Appendix 2

Executive Summary of Community Infrastructure Levy (CIL) Viability Study

Dixon Searle Partnership

Final Report

August 2017

Executive Summary

CIL background

1. The putting in place of a Community Infrastructure Levy (CIL) is optional. Currently, a local planning authority can decide whether or not it will set up a CIL; i.e. whether or not to become a charging authority.

2. A CIL is specifically linked to an up to date local development plan (LDP), such as is in place in the case of Brighton & Hove City Council (B&H CC). The LDP in this case comprises the Brighton & Hove City Plan Part One (adopted in 2016) and the Brighton & Hove Local Plan 2005 (retained policies March 2016), together with associated Waste & Minerals planning documents.

3. A CIL does not fund any backlog of infrastructure needs but specifically supports the LDP through securing contributions towards new infrastructure associated with the planned new housing and other development. The type or types of infrastructure that a CIL will support is not prescribed by the Regulations; its scope and rates are set locally. This may include provision for education, roads and transport, health, public protection/emergency services, community facilities and amenities. The scope may include a range of such provision or be narrower and focus on particular priorities to support the LDP. In any event the charging authority must set out what it will spend the CIL receipts on, known as the 'Regulation 123 List'.

4. The content of the R123 List must not overlap with any continued collection of contributions or requirements to carry out works under the established mechanism of section 106. However, the use of s.106 alongside CIL will continue to some degree in most areas, with s.106 often supporting some site-specific requirements (where a development could not proceed without those).

5. However, with a CIL in place, the use of s.106 will be significantly scaled-back. The use of s.106 for pooled contributions for infrastructure is currently greatly restricted, although at present s.106 also remains the key mechanism for securing planning policy required affordable housing. This will continue and a CIL has to be set up to allow also for those and all other policy requirements that have a development cost impact.

providing clear financial scope to support the charges, which are made at fixed (non-negotiable) rates set by the charging authority. The viability of development varies by use type, location and scale of development, all matters considered by this assessment commissioned by B&HCC to inform and support the progression of its CIL proposals. Typically, residential development together with some limited forms of commercial / non-residential development support CIL charging in viability terms.

7. The viability assessment reviews and advises on the charging scope locally, including in respect of any necessary differentiation (variance) in the recommended charging rates related to the varying characteristics of development within the charging authority's area, and relevant to the LDP overall.

8. Although the CIL charging rates and related development types together with any differentiation and / or zoning are set out locally (within the Council's 'Charging Schedule'), the basis for the charging is prescribed through the regulations. The charge is levied per square metre (sq. m) of new development exceeding 100 sq. m in floor area, but including new dwellings of any size. However, existing floor space on a site being redeveloped may not be liable for the CIL, depending on its occupation status. There are also a number of set exemptions that are universally applicable through the regulations too, so that affordable housing, development by charities, self-build housing and domestic extensions are not charged.

9. Whilst the Council cannot varying these regulatory matters, informed by the viability and other evidence, in its Local Plan (HDPF) context, it decides which types of other development should be charged and at what rate(s). To recap, this means the Council considering the LDP relevance of and the viability of various forms of and locations for development in its area, given the local characteristics. Any differentials within its charging set-up (varied rates) should be based on viability evidence. Although it is not necessary for a prospective charging authority to follow exactly the viability assessment, it should be able to show how the assessment has informed its selected approach.

10. The CIL charging rates must not be set to the margins of viability, especially given that once implemented the rates will be fixed and impact alongside all other development costs and requirements. This involves appropriate assumptions setting, for the purpose, within the viability assessment; and often the use of a "buffer" factor to pull-back the rates from the potential maximum levels that may look achievable.

11. The authority will also need to show how it considers that an appropriate balance has been struck between the infrastructure needs and the viability of development, overall. So, together with evidence on viability, the CIL proposals are also dependent on evidence of infrastructure needs, with the CIL aimed usually and realistically to respond to a portion of the overall requirements; based on an identified funding gap.

Viability and Assessment Review

12. To provide the viability information and evidence associated with this, B&H CC sought advice from experienced viability consultants Dixon Searle Partnership (DSP) - in connection with the scope and level of proposed CIL charges for the City area. DSP has a strong track record of involvement with CIL viability from inception to examination stages, as well as long standing experience in other strategic level and site-specific viability assessment.

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

14. Under the CIL principles it is accepted that not all individual developments will necessarily be viable. However, the CIL charging should be set at levels where development across the area – i.e. the delivery of the LDP as a whole – is not placed at undue risk through the collective costs of policies and obligations (including CIL payments) being too high.

Assessment principles

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

16. This is all about the strength of the relationship between the development values and costs across a range of scenarios - based on appropriate available information and researched assumptions.

