Agenda Item No:	**9**	
Committee:	**Planning Committee**	
Date:	**3 June 2020**	
Report Title:	Local Plan Viability Report	

1 Purpose / Summary

To inform Planning Committee of the results of the Local Plan Viability Report.

2 Key issues

To support the preparation of the new Local Plan the Council commissioned consultants to carry out a whole plan viability study.

National planning policy places great importance on viability in plan-making. Whole plan viability reports are a crucial part of the Local Plan evidence base. The outcomes of the viability report are used to assist in the preparation of planning policies and ensuring that a Local Plan is deliverable and viable.

The executive summary can be viewed at Appendix 1 and the full report can be viewed on the website at: https://www.fenland.gov.uk/media/16705/FDC-Viability-Assessment--HDH-2019-12-19-/pdf/FDC_Viability_Assessment_(HDH_19-12-19).pdf

In summary the report concludes, that viability in Fenland is marginal and there is a clear north-south divide, with development in the northern part of the district (North of A47 Guyhirn roundabout) between 10% to 15% lower in terms of viability than the rest of the district. A 20% affordable housing requirement can be achieved in the south of the district, and none in the north. The report describes how much s106 monies can be expected and confirms there is no scope to introduce Community Infrastructure Levy (CIL).

The results of the Viability Report are currently being considered alongside other evidence in the drafting of the policies for the new Local Plan which is scheduled for public consultation in November/December 2020.

To be clear, Planning Committee is not being asked to approve the Viability Report and its publication does not change Council policy. The Viability Report is part of the evidence base to inform decisions on future policy in the new Local Plan (which will ultimately be approved by Council following a public examination). However, at this stage the findings are a material consideration in planning decisions.

Therefore Planning Committee is asked to note the outcomes which will be taken into consideration in determining planning applications from this point forwards, particularly in relation to affordable housing. Policy LP5 (meeting Housing Needs) of the Adopted Local Plan states that:

'(a) on sites of 5-9 dwellings, 20% of dwellings to be affordable housing…

(b) on sites of 10 or more dwellings, 25% of the dwellings as affordable houses (rounded to the nearest whole dwelling)…

The Council will expect to secure affordable housing on the basis of the above targets, but will negotiate with developers if an accurate viability assessment indicates these cannot be met in full. The viability assessment will be undertaken by the developer using a recognised assessment model.'

The publication of the Viability Report means that the Council’s own evidence shows that the 25% requirement might not be able to be met. As such, the Viability Report is capable of being a material consideration in the determination of planning applications.

Consultation was carried out with the development industry on the viability report the Key Issues Report provides a summary of the main comments raised.

The draft Local Plan will be consulted on November and December 2020. The Council will update the viability report before publishing the proposed submission version of the Local Plan next year. This will ensure that the emerging Local Plan is viable and will take into account any comments received on the draft version of the Local Plan and Viability Report. This will also allow the effects of external factors such as the current uncertainties in the economy due to the COVID 19 pandemic and any changes as a result of Britain leaving the EU.

3 Recommendations

- Planning Committee is asked to note the outcomes of the Viability Report which will be taken into consideration in determining planning applications from this point forwards.

Wards Affected	All
Forward Plan Reference	
Portfolio Holder(s)	Cllr Dee Laws, Portfolio Holder for Planning
Report Originator(s)	Gemma Wildman, Local Plan Manager Carol Pilson, Corporate Director
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Background Paper(s)	Fenland Local Plan & CIL Viability Assessment

Local Plan & CIL Viability Assessment

EXECUTIVE SUMMARY

This non-technical summary document is a reproduction of Chapter 12 of the Fenland District Council Local Plan and CIL Viability Assessment. This summary, by its nature, is abbreviated. It is recommended that the document is read in full.

December 2019

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12. Findings and Recommendations

12.1 This chapter provides a non-technical summary of the overall assessment that can be read on a standalone basis. Having said this, a viability assessment of this type is, by its very nature, a technical document that is prepared to address the very specific requirements of national planning policy. As this is a summary chapter, some of the content of earlier chapters is repeated.

12.2 This Viability Assessment sets out the methodology used, the key assumptions adopted, and the results. It has been prepared to assist the Council with the assessment of the viability of the emerging Local Plan. The 2019 National Planning Policy Framework (2019 NPPF), the updated Planning Practice Guidance (PPG) and the Harman Viability Guidance require stakeholder engagement – particularly with members of the development industry. Consultation has taken place and, whilst there was not universal agreement, a broad consensus was achieved.

12.3 Fenland District Council (FDC / the Council) is preparing a Local Plan that will set out the future spatial strategy for the District and will include sites for allocation. The first stage of this is the publication of an 'Issues and Options' consultation document. Responses to the Issues and Options document will inform the scope and direction of the draft Local Plan, which the Council intends to publish for consultation in –the summer of 2020.

12.4 This Viability Assessment has been commissioned to inform the further development of the Plan. HDH Planning & Development Ltd has been appointed to advise FDC in connection with several matters:

a. Review of Affordable Housing policy within the District (including tenure split).

b. Whole plan viability to consider all other standards and policy requirements.

c. To consider the scope for Community Infrastructure Levy (CIL).

