 **Here we summarise key high-level commercial / non-residential points and findings** (more detail then follows in later report sections):

- Retail: While DSP understands that at present the emerging plan identifies no significant individual requirements for retail, we completed the range of testing that usually forms the basis of our CIL studies because a range of scenarios could come forward and an equitable approach would be necessary to all developments that could support CIL.

- In practice, as reflected by the development strategy, any new retail development (as opposed to the usual “churn” of existing units) is most likely to occur on an ad-hoc basis. In the Shepway context, other than for Supermarkets or other larger formats such as any new retail warehousing units, additional developments of smaller units within the main and smaller settlement centres within the district (or similar new developments) would be likely to have poor to marginal viability based on current assumptions and on-going underlying general commercial market uncertainty locally.

- From what we can see, the same would certainly apply to any new farm diversification based / rural areas retail provision, and would also be relevant at the current time to any smaller retail units provided within any strategic developments that become relevant to the current CIL considerations. The results show that the poor level of viability likely to be associated with most retail development points towards the need to nil rate development of new shops other than supermarkets / superstores and retail warehouses.

- Although larger format retail unit development (larger supermarkets, superstores and retail warehousing) is not specifically envisaged in the local context at the present time and is unlikely to come forward in significant quantities, it could occur through market forces subject to the meeting of the Local Plan and national principles on impact assessments and suitability of location, etc. The only potential for development of this nature to occur was considered to be supermarket development in Folkestone / Hythe / New Romney or potentially at the service centres. Based on discussions with Council officers even this seems a limited prospect in the short term and probable life of the early CIL charging schedule(s). In viability terms, should they come forward these forms of development would not support the level of CIL that we and other consultants have identified for such developments in some locations owing to the lower rental profiles here than we tend to see in more significant shopping locations. They are considered generally able to support CIL charging rates of approximately £100/sq. m, broadly equivalent to the upper CIL charging rates DSP considers appropriate for the main Shepway urban areas (Folkestone upper / Hythe) based on review of the range of positive outcomes from the 5.5% to 6.5% yield tests (tables 2 to 4 at Appendix IIc). This allows for stepping well back from maximum theoretical CIL rates, which look to be potentially beyond the £180/sq. m maximum trial rate here based on the 5.5% yield test and significantly exceeding the highest of the land value benchmarks at £1m/ha. RLVs at up to around £3.3m/ha are indicated based on the 5.5% yield review and other assumptions used with the 'M' trial rental level; maintained at £1.7m/ha with a significantly more cautious 6.5% yield assumption applied to the 'M' level rent tests. Overall, the indications are that at the very least these development uses have the potential to compete for sites, including with mid to higher value residential proposals.

- The Council will need to consider the viability findings alongside the recurring themes that we have noted – i.e. around the local relevance of development types; the likely frequency and nature of development. In our view, such a CIL rate could not be considered prejudicial to the overall emerging plan delivery in any event and could be applied to all larger format retail development types. On the accepted CIL principles, any individual schemes that proved non-viable here would not threaten overall plan delivery so far as we can see.

- The appraisals run following extensive research show that other forms of retail development would not reliably support CIL charging in the district, and the Council's selected approach probably needs above all to be responsive to any potential for smaller shops development, especially within the main town and other centres, so as not to add undue delivery risk to any marginal proposals (as they look likely to be at best in the short term).

- Business development (offices and industrial / warehousing – of all types): Experience from elsewhere along with firmed-up early stage findings for Shepway suggested again that viability outcomes here would not be sufficient to support CIL charging from this range of ('B' class) uses at the present time at least. This is a finding in common with all of our viability studies to date. If robust assumptions are used, of the type necessary to underpin Local Plan and CIL viability studies, then those and the resulting viability outcomes would be unlikely to improve sufficiently to enable clear evidencing CIL charging scope, regardless of any area based variation or particular use type. Therefore, we formed the view that any area based differentiation would not be relevant for these uses. Even in the better locations / scenarios our findings indicate that there is no clear CIL charging scope without adding further risk to schemes that at best appear to struggle for any real level of viability. This takes into account the level of uncertainty and risk inherent in such schemes at present, prior to considering fixed (non-negotiable) CIL levels being added to scheme costs.

