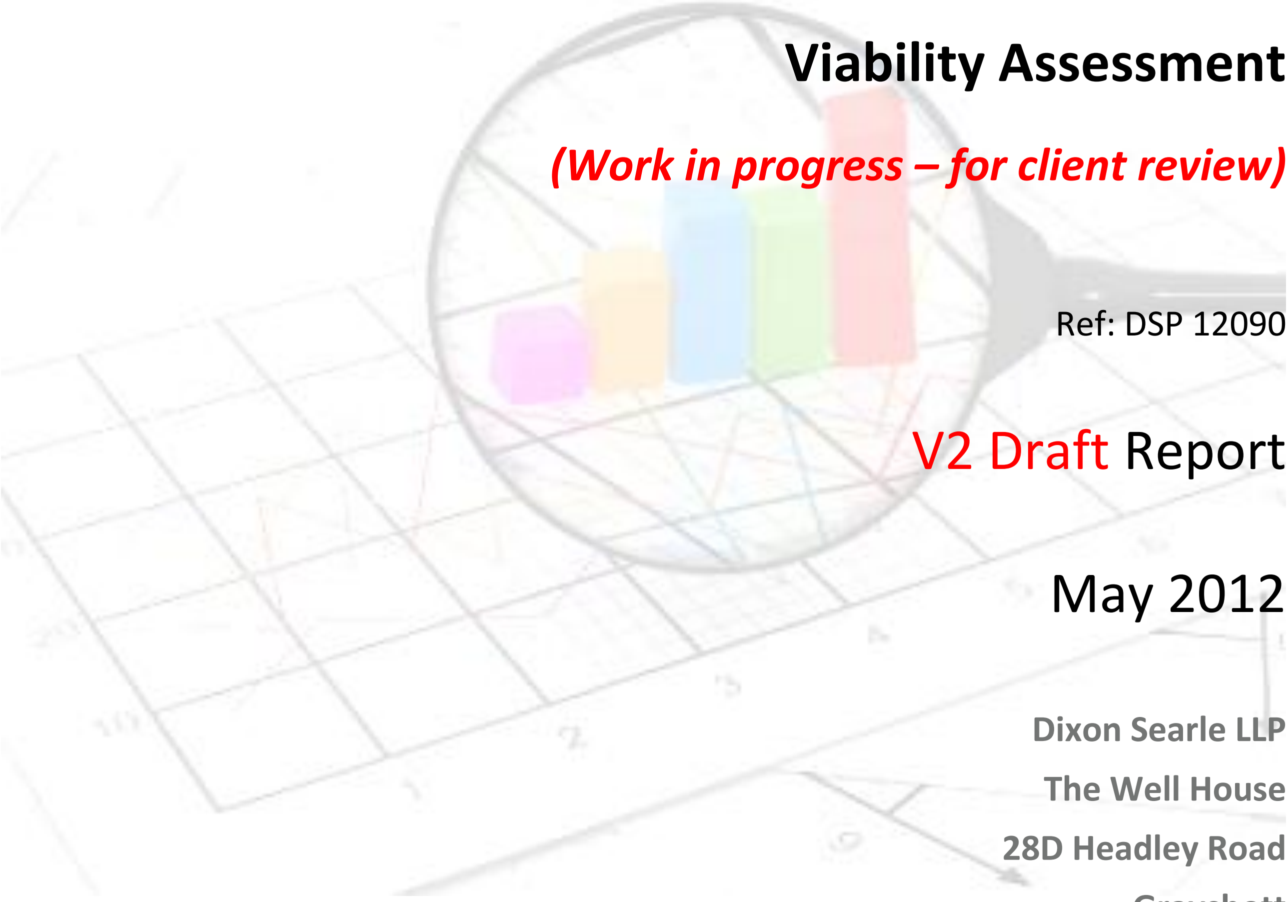
D|S|P Housing & Development Consultants

Sevenoaks District Council

Community Infrastructure Levy (CIL)

Viability Assessment

(Work in progress – for client review)