12.5 In the three or so years before this report, various Government announcements were made about changes to the planning processes. The Ministry of Housing Communities and Local Government (MHCLG) updated the National Planning Policy Framework, (2018 NPPF), and published new Planning Practice Guidance (PPG) in July 2018. In February 2019 the NPPF was further updated (2019 NPPF), although these changes did not impact on viability. In May 2019 the viability sections of the PPG were updated again. In addition to these changes, the CIL Regulations and accompanying guidance (within the PPG) were also updated from 1st September 2019. The methodology used in this report is consistent with the 2019 NPPF, the CIL Regulations (as amended) and the updated PPG.

Compliance

12.6 HDH Planning & Development Ltd is a firm regulated by the Royal Institution of Chartered Surveyors (RICS). As a firm regulated by the RICS it is necessary to have regard to RICS Professional Standards and Guidance. There are two principle pieces of relevant guidance, being the *Financial viability in planning: conduct and reporting RICS professional statement, England (1st Edition, May 2019)* and *Financial Viability in planning (1st edition), RICS guidance note 2012*.

12.7 *Financial Viability in planning (1st edition), RICS guidance note 2012* is currently subject to a full review to reflect the changes in the 2019 NPPF and the updated PPG (May 2019). As part of the review, *Financial viability in planning: conduct and reporting. 1st edition, May 2019* was published in May 2019. This includes mandatory requirements for RICS members and RICS-regulated firms. HDH confirms that the May 2019 Guidance has been followed in full.

Viability Testing under the 2019 NPPF and Updated PPG

12.8 The effectiveness of plans was important under the 2012 NPPF, but a greater emphasis is put on deliverability in the 2019 NPPF. The overall requirement (as set out at PPG 10-001-20190509) is that '*policy requirements should be informed by evidence of infrastructure and Affordable Housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106 .*'

12.9 This study is based on typologies that are representative of the sites to be allocated in the new Local Plan.

12.10 The updated PPG sets out that viability should be tested using the Existing Use Value Plus (EUV+) approach:

> *To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+).*

12.11 The Benchmark Land Value (BLV) is the amount the Residual Value must exceed for the development to be considered viable.

Viability Guidance

12.12 There is no specific technical guidance on how to test the viability in the 2019 NPPF or the updated PPG, although the updated PPG includes guidance in a number of specific areas. There are several sources of guidance and appeal decisions that support the methodology HDH has developed. This study follows the *Viability Testing in Local Plans – Advice for planning practitioners* (LGA/HBF – Sir John Harman) June 2012 (known as the **Harman Guidance**).

12.13 In line with the updated PPG, this study follows the EUV Plus (EUV+) methodology, that is to compare the Residual Value generated by the viability appraisals, with the EUV plus an appropriate uplift to incentivise a landowner to sell. The amount of the uplift over and above the EUV is central to the assessment of viability. It must be set at a level to provide a return to the landowner. To inform the judgement as to whether the uplift is set at the appropriate level, reference is made to the market value of the land both with and without the benefit of planning.

12.14 The availability and cost of land are matters at the core of viability for any property development. The format of the typical valuation is:

Gross Development Value
(The combined value of the complete development)

LESS

Cost of creating the asset, including a profit margin
(Construction + fees + finance charges)

=

RESIDUAL VALUE

12.15 The 2019 NPPF, the PPG, the CIL Regulations and CIL Guidance are clear that the assessment of viability should, wherever possible, be based on existing available evidence rather than new evidence. The evidence that is available from FDC has been reviewed. This includes that which has been prepared earlier in the plan-making process, and that which the Council holds, in the form of development appraisals that have been submitted by developers in connection with specific developments – most often to support negotiations around the provision of Affordable Housing or s106 contributions. The approach taken is to draw on this existing evidence and to consolidate it so that it can then be used as a sound base for the assessment.

12.16 The PPG requires stakeholder engagement. So a consultation event was held on 19th September 2019. Representatives of the main developers, development site landowners, 'call for site' landowners, their agents, planning agents and consultants working in the District and housing providers were invited.

Viability Process

12.17 The assessment of viability as required under the 2019 NPPF and the CIL Regulations is a quantitative and qualitative process. The basic viability methodology involves preparing financial development appraisals for a representative range of 'typologies', and using these to assess whether development, generally, is viable. The sites were modelled based on discussions with Council officers, the existing available evidence supplied and on our own experience of development.