- <u>Hotel and care home development</u> scenarios were considered, overall with a similar tone of findings from each of these. As noted at the Appendix I scenarios / assumptions summary, hotel appraisals were run to allow us to consider the sensitivity of outcomes to the relationship between their value and build costs, following the review of web based, BCIS and any other available information. With assumptions considered relevant at the current time, these scenarios were considered non-viable locally – as shown by the extensive 'negative RLV' results areas on the tables at Appendix IIc.

- We found that what we considered to be potentially over-optimistic assumptions had to be made in order to consistently provide development viability outcomes that support clear CIL charging scope for a range of such developments. Detailed information on development is particularly hard to come by for these sectors, but from our research it appears that the longer term business model associated with the trading / operational (revenue) side of the care homes business is often what underpins or largely underpins the progressing of schemes for this use; as opposed to the development activity.

3.5.6 In summary, the meaningful CIL charging potential from commercial / non-residential development in Shepway is likely to be restricted to considering any relevance of and scope around any ad-hoc larger format retail development that may occur.

3.5.7 These aspects are all put forward with respect to the first charging schedule, and therefore involve a fairly short term view - subject to future review.

3.5.8 Consistent with most other viability studies that we have dealt with, our viability findings seek to provide wider information enabling the Council to consider various approaches – including on the characteristics of and related advice on differentiation for varying retail formats (as those provide different offers and effectively are different development uses). If not now, this may be relevant at a future stage as part of continuing to seek the right balance to the CIL approach for Shepway. Further information is set out at 3.6 below. That may help to inform the PDCS drafting.

3.5.9 As would be expected, the commercial / non-residential appraisal findings are wide-ranging when viewed overall. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield as presenting a view of sample ranges within which capitalised net rents (completed scheme sales values - GDVs) could fall. Then we considered the strength of the relationship between the GDV and the development costs – the essence of the CIL viability study.

3.5.10 In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from negative or marginal outcomes (meaning nil or at best very limited CIL charging scope) to those which produce meaningful and in some cases considerable CIL charging scope. To illustrate the trends that we see, the coloured tables at Appendix IIc use the same "coding" type principles as the residential results tables (strongest green colouring indicating the best viability prospects through to red areas and other swathes of the results tables noted as 'Negative RLV' indicating non-viability based on the assumptions used). Once again, these provide a guide to the strength of the results and the trends across them at varying value levels and trial (potential) CIL charging rates, but must not be interpreted too strictly. The findings do not mean that in practice all such development will be consistently and firmly non-viable. Rather, the necessary approach to considering viability for a CIL demonstrates no CIL charging scope at the current time.

3.5.11 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 in looking at the residential scenarios too.

3.5.12 Factors such as build costs clearly have an impact as well but, for the given scheme scenarios, are not likely to vary to an extent that 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. As with actual schemes though, again it is the interaction of the various assumptions (their collective effect) which counts more than individual assumption levels in most cases. There are some commercial or non-residential 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.

3.5.13 Having looked at varying forms of commercial / non-residential development for the viability review of CIL rates scope, the review process and findings also inform the Council's on-going work on the local plan and its delivery details. The study inevitably has to take a view of looking at all of this now, influenced by the recent recessionary conditions and on-going economic backdrop constraints in mind. These cannot be fully projected out of the picture at the current time or, most likely, in the coming few years.

3.5.14 The Council will need to keep all of this under review, a repeated theme here, and in the meantime will also need to work-up up its delivery strategies for employment supporting development so as to maximise opportunities as the market is able to respond and work creatively over time.

3.5.15 We will now provide further detail on the assessment findings for the commercial development scenarios considered, bearing in mind that in practice scheme types and viability outcomes will be highly variable. In all cases, it is not necessary for the Council to link its approach to particular Use Classes – descriptions and added clarity to the CIL Charging Schedule may be better made by referring to locally relevant development types.

3.6 Potential CIL Charging Scope – Commercial / Non-Residential

Retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.)

3.6.1 The 'small retail' unit appraisal results showed a very significantly weaker viability picture compared with the indications from the larger format retail scenarios (upper sections of Appendix IIc tables 4 and 5). This applied to all scenarios reviewed for the development type.