Ref: DSP 12090

V2 Draft Report

May 2012

Dixon Searle LLP

The Well House

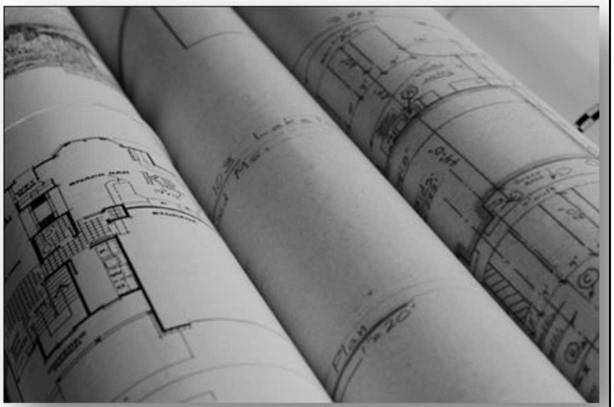
28D Headley Road

Grayshott

Hindhead

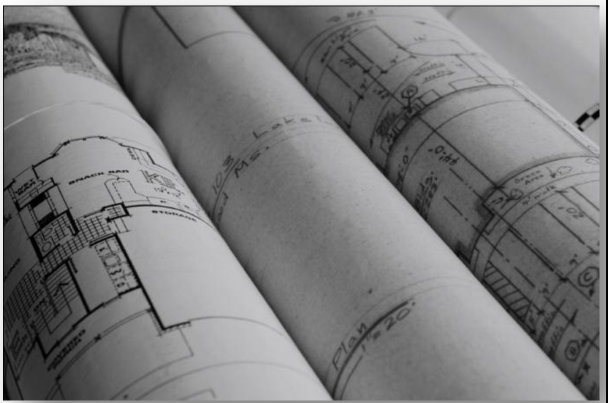
GU26 6LD

www.dixonsearle.co.uk



Contents

<u>Figures</u>



Appendices

Appendix I:

Assumptions outline

Appendix IIa:

Residential Results Summaries

Appendix IIb:

Commercial Results Summaries

Appendix III:

Market, Values and Assumptions – Research and Background

(Draft) Executive Summary

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

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

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

4. CIL viability studies usually assume a fixed level of affordable housing in common with adopted development plan (Local Development Framework - LDF) policy i.e. as contained in a Council's Core Strategy. This type approach to reviewing viability (i.e. taking account of collective impacts) is also included in the Government's National Planning Policy Framework (NPPF) which has been published at the point of us finalising the drafting of this report.

5. Therefore the main purpose of this resulting study is to further inform the Council's consideration of proposed CIL charging rate(s) in the District, by use type and potentially also by locality – depending on viability, varying charging rates may be set. The study approach does so through exploring the collective effect of key development costs and obligations. These various viability influences cannot be separated.

6. In setting CIL charging rates that strike an appropriate balance between contributing to local infrastructure funding needs (the funding gap) and development viability, Local Authorities also need to consider a wide range of other information. This includes information on site supply and likely frequency and development plan relevance of various development types to their area. These are very similar principles to those relevant for considering affordable housing policies.

7. The study involved the key stages of research; assumptions setting; running a wide range of development viability appraisals; and, finally, analysis and review. The appraisals used residual land valuation principles, as have become the main established approach to this type of study and have been used over the last several years to consider affordable housing viability.

8. For residential development, suitable parameters for CIL charging were found to be £75 to £125/sq m overall, dependent on the chosen approach to applying CIL across the District. The selection of a charging rate or rates is likely to be within that range. This will be linked also with the view on a locality based (varied) or District-wide approach and to considering the site types and locations most relevant to the proposed plan led delivery of growth in the District; dependent on the Core Strategy direction site supply streams, options for a varied or single CIL rate for residential development may be considered; however in our view a simple dual rate approach would best fit the local circumstances.

9. In all cases, (and applicable also to commercial/non-residential scenarios) any rates considered below the levels and parameters that we set out are within the scope of our viability findings.

10. Varying house prices seen in the District affect the development viability of residential schemes. Overall, therefore, mixed viability outcomes were seen through our overview. In considering this work and taking CIL implementation plans forward, the Council must be careful not to place an undue level of added risk to development which could undermine the delivery of its Core Strategy and other development plan proposals. This means that any lower value areas which are expected to deliver significant new housing in the plan context need to be considered carefully. It means

also that the wider characteristics and costs of development need to be considered, including a range of factors such as potentially ongoing uncertain market conditions and variable land value levels.

11. Therefore, at this stage, an appropriate balance between the infrastructure funding needs and viability was found to be at levels no higher than £125/sq m in the Sevenoaks District context; which, viewed as a whole, is a high values area that also includes some relatively modest market housing value levels, mixed site types coming forward and significant affordable housing needs.

12. We regard this as the upper rate CIL charging scope, which we have suggested would be appropriate for most areas of the District, centred on Sevenoaks, Westerham, Otford and most of the rural areas / smaller settlements.