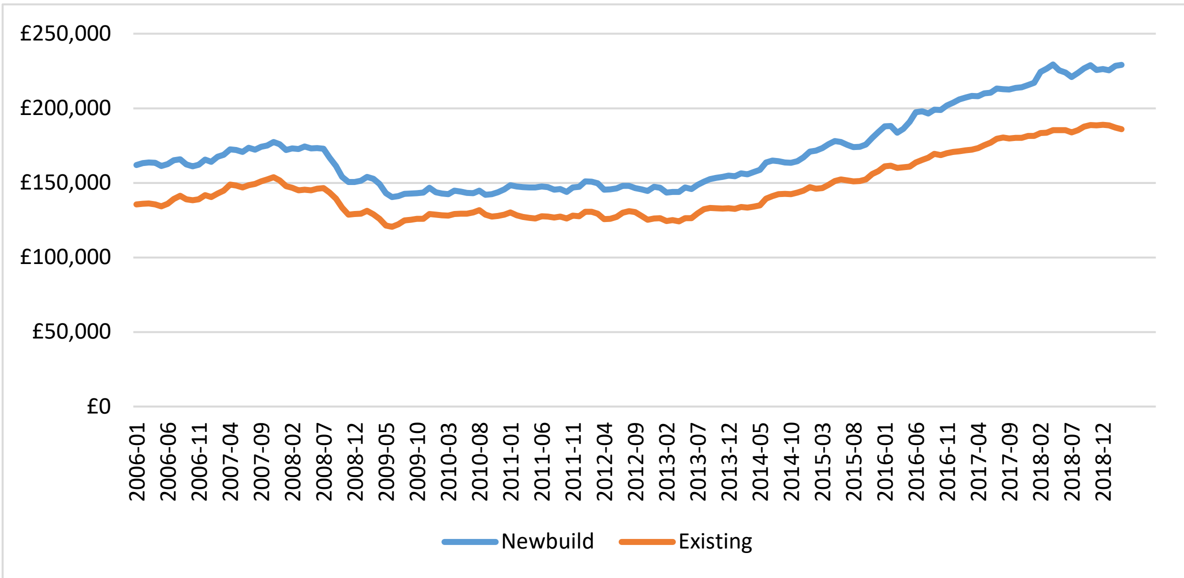
Residential Market

12.18 An assessment of the housing market was undertaken. The study is concerned not just with the prices but the differences across different areas.

12.19 When ranked across England and Wales, the average house price for FDC is 250th (out of 348) at about £202,805. To set this in context, the Council at the middle of the rank (174 – Herefordshire), has an average price of £264,989. It is relevant to note that FDC's median price is a lower than the mean at £185,000.

12.20 Prices in the FDC area have seen a significant recovery since the bottom of the market in mid-2009. A characteristic of the data is that the values of newbuild homes have increased faster than that for existing homes. The Land Registry shows that the average price paid for newbuild homes in Fenland (£229,105) is about £43,000, or 23% higher than the average price paid for existing homes (£186,046).

Figure 12.1 Change in House Prices. Existing v Newbuild – Fenland



Source: Figure 4.2 FDC Viability Assessment (December 2019)

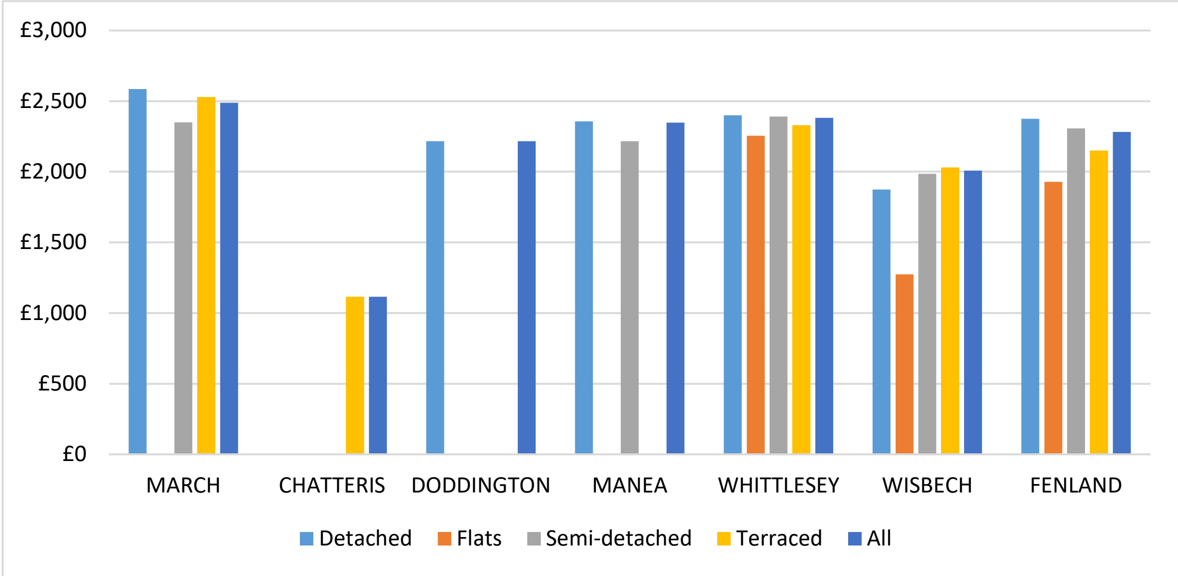
12.21 This report is being completed after the United Kingdom voted to leave the European Union. It is not possible to predict the impact of leaving the EU, beyond the fact that the UK and the UK economy is in a period of uncertainty. Negotiations around the details of the exit are underway but not concluded, so the future of trade with the EU and wider world are not yet known. A range of views as to the impact on house prices have been expressed that cover nearly the whole spectrum of possibilities. There is clearly uncertainty in the market, and it is not for this study to try to predict how the market may change in the coming years, and whether or not there will be a further increase in house prices.