3.6.2 More generally speaking, whilst the retail scenarios overall showed amongst the best viability outcomes from the wide range seen, if the smaller shops scenarios are considered relevant to the plan delivery then this factor should be included in the consideration of the CIL charging rates. This would be reflected here through a nil charging rate (£0/sq. m) set for small format retail – applied to the whole of the Shepway district.

3.6.3 As a high level outcome this general viability distinction between larger and smaller retail formats is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases. This tone of results is shown by the range of red shaded 'small retail' results areas at tables 4 and 5 (representative of any new units at shopping parades / neighbourhood centres, individual units, farm shops, village or rural provision), compared with the larger format retail results and again particularly those at tables 2 to 4 associated with the 5.5% to 6.5% yield tests (as at 3.5.5 above).

3.6.4 In comparison, the best 'small retail' scenario outcomes at table 4 show only a switch to positive RLVs where the 'H' (high) level rental test assumption is used.

3.6.5 DSP has experience of single and differential CIL charging rates approaches for retail development. We consider that a CIL charging rate for the larger retail types (supermarket and retail warehousing formats) could certainly be taken up to around £100/sq. m reflecting a rate set well within the margins of viability but in any event considered non-prejudicial to overall plan delivery.

3.6.6 Although a supermarkets / superstores and retail warehousing / similar based charging rate might be taken higher than this in theory, 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. There are a range of factors which, together, suggest that setting retail up to the higher CIL trial rate levels explored (i.e. up £180/sq. m or perhaps more) may not be appropriate in the local context at this stage. Respecting such principles will build-in some significant margin for any increase in costs assumptions over those used at this stage, especially given that no positive viability effect of netting –off for any existing floorspace on a site has been allowed-for.

3.6.7 Again, the Council will need to consider the plan relevance of the various retail types; and potentially the following factors:

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

- Non plan relevance (or limited / uncertain relevance) would also suggest the prospect of a low level of increase in CIL receipts from setting a higher charging rate for certain development uses;

- However, as part of considering the impacts of its CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the larger centres, shops provided through farm diversification or other smaller settlements / rural areas / tourism and visitor based provision.

3.6.8 We also aim to provide wider information, having taken the exploration of this area of the study further (for any charging rates options based on differentiation by type) in the event that consideration of a differential rates approach is taken forward as a result of the Council's future work on this. If there is to be differentiation by use type, then (to reinforce the points made previously) the viability evidence is such that consideration should be given to a significantly lower or, more appropriately, a £0/sq. m. charging rate for smaller shops developments at this time.

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

3.6.10 Overall, as with the residential findings, the Council may well be able to consider options for any renewed approach to its CIL charging. So in order to provide the Council with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area). These outcomes are not included in detail in this report, but further information can be supplied to the Council by DSP if required. In any event, this may be as much about considering the differing retail offers and development types associated with those, and therefore general principles around CIL and differentiation, rather than the viability outcomes alone.

3.6.11 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not produce a different nature of use and value / cost relationship. The same applies on altering the high levels testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary.

3.6.12 To reiterate, in our view any differentiation is more about the distinct development use, the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of the charging schedule in due course. In case of assistance, DSP has worked with a number of authorities on the details of these aspects. As an example, the adopted Wycombe DC CIL Charging schedule (see: http://www.wycombe.gov.uk/council-services/planning-and-buildings/planning-policy/community-infrastructure-levy.aspx) included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

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

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

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

3.6.14 It is considered that, where these schemes may come forward in this district (currently assumed to be on an ad hoc basis only), they could be seen in a variety of circumstances; but with none of those being fundamental to overall plan delivery in any event.

3.6.15 **Overall for retail, therefore, we consider that these findings viewed alongside our wider work on this development use point to the Council considering:**

- Differential rates for larger format retail (at £100/sq. m) and smaller format retail of all types – i.e. all other retail (put forward at £0/sq. m);

3.6.16 A single retail rate considered at this level (£100/sq. m), or even at a lower level equivalent to the mid-Folkestone / other area 'B' residential CIL scope, would be likely to place undue additional development risk on any smaller scale shops development, and so is unlikely to be appropriate here.