13. DSP considers that in viability terms a lower CIL charging rate should be considered for Swanley and adjoining areas in the north of the District (including New Ash Green) together with Edenbridge in the south west; those areas having typically lower values available to support scheme viability and providing different characteristics to the remainder of the District. These are general features based on a high level overview and not necessarily reflecting all local variations, but nevertheless this type of approach fits the CIL principles while respecting the key variations seen.

14. In summary, there are several key themes and potential options that emerge and inform the Council's ongoing work. These can be related to potential options for CIL charging rates:

    Key option: Variable residential charging rates suggested at £75/sq m for lower value areas and £125/sq m for higher value areas (as at paragraphs 11 to 13 above).

    Alternative approach: Lower single district-wide flat rate – necessarily set at a similar rate to the £75/sq m suggested lower rate, respecting viability scenarios in the lower value areas.

For clarity, any rates set beneath these levels as part of a differentiated approach (following further consideration by the Council) would be within the scope of our viability findings.

15. The viability of a range of commercial / non-residential development types in the District was found to be highly variable – with only retail development capable of reliably supporting meaningful CIL contributions. This is a common finding in our wider CIL work and that of other Local Authorities.

16. Whilst, in theory, we found CIL charging rates for larger format retail developments (supermarkets and retail warehousing) could be set at higher levels, we recommend in preference a rate of £125/sq m for large retail – i.e. to align to the upper parameters suggested for residential rates.

17. If following a differentiated route between retail types as per a main option from our findings, for smaller retail development (principally assuming any new convenience stores but also applicable to other types - within Use Classes A1-A5), we recommend a rate set at around half the large retail level. We have described the parameters for this as £50 to 75/sq m. However, there could also be a suitable alternative overall (single) charging rate for retail, depending on the Council's overview of the types most likely to come forward during the lifespan of the Charging Schedule. This could see the Council setting an intermediate rate for retail if it were to take this overview. As with the discussion on differentiation (or not) for residential, however, we consider that a dual rate approach for retail would be more reflective of the different development characteristics and the viability findings.

18. 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.

19. At the current time and for the foreseeable future we recommend a nil (£0/sq m) charging rate applicable to business development (B uses). The viability results were typically very poor for these scenarios, such that only most favourable combinations of assumptions produced potentially viable scenarios, and then only in particular site and scheme circumstances. This is not an unusual finding in our experience – it is consistent with our and others' findings in a wide range of local authority areas. It is a reflection of the poor relationship between development values and costs, as compounded by uncertain market conditions.

20. The same applies to a wide range of forms of new development, so that we recommend that the Council considers a £0 (nil) charging rate for those. We include agricultural development within this.

21. In all cases the resulting CIL charging rates parameters are considered to represent an appropriate approach and balance in the local circumstances. In arriving at a suitable overall approach, the Council will need to consider this information and the viability scope explained alongside the wider picture on the likely distribution and frequency of various forms of development.

22. Since it is likely to be such a variable factor, none of our appraisals make allowance for viability improvements which might be seen through the "netting-off" (subject to the Regulations) of existing floorspace. In a range of situations this is expected to provide some level of positive viability influence through a reduced floor area being subject to CIL charging. It could help to counter-act the negative viability affects of other costs and obligations relative to a scenario with no such deduction of existing floor area.

23. The report includes detailed information and commentary. It also makes associated recommendations relating to regular monitoring and potential review of the local CIL charging regime.

24. The following table provides a summary of the potential CIL charging rates scope, in viability terms (as at Figure 13, Chapter 3, of the full report text):

Summary on CIL Viability – Potential Rates and Guidance for the Council's consideration
Residential -
Recommendation: Differentiated Rates - In lower value areas an appropriate rate of £75/sq m (i.e. Swanley, New Ash Green and adjoining areas in the north of the District; Edenbridge in the south west). In higher value areas an appropriate rate of £125/sq m (i.e. rest of District centred on Sevenoaks, including Westerham, Otford and all areas excluding the suggested lower rate zones as above).
Retail – generally - option to differentiate; alternative to set a single rate.
Retail – large format – supermarkets and retail warehousing – usually out of town centre (TBC)
Recommendation: Rate – suggested not exceeding £125/sq m (being within greater viability scope) - if differentiating.
Retail – small format - principally convenience stores but (if the Council expects significant provision of any such developments within the life of the charging schedule) also applicable to all other retail categories including town centre comparison shopping and potentially to retail linked uses (e.g. motor sales, retail warehousing/wholesaling clubs - should those be included with the charging schedule). (TBC)
Recommendation: Up to approximately half large retail rate – suggested appropriate range £50 to (maximum) £75/sq m - if differentiating.
Retail alternative – single charging rate – necessarily close to suggested lower rate. Suggested not exceeding £75/sq m if considered, but means compromise and considered by DSP to be a less suitable approach.
Business Development - Office and Industrial (B1, B1a, B2, B8)