The Local Market

12.22 A survey of asking prices across the FDC area was carried out in August 2019.

12.23 The Land Registry publishes data of all homes sold. Across the FDC area 2,632 home sales are recorded since the start of 2018. These transactions (as recorded by the Land Registry) have an average price of £208,894. 320 newbuild home sales are recorded since the start of 2017. Each dwelling sold requires an Energy Performance Certificate (EPC). The EPC contains the floor area (the Gross Internal Area – GIA). The price paid data from the Land Registry has been married with the floor area from the EPC Register. The Land Registry data can be broken down by house type and is summarised as follows:

Figure 12.2 Average Price Paid (£/m²)



Source: Figure 4.9 FDC Viability Assessment (December 2019). Land Registry and EPC Register (August 2019) Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0.

12.24 The average price paid is £2,283/m², ranging from £1,115/m² to over £3,260/m².

Price Assumptions for Financial Appraisals

12.25 Bringing together the evidence (which we acknowledge is varied), the following price assumptions are used:

Table 12.1 Post-consultation Residential Price Assumptions (£/m²)

	Higher Value	Lower Value
Urban Sites	£2,275	£2,050
Flatted Schemes	£2,500	£2,250
Large Greenfield Sites	£2,450	£2,200
Medium Greenfield Sites	£2,400	£2,160
Small Greenfield Sites	£2,750	£2,500

Source: Table 4.8 FDC Viability Assessment HDH (December 2019)

12.26 The results are presented for two price areas. For this assessment we have divided the District with the area to the north of where the A47 crosses the River Nene (by the Rings End Roundabout at Guyhirn) being a lower value area, and the remainder of the District being a higher value area.

Build to Rent

12.27 The Council has not seen Build to Rent schemes coming forward however this is a growing development format. The Built to Rent sector is a different sector to mainstream housing and treated differently to mainstream housing under the PPG. A survey of market rents across the FDC area has been undertaken and from this the values of Private Rented Housing derived.

Table 12.2 Capitalisation of Private Rents

	1 bed	2 bed	3 bed	4 bed
Gross Rent (£/month)	£510	£625	£680	£900
Gross Rent (£/annum)	£6,120	£7,500	£8,160	£10,800
Net Rent	£4,896	£6,000	£6,528	£8,640
Value	£97,920	£120,000	£130,560	£172,800
m^2	50	70	84	97
£/m^2	£1,958	£1,714	£1,554	£1,781

Source: Table 4.9 FDC Viability Assessment HDH (December 2019)

12.28 In this study we have assumed a value for private rent, in all areas, of £1,750/m^2.

Affordable Housing

12.29 In this study, it is assumed that Affordable Housing is constructed by the site developer and then sold to a Registered Provider (RP). The following values are used across the FDC area:

a. Social Rent – a value of £1,180/m^2.

b. Affordable Rent – a value of £1,400/m^2.

c. Intermediate Products for Sale – 70% of Open Market Value.

Older People's Housing

12.30 Housing for older people is generally a growing sector due to the demographic changes and the aging population. Based on the above, a value of £2,800/m^2 is assumed for Sheltered housing and £3,000/m^2 is assumed for Extracare.

Non-Residential Market

12.31 The following assumptions have been used:

Table 12.3 Commercial Values £/m² 2019					
	Rent £/m²	Yield	Rent free period		Assumption
Offices	£215	7.00%	1.0	£1,335	£1,500
Industrial	£75	7.00%	1.0	£1,001	£1,000
Retail - Centre	£270	8.00%	2.0	£2,894	£2,900
Retail (elsewhere)	£150	10.00%	2.0	£1,240	£1,250
Large Supermarket	£250	5.50%	1.0	£4,308	£4,300
Small Supermarket	£215	5.00%	1.0	£4,095	£4,100
Retail warehouse	£180	6.00%	2.0	£2,670	£3,270
Hotel (per room)	£4,500	5.50%	0.0	£81,818	£3,300

Source: Table 5.2 FDC Viability Assessment HDH (December 2019)

Land Values

12.32 In this assessment the following Existing Use Value (EUV) assumptions are used.

Table 12.4 Existing Use Value Land Prices £/ha August 2019		
Industrial Land	1ha + Less than 1ha	£100,000 £250,000
Agricultural		£25,000
Paddock		£50,000

Source: Table 6.4 FDC Viability Assessment HDH (December 2019)

12.33 The updated PPG makes specific reference to Benchmark Land Values (BLV) so it is necessary to address this. The following BLV assumptions are made:

Brownfield/Urban Sites: EUV Plus 20%.

Greenfield Sites: EUV Plus £250,000/ha.

Development Costs

12.34 These are the costs and other assumptions required to produce the financial appraisals.

Construction costs: baseline costs

12.35 The cost assumptions are derived from the Building Cost Information Service (BCIS)[1] data – using the figures re-based for Cambridgeshire[2]. The cost figure for 'Estate Housing –

[1] BCIS is the Building Cost Information Service of the Royal Institution of Chartered Surveyors.

[2] The sample size for Fenland is very small (16) so the larger area is used.

Generally' is £1,281/m^2 at the time of this study: Through the September 2019 consultation it was suggested that a figure between the lower quartile figure and the median was appropriate and had been used.

Other normal development costs

12.36 In addition to the BCIS £/m^2 build cost figures described above, allowance needs to be made for a range of site costs (roads, drainage and services within the site, parking, footpaths, landscaping and other external costs).