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

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

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

3.7 Other development use types – including community and other uses potentially relevant to the district – agriculture, leisure, visitor facilities, etc.

3.7.1 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).

3.7.2 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 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.

3.7.3 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.

3.7.4 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.

3.7.5 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.

3.7.6 **In any event, from our viability perspective, a zero (£0/sq. m) CIL rate is recommended in these instances.**

3.7.7 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 not 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).

3.7.8 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 means, 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. These types of value / cost relationships are not unique to the Shepway at all. Very similar information is applicable in a wide range of locations in our experience, although the largely rural nature of this district increases the relevance of certain types of development uses.

Figure 11: Other uses – example guide value / cost ranges and relationships

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications –BCIS**	Viability prospects and Notes
Cafés	£45 - £395 per sq. m	£450 - £3950 per sq. m	Approx. £1,185 - £3,560	Insufficient viability to clearly and reliably outweigh the costs
Community Centres	£25 - £60 per sq. m	£250 - £600 per sq. m	Approx. £1,300 - £1,795	Clear lack of development viability
Day Nurseries	£35 - £140 per sq. m	£350 - £1,400 per sq. m	Approx. £1,415 - £1,960	Insufficient viability to clearly and reliably outweigh the costs
Equestrian Stables / Livery	Approx. £250 per unit		Approx. £960 - £1,425/sq. m	Insufficient evidence of viability to clearly and reliably outweigh the costs
Garages and Premises	£30 - £80 per sq. m	£300 - £800 per sq. m	Approx. £850 - £1,200	Low grade industrial (B uses) - costs generally exceed values
Halls - Community Halls	£15 - £40 per sq. m	£100 - £250 per sq. m	Approx. £1,350 - £1,750 (General purpose Halls)	Clear lack of development viability – subsidy needed
Leisure Centre - Health and Fitness	£40 - £115 per sq. m	£1,533 @ 7.5% yield (upper-end)	Approx. £925 - £1,860	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Leisure Centre Other - Bowling / Cinema	No information available but say £115 - £125 per sq. m so similar to above approx. £1,600 @ 7.5% yield		Approx. £1,080 - £1,560	Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises
Museums	No comparable information available		Approx. £1,100 - £2,360	Likely clear lack of development viability – subsidy needed

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications –BCIS**	Viability prospects and Notes
Storage Depot and Premises – e.g. Agricultural	No information readily available but say £30 - £40 per sq. m i.e. £300 - £400 per sq. m @ 10% yield		Approx. £400 - £6650 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£45 - £395 per sq. m	£450 - £3,950 per sq. m	Approx. £1,270 - £1,700 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions.
Visitor Centres and similar	No comparable information available		Approx. £1,500 - £2,300	Likely clear lack of development viability – subsidy needed

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

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

3.7.9 With the exception, potentially, of any retail linked types such as mentioned at 3.6.17 to 3.6.19 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/sq. m) 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.

3.7.10 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 others could present difficulties.

3.8 Charge Setting and CIL Rate Review

3.8.1 To further inform the Council’s CIL charging rates setting and on-going work, we have also considered the range of potential CIL rates that have been viability tested in terms of their proportion of (percentage of - %) completed development value (sales value or ‘GDV’).

3.8.2 The following figures (contained with the tables at Figures 12 and 13 below) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations at a selection of the potential CIL (trial) rates that were tested for viability. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the study (see chapter 2 and Appendix I).

3.8.3 Percentage of GDV figures are only provided here for the residential and example commercial / non-residential uses (viability study scenarios) that are capable of supporting CIL charging in accordance with our findings (CIL rate as % of GDV figures for other non-viable uses are not provided). See Figures 12 and 13 below.

3.8.4 In our experience, CIL rates in the order of those discussed above for Shepway are relatively small as is appropriate when viewed in the context of the gross development value, with charging rates at the proposed levels equating to no more than approximately 2% to 3.5% of GDV. In many other areas we see the CIL rate as a percentage of GDV tending to be within an overall range not usually exceeding say 3-5% of GDV; but only as a rough guide and further background indicator of the potential suitability of the rates. To put this into context, upwardly moving house prices[17] are currently expected to increase significantly in the next few years with further annual growth indicated to occur in the each of the next few years on average[18]. Appendix III includes market context information in this regard.