Recommendation: Zero rate (£0)
<u>Hotels and Care Homes</u>
Recommendation: Zero rate (£0) on balance in preference to a low / nominal rate (Alternative: nominal / low CIL rate, but difficult to justify in viability terms and added risk to potentially marginal schemes).
<u>Community and other uses, including Agricultural</u>
Recommendation: Zero rate (£0) on balance in preference to a low / nominal rate (Alternative: nominal / low CIL rate, but difficult to justify in viability terms and again added risk to potentially marginal schemes).

Notes:

- In all cases CIL charging rates pitched beneath our quoted levels / parameters would also be within the scope of our viability findings.
- With these charging rate parameters a proportion of the fund could be directed to provision in-kind and / or s.106. The potential funding scope could be considered in various ways – again, subject to the CIL Regulations.

25. Whichever approach to CIL is progressed, the Council will need to continue to operate its overall approach to planning obligations 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. This again is not just a local factor, but is a widely applicable principle.

<u>DRAFT report V2</u> Executive Summary ends. May 2012.

1 Introduction

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

1.1.1 The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from developers undertaking new developments in their area. In this case, Sevenoaks District Council will be the charging authority.

1.1.2 CIL takes the form of a charge levied per square metre (sq m) of net additional floorspace of development. The levy is chargeable on most types of new development that involve an increase in floor space. The charge will be expressed as a rate in £s per sq m of development; known as the charging rate.

1.1.3 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. 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.

1.1.4 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 Development Framework (LDF) Development Plan (Core Strategy Development Plan Document (DPD)); or Local Plan, as it may now be known. In this authority's case, the key document is the Core Strategy – adopted by the Council in February 2011. The Government has recently consulted on a requirement that charging authorities allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas.

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

1.1.6 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.

1.1.7 Sevenoaks District Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the Core Strategy. This work forms the basis of identifying the total cost of infrastructure associated with supporting the growth identified in the District's Core Strategy and the funding gap that will be supported in part through CIL.

1.1.8 Infrastructure is taken to mean any service or facility that supports the Council's area and its population and includes (but is not limited to) facilities for transport, energy, water, drainage, waste, open space, affordable housing, education, health community services and culture and leisure. In the case of the current scope of the CIL, and therefore this assessment, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Affordable housing has been allowed for in addition to testing potential CIL charging rates - as a consistent appraisal theme. In this sense, the collective planning obligations (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 to bear this collective cost; therefore each of these cost factors influencing the available scope for supporting the others. It follows that the extent to which s.106 will have an ongoing role in varying circumstances may also need to be considered in determining suitable CIL charging rates, bearing in mind that CIL will be non-negotiable. This could be a significant consideration, for example, in respect of strategic development associated with high costs and obligations levels and particularly where these characteristics may coincide with lower value areas.

1.1.9 Sevenoaks District, located to the south east of Greater London, is predominately rural in nature. Of its approximately 370 sq km area, about 93% is Green Belt and 60% is within an Area of Outstanding Natural Beauty. The District's main settlements are Sevenoaks ('main town'), Swanley ('secondary town') and Edenbridge ('rural service centre'), which will be the primary locations for new development. The District also has a number of larger villages (New Ash Green, Otford and Westerham – described as 'local service centres') which may experience more modest levels of development, together with a range of 'service villages' (17 are named in the Core Strategy) and smaller rural area settlements.

1.1.10 The Council's adopted Core Strategy plans for the development of 3,300 additional dwellings in the District in the period 2006-2026. Of these, as at 31 March 2011 (the latest complete annual monitoring information), 2306 additional dwellings had either been completed since 2006, were under construction or had planning permission. In addition, the Council has identified a range of sites through its Strategic Housing Land Availability Assessment (SHLAA) to meet a substantial proportion of the future requirements. These sites are predominately on previously developed land (PDL), with greenfield development opportunities limited by the Green Belt boundaries around the District's main settlements.