12.37 A scale of allowances has been developed for the residential sites, ranging from 5% of build costs for the smaller sites and flatted schemes, to 15% for the larger greenfield schemes.

Abnormal development costs and brownfield sites

12.38 An additional allowance is made for abnormal costs associated with brownfield sites of 5% of the BCIS costs. Abnormal costs will be reflected in land value (and, in due course, at the development management stage, in the BLV). Those sites that are less expensive to develop will command a premium price over and above those that have exceptional or abnormal costs. It is not the purpose of a study of this type to standardise land prices across an area.

Fees

12.39 For residential and non-residential development we have assumed professional fees amount to 9% of build costs. Separate allowances are made for planning fees, acquisition, sales and finance costs.

Contingencies

12.40 For previously undeveloped and otherwise straightforward sites, a contingency of 2.5% has been allowed for, with a higher figure of 5% on more risky types of development, previously developed land. So, the 5% figure was used on the brownfield sites and the 2.5% figure on the remainder.

S106 Contributions and the costs of infrastructure

12.41 For many years, FDC has sought payments from developers to mitigate the impact of the development through improvements to the local infrastructure. In line with the Council's expectations it is assumed all the modelled residential sites will contribute £2,000/unit. Bearing in mind the considerable uncertainly in this regard a range of higher costs have also been tested.

Financial and Other Appraisal Assumptions

Interest rates

12.42 Our appraisals assume interest of 6% p.a. for total debit balances, we have made no allowance for any equity provided by the developer.

12.43 An arrangement fee of 1% of the peak borrowing requirement is also allowed for.

Developers' return

12.44 This is a high-level study where it is necessary and proportionate to take a relatively simplistic approach, so, rather than apply a differential return (i.e. site-by-site or split), it is appropriate to make some broad assumptions. The updated PPG says '*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies*'. An assumption of 17.5% is used across market and Affordable Housing.

Site Acquisition and Disposal Costs

12.45 An allowance 1% for acquisition agents' and legal fees. Stamp duty is calculated at the prevailing rates.

12.46 For market and for Affordable Housing, sales and promotion and legal fees are assumed to amount to 3.5% of receipts. For disposals of Affordable Housing, these figures can be reduced significantly depending on the category, so in fact the marketing and disposal of the affordable element is probably less expensive than this.

Local Plan Policy Requirements

12.47 The specific purpose of this study is to inform the development of the emerging Local Plan and then, in due course, to assess the cumulative impact of the policies in the new Local Plan. The development of the policies is at an early stage and the options are still being explored, having said this, the policies can be separated into various and tested.

Modelling

12.48 The approach is to model a set of development sites that are broadly representative of the type of development that is likely to come forward under the new Local Plan.

Residential Appraisals

12.49 The appraisals use the residual valuation approach – they assess the value of a site after taking into account the costs of development, the likely income from sales and/or rents and a developers' return. The Residual Value represents the maximum bid for the site where the payment is made in a single tranche on the acquisition of a site. In order for the proposed development to be viable, it is necessary for this Residual Value to exceed the EUV by a satisfactory margin, being the Benchmark Land Value (BLV).

12.50 Several sets of appraisals have been run, including with varied levels of Affordable Housing and developer contributions.

12.51 These appraisals are based on the following assumptions. These base appraisals have been based on 30% Affordable Housing.

a. Affordable Housing		30% on sites of 10 units and larger (6 units and larger in rural areas) as 70% Affordable Rent, 30% Intermediate.
b. Design		NDSS
		Water efficiency / Car Charging Points
c. Developer Contributions		s106 - £2,000/unit.

12.52 The results vary across the modelled sites, although this is largely due to the different assumptions around the nature of each typology. The additional costs associated with brownfield sites result in lower Residual Values.

12.53 In the following tables the Residual Value is compared with the BLV. The Benchmark Land Value being an amount over and above the Existing Use Value that is sufficient to provide the willing landowner with a premium, and induce them to sell the land for development as set out in Chapter 6 above.

Table 12.5a Residual Value v Benchmark Land Value - SOUTH 30% Affordable (70% Social Rent / 30% Intermediate), s106 £2,000/unit					
			EUV	BLV	Residual Value
Site 1	Green 2,000	South	25,000	275,000	140,018
Site 2	Green 750	South	25,000	275,000	178,655
Site 3	Green 150	South	25,000	275,000	166,115
Site 4	Green 75	South	25,000	275,000	171,397
Site 5	Green 35	South	25,000	275,000	80,760
Site 6	Green 20	South	50,000	300,000	76,153
Site 7	Green 12	South	50,000	300,000	233,750
Site 8	Green 9	South	50,000	300,000	1,052,920
Site 9	Green 6	South	50,000	300,000	943,653
Site 10	Green 3	South	50,000	300,000	1,343,358
Site 11	Green Plot	South	50,000	300,000	1,514,526
Site 12	Urban 300	South	100,000	120,000	-195,590
Site 13	Urban 40	South	100,000	120,000	-479,706
Site 14	Urban 25	South	100,000	120,000	-395,312
Site 15	Urban 25 HD	South	250,000	300,000	-1,187,858
Site 16	Urban 15	South	250,000	300,000	-502,528
Site 17	Urban 15 HD	South	250,000	300,000	-1,246,015
Site 18	Urban 10	South	250,000	300,000	-218,722
Site 19	Urban 8	South	250,000	300,000	-471,670
Site 20	Urban 8 HD	South	250,000	300,000	-813,359
Site 21	Urban 5	South	250,000	300,000	154,135
Site 22	Urban 3	South	250,000	300,000	251,326
Site 23	Urban Plot	South	250,000	300,000	268,740
Site 24	PRS 25	South	250,000	300,000	-1,825,683
Site 25	Bungalows 12	South	50,000	300,000	399,168