[17] Office for National Statistics (ONS) – House Price Index
[18] Savills Residential Property Focus for Q4 2013 for example suggested up to 25% growth in house prices to 2018/19.

Figure 12: Trial CIL Charging Rates as a Percentage of GDV – Residential

Scheme Type	CIL Rate (£/sq. m)	Value Level (GDV) & % GDV represented by trial CIL rates											
		VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9	VL10	VL11	VL12
Residential	£15	0.75%	0.70%	0.65%	0.61%	0.58%	0.55%	0.52%	0.49%	0.45%	0.41%	0.38%	0.35%
	£30	1.50%	1.40%	1.30%	1.22%	1.15%	1.09%	1.03%	0.98%	0.90%	0.82%	0.76%	0.71%
	£45	2.25%	2.09%	1.96%	1.84%	1.73%	1.64%	1.55%	1.48%	1.34%	1.23%	1.14%	1.06%
	£60	3.00%	2.79%	2.61%	2.45%	2.31%	2.18%	2.07%	1.97%	1.79%	1.64%	1.52%	1.41%
	£75	3.75%	3.49%	3.26%	3.06%	2.88%	2.73%	2.59%	2.46%	2.24%	2.05%	1.90%	1.76%
	£90	4.50%	4.19%	3.91%	3.67%	3.46%	3.27%	3.10%	2.95%	2.69%	2.47%	2.28%	2.12%
	£105	5.25%	4.88%	4.57%	4.29%	4.04%	3.82%	3.62%	3.44%	3.13%	2.88%	2.66%	2.47%
	£120	6.00%	5.58%	5.22%	4.90%	4.62%	4.36%	4.14%	3.93%	3.58%	3.29%	3.04%	2.82%
	£135	6.75%	6.28%	5.87%	5.51%	5.19%	4.91%	4.66%	4.43%	4.03%	3.70%	3.42%	3.18%
	£150	7.50%	6.98%	6.52%	6.12%	5.77%	5.45%	5.17%	4.92%	4.48%	4.11%	3.80%	3.53%

(Source: DSP 2014)

Figure 13: CIL Charging Rates as a Percentage of GDV – Commercial (for retail development uses for which CIL charging / potential charging is discussed in the report)