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

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

19. A large number of appraisals (several thousand all together) are run, so that these effects can be considered across an appropriate range of development scenario types and new-build property sales values – all representative of the variety of development expected to come forward through the LDP here. For this strategic overview suitable for CIL informing purposes, however, it is not necessary or appropriate to appraise and review all conceivable development types and variations.

Findings & Recommendations

20. Residential property values, the key driver of viability, are high across the City area. There is variation between localities, however, as is usually the case.

21. Following the review of available information and our independent assessment, we concluded that the mapped zones (value areas) used by the District Valuer Services (DVS) to form the basis of the Council's affordable housing financial contributions guidance should be followed for the purposes of a zoned approach to the CIL charging for residential development in our view. This would provide a clear basis, consistent with established practice, and respecting appropriately the viability differentials likely to be seen in moving between the typically highest value areas (Zone 1), through mid-value

areas (Zone 2) to the typically lower value areas (zone 3). The full report text includes the detail and mapping extract illustrating these.

22. Overall, for residential development, our findings for residential development are that the suitable parameters for CIL charging, overall lie in the range say £75 to £250/sq. m. The overview table below, taken from the final section of the full report text, sets out the suggested Zoning.

23. The parameters put forward for the charging rates in all cases allow for an explicit "buffer" factor of approximately 50% from our assessed maximum potential charging rate, although we note also that the maximum theoretical rates (before the halving for buffering) could in fact be higher in many cases than our starting point indications. This significantly buffered approach has been taken here, working further back from the prudently assessed starting indications (maximum potential rates), because the local development characteristics rely heavily on previously developed land (PFL – i.e. ''brownfield') where a range of existing uses and associated site values together with development / cost implications will often be relevant to take account of. As the assessment results show, in many cases it appears that in fact the charging rates scope could be significantly higher.

24. Together with the key findings for the viability assessed CIL charging rates scope for other forms of development, our overview is set out in the table below.

CIL charging rates parameters - Recommendations Summary

Devt. Use Type / Location / comments		CIL rate (£/sq. m) scope	Comments – any alternative options?
RESIDENTIAL **A differential approach put forward for consideration – for consistency and clarity.** **Based on following or broadly reflecting the DVS sourced existing values areas (as used by B&H CC in affordable housing financial contributions calculations). See 2.5.8 (Figure 6) above.** **Above applies to C3 and C2 uses** **Applies also to purpose-built students' housing**	**Zone 1** (Red) – Typically highest property values.	**175 - 250**	Scope to consider in context of site supply and wider evidence in all respects. Information has also been provided on how both these and potential 'LIT' rates look and compare as %s GDV. Considered overall that a "one size fits all" (i.e. simple City-wide) approach would probably not respond to all variety and could need to be set at too a low a level overall.
	Zone 2 (Blue) – Area exhibiting mid-range values.	**150 - 200**	
	Zone 3 (Green) – Typically lowest property values.	**75 - 125**	
RESIDENTIAL – Larger scale comprehensive development	Aligned to general residential	**As per other C3/C2 as above – e.g. 75 – 175 if applying lower parameters within above overall range**	Currently no clear viability differential overall – no justification apparent for significant differentiation
RETAIL			Single retail rate not exceeding viability scope for smaller/other retail (@ £50 – 75/sq. m) considered a suitable approach in B&H context. Alternatively, differential rates within parameters as indicated here could be justified on viability grounds depending on LDP relevance and other factors.
Larger format – Retail warehousing / Supermarkets	City-wide	**100 - 150**	
Other shopping units development	City-wide	**50 - 75**	
ALL OTHER DEVELOPMENT USES	City-wide, at the current time	**£nil (£0/sq. m) but as with all other aspects, monitor to inform potential review over a relatively short timescale to renewed (2nd) charging schedule.**	

25. Recommended nil-rating in some cases / circumstances does not mean that developments of these types will not come forward or will consistently be undeliverable. Experience in practice shows that land owners and developers may be able to take particular decisions, reduce scheme costs or compromise in other ways (relative to our assumptions set for the assessment purpose) in order to progress developments. Whilst delivering some types of commercial floorspace will often remain relatively challenging with the still mixed economic backdrop, setting a nil-CIL is not a tool to aid economic development. However, the approach is the most that a charging authority can do in CIL terms, in recognition of what is at best going to continue to be a mixed viability picture for development types and schemes.

CIL review

26. Finally, it is important to recognise that inevitably a CIL Charging Schedule will have a short lifespan relative to a LDP.

27. Currently there are no set criteria on review, but from emerging experience it is likely that Charging Authorities will review and potentially amend their Schedules at between say 2 to 4 years from inception (a rough guide only).

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

29. DSP will be happy to assist B&H CC with any enquiries or further information required on any of these or other aspects, as further progress is made with its CIL.

Executive Summary Ends
Main report follows

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