Source: Table 10.2a FDC Viability Assessment HDH (December 2019)

Table 12.5b Residual Value v Benchmark Land Value - NORTH 30% Affordable (70% Social Rent / 30% Intermediate), s106 £2,000/unit					
			EUV	BLV	Residual Value
Site 1	Green 2,000	North	25,000	275,000	-72,129
Site 2	Green 750	North	25,000	275,000	-54,941
Site 3	Green 150	North	25,000	275,000	-139,012
Site 4	Green 75	North	25,000	275,000	-191,708
Site 5	Green 35	North	25,000	275,000	-253,986
Site 6	Green 20	North	50,000	300,000	-263,595
Site 7	Green 12	North	50,000	300,000	-101,395
Site 8	Green 9	North	50,000	300,000	583,903
Site 9	Green 6	North	50,000	300,000	501,657
Site 10	Green 3	North	50,000	300,000	875,159
Site 11	Green Plot	North	50,000	300,000	980,668
Site 12	Urban 300	North	100,000	120,000	-542,658
Site 13	Urban 40	North	100,000	120,000	-914,446
Site 14	Urban 25	North	100,000	120,000	-765,004
Site 15	Urban 25 HD	North	250,000	300,000	-848,423
Site 16	Urban 15	North	250,000	300,000	-945,096
Site 17	Urban 15 HD	North	250,000	300,000	-1,654,194
Site 18	Urban 10	North	250,000	300,000	-596,733
Site 19	Urban 8	North	250,000	300,000	-1,021,523
Site 20	Urban 8 HD	North	250,000	300,000	-1,129,987
Site 21	Urban 5	North	250,000	300,000	-286,279
Site 22	Urban 3	North	250,000	300,000	-364,255
Site 23	Urban Plot	North	250,000	300,000	-381,090
Site 24	PRS 25	North	250,000	300,000	-1,825,683
Site 25	Bungalows 12	North	50,000	300,000	-25,263

Source: Table 10.2b FDC Viability Assessment HDH (December 2019)

12.54 At the 30% Affordable Housing, the only typology where the Residual Value exceeds the BLV is the typology modelled at lower density with bungalows. Bungalows are modelled with a higher value. The Residual Values are notably higher in the higher value southern area and the lower value northern area.

12.55 These results are very much to be expected as the Council's Affordable Housing target is 25% across most sites, with 20% on smaller sites. A range of further appraisals have been run to inform the development of planning policy.

12.56 The core purpose of this study is to consider an appropriate Affordable Housing target. Sensitivity testing was carried out based on the (current) preferred mix of 70% Affordable Rent / 30% Intermediate Housing.

12.57 The results are significantly different across the southern and the northern areas. In the higher value southern area, on the larger greenfield sites, the 'tipping' point in terms of the Residual Value exceeding the BLV is between 20% and 25% Affordable Housing. This is in line with expectations, on the basis that some sites are delivering affordable in this area and that viability has got a little worse (costs rising more than values) since the Affordable Housing target was set. This would suggest that a 20% target would be appropriate.

12.58 In the lower value northern area, the larger greenfield typologies produce Residual Values that are less than the BLV without Affordable Housing, indicating that not only is development unable to bear Affordable Housing in this area, but is also unlikely to be forthcoming.

12.59 The smaller sites (in the 6 unit to 10 unit band) that are within the parishes in the 'designated rural area', in both the north and south of the District, have higher Residual Values, reflecting the slightly higher value attributed to residential development on smaller sites. These types of site are able to bear Affordable Housing so we would recommend a lower threshold is set. If a 20% Affordable Housing target is adopted, then the lowest practical threshold that allows for the delivery of a whole unit is 5. A policy threshold of 5 units would be appropriate.

12.60 Across both the northern and the southern areas, the brownfield typologies generate Residual Values that are not only below the EUV, but are also negative. This indicates that development on these types of site is likely to be unviable, even without the provision of any Affordable Housing. The Council's experience on the ground, through the development management system, is that some schemes are coming forward within the urban areas and on greenfield sites, but these are limited and are not generally delivering Affordable Housing (this is also, at least in part, because such sites tend to be small sites that are below the Affordable Housing policy threshold.

12.61 The Council should be cautious about allocating sites in the north of the District as these are unlikely to be forthcoming. Likewise, the Council should be cautious when relying on brownfield/urban sites to deliver housing (for example within the five year supply assessment) as such sites are clearly challenging to deliver. The exception to this advice is where there is clear evidence that a policy compliant scheme can be delivered on a site.

Developer Contributions

12.62 The initial analysis considered the impact of Affordable Housing on development viability. The ability to bear developer contributions (without Affordable Housing) was also considered

12.63 Most greenfield sites can bear up to £15,000/unit in developer contributions. In the northern parts of the District the scope to bear developer contributions is limited.