Scheme Type	CIL Rate (£/sq. m)	7.5% Yield			6.5% Yield			6% Yield			5.5% Yield		
		L	M	H	L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq. m) >>		**£2,660**	**£3,325**	**£3,990**	**£3,076**	**£3,845**	**£4,614**	**£3,320**	**£4,150**	**£4,980**	**£3,636**	**£4,545**	**£5,454**
Supermarket	**£15**	0.56%	0.45%	0.38%	0.49%	0.39%	0.33%	0.45%	0.36%	0.30%	0.41%	0.33%	0.28%
	£30	1.13%	0.90%	0.75%	0.98%	0.78%	0.65%	0.90%	0.72%	0.60%	0.83%	0.66%	0.55%
	£45	1.69%	1.35%	1.13%	1.46%	1.17%	0.98%	1.36%	1.08%	0.90%	1.24%	0.99%	0.83%
	£60	2.26%	1.80%	1.50%	1.95%	1.56%	1.30%	1.81%	1.45%	1.20%	1.65%	1.32%	1.10%
	£75	2.82%	2.26%	1.88%	2.44%	1.95%	1.63%	2.26%	1.81%	1.51%	2.06%	1.65%	1.38%
	£90	3.38%	2.71%	2.26%	2.93%	2.34%	1.95%	2.71%	2.17%	1.81%	2.48%	1.98%	1.65%
	£105	3.95%	3.16%	2.63%	3.41%	2.73%	2.28%	3.16%	2.53%	2.11%	2.89%	2.31%	1.93%
	£120	4.51%	3.61%	3.01%	3.90%	3.12%	2.60%	3.61%	2.89%	2.41%	3.30%	2.64%	2.20%
	£135	5.08%	4.06%	3.38%	4.39%	3.51%	2.93%	4.07%	3.25%	2.71%	3.71%	2.97%	2.48%
	£150	5.64%	4.51%	3.76%	4.88%	3.90%	3.25%	4.52%	3.61%	3.01%	4.13%	3.30%	2.75%
Capital Value (GDV - £/sq. m) >>		**£1,330**	**£2,328**	**£2,993**	**£1,538**	**£2,692**	**£3,461**	**£1,660**	**£2,905**	**£3,735**	**£1,818**	**£3,182**	**£4,091**
Retail Warehousing	**£15**	1.13%	0.64%	0.50%	0.98%	0.56%	0.43%	0.90%	0.52%	0.40%	0.83%	0.47%	0.37%
	£30	2.26%	1.29%	1.00%	1.95%	1.11%	0.87%	1.81%	1.03%	0.80%	1.65%	0.94%	0.73%
	£45	3.38%	1.93%	1.50%	2.93%	1.67%	1.30%	2.71%	1.55%	1.20%	2.48%	1.41%	1.10%
	£60	4.51%	2.58%	2.00%	3.90%	2.23%	1.73%	3.61%	2.07%	1.61%	3.30%	1.89%	1.47%
	£75	5.64%	3.22%	2.51%	4.88%	2.79%	2.17%	4.52%	2.58%	2.01%	4.13%	2.36%	1.83%
	£90	6.77%	3.87%	3.01%	5.85%	3.34%	2.60%	5.42%	3.10%	2.41%	4.95%	2.83%	2.20%
	£105	7.89%	4.51%	3.51%	6.83%	3.90%	3.03%	6.33%	3.61%	2.81%	5.78%	3.30%	2.57%
	£120	9.02%	5.15%	4.01%	7.80%	4.46%	3.47%	7.23%	4.13%	3.21%	6.60%	3.77%	2.93%

Scheme Type	CIL Rate (£/sq. m)	7.5% Yield			6.5% Yield			6% Yield			5.5% Yield		
		L	M	H	L	M	H	L	M	H	L	M	H
	£135	10.15%	5.80%	4.51%	8.78%	5.01%	3.90%	8.13%	4.65%	3.61%	7.43%	4.24%	3.30%
	£150	11.28%	6.44%	5.01%	9.75%	5.57%	4.33%	9.04%	5.16%	4.02%	8.25%	4.71%	3.67%

(Source: DSP 2014)

3.8.5 The Council may wish to use the above information to consider the potential CIL charging rates parameters recommended, and the wider potential rates / options, as part of its balancing of objectives and overall assessment.

3.8.6 As an example a £50/sq. m residential CIL charge for the area B values / characteristics locations amounts to approximately 2 – 2.5% GDV at VL3/4. A CIL at approximately twice that level (e.g. in respect of the higher value Folkestone / Hythe are C values characteristics) would equate to approximately 3 – 3.5% GDV at VL7/8. A linear effect is not necessarily expected on review of this additional information; it simply acts a further and informal "health-check" when reviewing the proposals.

3.8.7 A £100/sq. m proposed CIL charge is seen to represent approximately 2.3 – 2.7% GDV for the larger format retail (supermarket / similar) scenario – assumed at the 'M' rental values and a 5.5% to 6.5% yield assumptions combination.

3.9 Summary – Local Plan Viability and CIL Charging Rates

3.9.1 It has been necessary for us to acknowledge the various viability sensitivities, which are likely to mean that outcomes move around given the many variables.

3.9.2 Whilst we have made comments about affordable housing and sustainable construction impacts in this way, the key point will be for the Council to work up an adaptable approach for delivery. This will need to be expressed in any further policy positions that are developed; as is currently applied in respect of the affordable housing policy targets operation for example.

3.9.3 The engagement to date between the Council and its various partners in respect of a range of proposals and sites provides positive signs of the delivery scope, and this should be a key indicator of the potential and a vital continued aspect of the planning and delivery processes across the range of development types relevant to the Local Plan.

3.9.4 In the meantime, particularly in respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In addition to seeking to ensure that the CIL approach does not further impede investment, the Council could consider the following types of areas and initiatives (outside the scope of this report, but put forward as practical indications):

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

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

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

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

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

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

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

- A likely acceptance that business development overall is unlikely to be a contributor to general community infrastructure provision in the short-term at least.