1.1.11 Given the introduction of the National Planning Policy Framework (NPPF) in final form in March 2012 (which supersedes previous Planning Policy Statements, including PPS3), the study has been produced in light of that and so includes the consideration of Affordable Rented tenure as introduced by the Government and Homes and Communities Agency (HCA) for its Affordable Homes Programme (AHP) 2011 to 2015. More information on the AHP can be viewed at the HCA's web-site: http://www.homesandcommunities.co.uk/affordable-homes . The Government's updated definition of affordable housing (following on from the 2011 update to PPS3) is now to be found at Annex 2, the Glossary to the NPPF. As will be explained in this study document, affordable housing is a significant component of the assumptions set.

1.1.12 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.

1.1.13 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). In order to meet the requirement of

Regulation 14 of the CIL Regulations April 2010 (as amended) the Council therefore appointed Dixon Searle Partnership (DSP) to provide the evidence base to inform the development of and support the Council's draft charging schedule in viability terms.

1.1.14 This study investigates the potential scope for CIL charging in Sevenoaks District. 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 usual collective costs and obligations associated with development, as would be borne by development schemes alongside the CIL sums. It aims 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 planning obligations. 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 overview that cannot fully reflect a wide range of highly variable site specifics. This necessary overview is in accordance with the CIL principles and provisions.

1.1.15 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).

1.1.16 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme types (notional or hypothetical schemes) representing development scenarios that are considered relevant to the development plan and could come forward within the District.

1.1.17 A key element of the viability overview process is comparison of the RLVs generated by the appraisals for the purposes of this study with potential levels of land value that may need to be reached to secure sites. These comparisons are necessarily indicative but are usually linked to some measure of an existing use value (EUV) of a site plus in some cases a level of uplift – with any surplus then potentially available for CIL payments.

1.1.18 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 not an exact science, as is acknowledged in a range of similar work and in technical papers and guidance notes on the topic of considering and assessing development viability. Therefore, so as to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached in various scenarios. These are illustrative and the RLV results themselves can be used to get a feel for the level of land value being generated by each trial scenario (assumptions combination) as part of considering the wider picture beyond a particular land value comparison level.

1.1.19 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates 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 the Council's ongoing work.

1.1.20 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 £200 per sq m – for both residential and non-residential / commercial scheme test scenarios.

1.1.21 As above, the results of each of the appraisals are compared to a range of potential existing or alternative land use value indications or other guides relevant to the circumstances. These are necessary to determine the potential scope for various CIL rate contributions according to development type and with varying completed scheme value levels (GDVs). The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (commercial).

1.1.22 In the background to considering the scale of the potential charging rates and their proportional level in the Sevenoaks context, we have also reviewed them alongside a variety of additional measures that can be useful indicators for the Council's consideration. This includes reviewing the potential CIL charging rates in terms of percentage of development value, percentage of development cost; and the equivalent levy sum in £s per unit or by scheme total.

1.1.23 The report then sets out findings for the Council to consider in taking forward its further development work on the local implementation of the CIL and in particular the Council's Preliminary Draft Charging Schedule.

1.2 Notes and Limitations

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

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

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

1.2.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on its CIL preliminary draft charging schedule preparations together with further consideration of affordable housing policy targets.

2 Assessment Methodology

2.1 Residual valuation principles

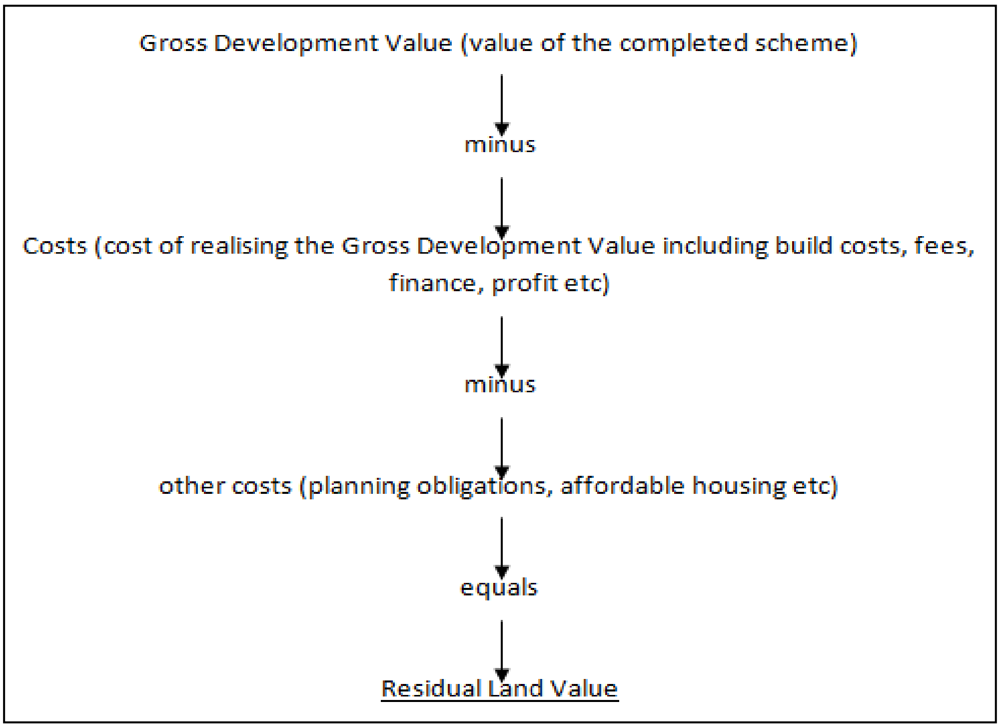
2.1.1 This study investigates the potential for a range of development types to contribute to infrastructure provision funding across Sevenoaks District through local implementation of the CIL.