Varied Developer's Return

12.64 Through the consultation process, a range of views were expressed at to the appropriate developer's return. This is an area where there was not a consensus. A range of assumptions have been tested.

12.65 In the initial iteration of this assessment, the developer's return is assessed as 17.5% of the value of market housing and 6% of the value of Affordable Housing. 17.5% is the middle of the range suggested in the PPG.

12.66 It is accepted that using different assumptions in this regard has an impact on the Residual Value. It is notable that if the 20% assumption is used on both market and Affordable Housing, at 20% Affordable Housing little development is viable. This does not represent what is happening on the ground, as development is coming forward.

Other Policy Requirements

12.67 The Council is at an early stage of the plan-making process. We have been asked to test the impact of higher building standards on development viability. We have tested the additional costs of building to Option 1 and Option 2 as set out in the Government's consultation on 'The Future Homes Standard'.

12.68 The Council is also investigating seeking additional standards around accessible and adaptable standards. We have assessed what the impact would be of requiring all new homes to be designed to be accessible and adaptable dwellings with 10% of housing to be wheelchair adaptable dwellings.

12.69 The analysis shows that the additional costs on increased standards does have a detrimental impact on viability. At 20% Affordable Housing there would be limited scope to introduce higher standards, beyond the Accessible and Adaptable Category 2 Standard.

12.70 The consultation on the Future Homes Standard is being carried out on the basis any changes would be introduced from 2025. Whilst it is prudent to consider their impact now, there is little scope to introduce the emerging requirements at this stage.

Affordable Housing v Developer Contributions

12.71 The core balance in a viability assessment is between the provision of Affordable Housing and the payment of developer contributions towards strategic infrastructure and mitigation measures that are required to make development acceptable.

12.72 At the time of this assessment the Council has not completed the research behind the updated Infrastructure Delivery Plan (IDP) so does not know what levels of contribution will be sought from development in the future. In the base analysis it is assumed that the current typical contribution of about £2,000/unit will continue, although there is uncertainty around this pending the completion of the Councils Infrastructure Delivery Plan (IDP).

12.73 The analysis suggests that there is not capacity to seek increased levels of developer contribution with an Affordable Housing target of 20%.

Suggested Affordable Housing Targets

12.74 In the sections above, the ability of development to bear a range of costs has been considered. How this information is brought together will be a matter for the Council – bearing in mind its own priorities.

12.75 The results vary significantly between the southern and the northern areas. At the time of this assessment, the Council has not completed the research behind the updated Infrastructure Delivery Plan (IDP) so does not know what levels of contribution will be sought from development in the future. In the base analysis it is assumed that the current typical contribution of about £2,000/unit will continue. The above analysis suggests that there is not capacity to seek increased levels of developer contribution with an Affordable Housing target of 20%.

12.76 Should higher level of developer contributions be required to provide the infrastructure to support new development then it may be necessary to consider a lower affordable housing target. With a £5,000/unit developer contribution an affordable housing target of 10% would be appropriate in the southern area.

12.77 The smaller sites (in the 6 unit to 10 unit band) that are within the parishes in the 'designated rural area', in both the north and south of the District, have higher Residual Values, reflecting the slightly higher value attributed to residential development on smaller sites. These types of site are able to bear Affordable Housing of up to 25% so we would recommend a lower threshold is set (6 is the minimum under paragraph 63 of the 2019 NPPF).

12.78 At the time of this report, no strategic sites have been identified. In due course these will need to be tested individually. There is no doubt that the delivery of any large site is challenging. Regardless of these results, it is recommended that that the Council engages with the owners in line with the advice set out in the Harman Guidance (page 23):

> *Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.*

12.79 In this context we particularly highlight paragraph 10-006 of the PPG:

> *... It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan....*
>
> *PPG 10-006-20180724*

12.80 Based on the above a 20% Affordable Housing target is suggested on greenfield sites.

Scope for CIL

12.81 In the previous sections the ability to bear developer contributions was considered at varied levels of affordable housing. On greenfield sites in the south of the District, at 20% affordable housing there is scope for £2,000/unit, and at 10% affordable housing there is scope for £5,000 or so. Without affordable housing there is scope for £15,000 or so on greenfield sites in the south of the District.

12.82 The above analysis simply considers the ability to bear different levels of contribution, having no regard for how the contributions are paid. Developer contributions can be paid through the s106 regime or as CIL. Payments requested under the s106 regime are determined site by site as set out in CIL Regulation 122.

12.83 Where a CIL is in place, it is mandatory on all developments within the categories and areas where the levy applies. This is unlike s106 agreements (including Affordable Housing) which are negotiated with developers (subject to the restrictions in CIL Regulation 122 and within paragraphs 10-007 and 10-008 of the PPG). This means that CIL must not prejudice the viability of most sites. This difference is reflected in the CIL Guidance (within the PPG) that refers to a buffer.

12.84 The level of the buffer has been debated at many CIL hearings, but generally CIL Examiners like to see a buffer of between 30% and 50% between the Residual Value and the Benchmark Land Value. On this basis there is limited scope to introduce CIL.