3.9.5 On CIL, in summary, from a viability point of view we recommend the following for consideration by Shepway District Council - taking account of its adopted affordable housing policy and avoiding the setting of CIL charging rates at the margins of viability (see Figure 14 below):

Figure 14: Recommendations Summary - CIL charging rates

CIL Charging rates Parameters & Rates for Consideration
1 Residential
Overall parameters - £0 to £125/sq. m. **Recommend a 4 zones approach based on figures within this overall range and responsive to the variation in values and area characteristics:** **A:** **Lower-Folkestone (based on ward areas of Foord and Harbour, together with much of Cheriton and Moorhill)** **>> Recommended rate for consideration at the current time: £0/sq. m** **B:** **Mid-Folkestone, New Romney/Romney Marsh and Hawkinge** **>> Recommended rate for consideration at the current time: £50/sq. m** **C:** **Upper-Folkestone & Hythe area (west)** **>> Recommended rate for consideration at the current time: £100/sq. m** **D:** **North (Kent) Downs rural area settlements** **>> Recommended rate for consideration at the current time: £125/sq. m**
2 Retail
Overall parameters – £0 – £100/sq. m. **Recommend larger format retail – retail warehousing and supermarkets – a charging rate of not more than £100/sq. m**. This rate would also be applicable to extensions of any size. **All other retail at £0/sq. m.** Any differentiation by type of retail should be linked to use rather than simply

	based on size (see 3.6.12 and associated text).
3	**<u>All other development uses</u>**
	Nil CIL charge (£0/sq. m)

(Source: DSP 2014)

3.9.6 Provisional version residential charging zones maps should be considered in response to this reporting and be made available as part of the consultation stages if the Council decides to proceed with a differential rates charging set-up (by geographical zones) for residential development as put forward in this report (with precise boundaries to be confirmed on further combination of SDC's local delivery experience with DSP's viability findings).

3.9.7 ***Additional recommendation*: To consider monitoring and review.** 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 once adopted – i.e. informed by the experience of operating it once implemented at the levels fixed following the current review. Monitoring or equivalent processes should take place whilst also maintaining an overview of the market context and development plan policies alongside which CIL will have been operating. The DCLG guidance touches on the intended open and transparent nature of the levy and in doing so states that charging authorities should prepare short monitoring reports each year.

3.9.8 ***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.

3.9.9 ***Additional recommendation:*** Following the same principles and potentially of great importance to the larger sites / strategic locations delivery over time, the timing and phasing of infrastructure works and planning obligations in general will need balancing with funding availability and viability positions as updated through on-going review.

3.9.10 ***Additional recommendation:*** Given that CIL takes the form of a fixed, non-negotiable charge once implemented, the Council will need to continue to operate its wider planning objectives and policies sufficiently flexibly – approach to be carried in to any further delivery detail to be added to the adopted Local Plan Core Strategy policies already in operation. This should enable it to adapt where necessary to viability and other scheme constraints where developers can share their appraisals to demonstrate the need for flexibility on the overall planning obligations package. Abnormal development costs and other factors could also influence this process in particular instances. Prioritisation of objectives may be necessary, and such outcomes would be highly scheme specific – tailored to particular needs where proven to be necessary.

3.9.11 ***Additional recommendation:*** The Government's CIL guidance (DCLG consolidated latest version 2014) outlines the linkages between the relevant plan (currently emerging development plan), CIL, s.106 obligations and spending of the CIL on infrastructure. One key aspect, as has been the subject of discussion at previous CIL examinations in our experience, is that the Council will need to develop its strategy to clarify the relationship between CIL and s.106. It will need to be able to reassure developers that there will be no double-counting ("double-dipping", as it has been referred to) between the operation of the two regimes in terms of the infrastructure projects that each set of funds (or works provided in-lieu) contributes to. This includes the content of the Regulation 123 list for CIL (confirming the projects or types of infrastructure that CIL funds will be spent on, and therefore precluding the use of s.106 for those same items).

Main text of study report ends – Final Version.

July 2014.

Appendices follow.