Commuted Sums

12.85 The Council's preference is for Affordable Housing to be delivered on-site. This approach is in line with Paragraph 62 of the 2019 NPPF. Having said this, it is sensible for councils to set out guidance as to how a commuted sum would be calculated so as to provide transparency, and to avoid the undue delays that might arise during s106 negotiations if details of a payment had to be developed from first principles on each occasion. The approach used in the calculation of the developer contribution utilises the site viability analysis. It is based upon the contribution that the developer would have made if an on-site affordable contribution were delivered.

12.86 Paragraph 62 of the 2019 NPPF is clear that off-site provision or financial contribution in lieu '*can be robustly justified'*. On this basis, the above calculations provide a sound basis for determining a commuted sum figure. If the Council were to publish a 'standard commuted sum payment', we would recommend a £45,000/unit payment per affordable unit not delivered on-site.

Impact of Change in Values and Costs

12.87 Whatever policies are adopted, the Plan should not be unduly sensitive to future changes in prices and costs. In this report, the analysis is based on the build costs produced by BCIS. As well as producing estimates of build costs, BCIS also produce various indices and forecasts to track and predict how build costs may change over time. The BCIS forecasts an increase in prices of 10.08% over the next 3 years[3]. We have tested a scenario with this increase in build costs. As set out in Chapter 4, we are in a current period of uncertainty in the property market. It is not the purpose of this report to predict the future of the market. We have tested four price change scenarios.

12.88 The analysis demonstrates that a relatively small increase in build costs will adversely impact on viability, although this is unlikely to be sufficient to impact on the deliverability of the Plan. Conversely a modest increase in value could have a significant impact in improving viability.

Review

12.89 The direction of the market, as set out in Chapter 4 above, is improving, and there is an improved sentiment that the economy and property markets are improving. There is however some level of uncertainty. Bearing in mind FDC's wish to develop housing, and the requirements to fund infrastructure, it is recommended that the Council keeps viability under review; should the economics of development change significantly, it should consider undertaking a limited review of the Plan to adjust the Affordable Housing requirements or levels of developer contribution.

12.90 In this regard it is timely to highlight paragraph 10-009-20180724 of the PPG.

> *<u>How should viability be reviewed during the lifetime of a project?</u>*
>
> *Plans should set out circumstances where review mechanisms may be appropriate, as well as clear process and terms of engagement regarding how and when viability will be reassessed over the lifetime of the development to ensure policy compliance and optimal public benefits through economic cycles.*
>
> *Where contributions are reduced below the requirements set out in policies to provide flexibility in the early stages of a development, there should be a clear agreement of how policy compliance can be achieved over time. As the potential risk to developers is already accounted for in the assumptions for developer return in viability assessment, realisation of risk does not in itself necessitate further viability assessment or trigger a review mechanism. Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project.*
>
> *PPG 10-009-20180724*

12.91 It is recommended that, on sites where the policy requirements are flexed, the Council includes review mechanisms.

Older People's Housing

12.92 As well as mainstream housing, we have considered the Sheltered and Eextracare sectors separately. Appraisals were run for a range of Affordable Housing requirements.

12.93 Based on this analysis, specialist older people's housing is not able to bear developer contributions (financial or Affordable Housing) in the FDC area.

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[3] See Table 1.1 (Page 7) of in *Quarterly Review of Building Prices*

Non-Residential Appraisals

12.94 As with the residential appraisals, we have used the Residual Valuation approach. We have run appraisals to assess the value of a site after taking into account the costs of development, the likely income from sales and/or rents, and an appropriate amount of developers' profit.

12.95 To a large extent the above results are reflective of the current market in the District and more widely. Office and industrial development are shown as being unviable, however this is not just an issue within FDC, a finding supported by the fact that such development is only being brought forward to a limited extent on a speculative basis by the development industry. Where development is coming forward (and it is coming forward), it tends to be from existing businesses for operational reasons, for example existing local businesses moving to more appropriate and better located town edge properties.

12.96 It is clear that the delivery of the employment uses is challenging in the current market. We would urge caution in relation to setting policy requirements for employment uses that would unduly impact on viability.

12.97 The larger format retail development is shown as viable with the Residual Value exceeding the Benchmark Land Value by a substantial margin. The Plan supports the development of retail uses in the town centres, but there are limited remaining opportunities within the town centres beyond those being currently pursued. The Council wishes to see a broad range of retailing in the towns, and the Plan directs this towards the town centres.

12.98 The analysis included hotel use. This is shown to be viable on greenfield and brownfield land.

Conclusions

12.99 The property market across the Fenland is mixed, although parts are active and development is forthcoming.

12.100 In simple terms the greenfield sites in the southern part of the District are shown as viable, but greenfield sites in the northern areas and the brownfield sites not viable. This is to be expected, generally the Council is achieving Affordable Housing on greenfield sites but not on brownfield sites. The Council should be cautious about allocating sites in the north of the District or relying on the brownfield sites, (for example within the five-year land supply assessment).

HDH Planning and Development Ltd is a specialist planning consultancy providing evidence to support planning authorities, land owners and developers. The firm is regulated by the RICS.
The main areas of expertise are:

- Community Infrastructure Levy (CIL)
- District wide and site specific Viability Analysis
- Local and Strategic Housing Market Assessments and Housing Needs Assessments

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