2.1.2 By fixing the Council's adopted Core Strategy led affordable housing target (%) requirements and other planning policy / obligations as assumptions that will impact scheme viability alongside the trialled CIL charging rates, we are able to investigate and consider how these obligations interact and their collective effect. This is in accordance with well established practice on reviewing development viability at this strategic level, and consistent with the recently published 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 order to do this we have run development appraisals using the well recognised principles of residual valuation on a number of notional scheme types, both residential and non-residential/commercial.

2.1.4 This technique, as the term suggests, provides a 'residual' value from the gross GDV (sale proceeds) of a scheme after all other costs have been deducted from that. Figure 1 below shows the basic principles behind this, in highly 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).

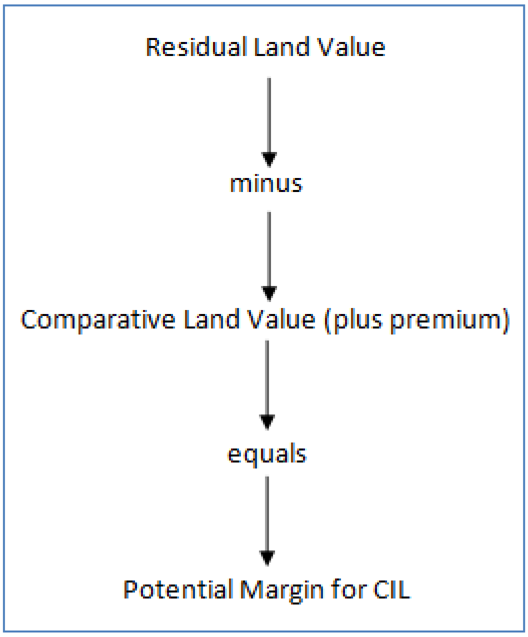
2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of existing or alternative land use values (EUVs or AUVs) relevant to the site use and locality; 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 taking an appropriate high level view around the potential level(s) that land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable. The appraisal results (RLVs) can be used to consider the wider picture outside a particular level of land value comparison, as will often be necessary given the wide range of circumstances that could be encountered.

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 go on in terms of examples; a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not just a local factor, but one that we are experiencing on a consistent basis in carrying out these types of studies. In assessing 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.

2.1.8 From an overview of those relationships, in the context of the range of wider assumptions within particular scenarios, we can see results trends. These show deteriorating RLV and therefore viability outcomes as scheme value (GDV) decreases and / or costs rise – e.g. through adding / increasing affordable housing, increasing build costs (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 are set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local market (through research on local values, costs and types of provision, etc) and locally relevant planning policies (taking into account the policies as are set out within the Core Strategy[1]). 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.

2.2 Site Typologies / Notional Site Types

Residential 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. In the case of the residential

[1] Sevenoaks District Council – Core Strategy – Adopted February 2011

scenarios, these included the Core Strategy, background and evidence base, Planning Obligations information, Monitoring Reports, Strategic Housing Land Availability Assessment (SHLAA) and other information. It was necessary to determine scenario types reasonably representative of those likely to come forward across the District with the probable life of a first CIL Charging Schedule (2 – 5 years) *(estimate / indication?)*, for the purposes of this high level overview viability assessment.

2.2.2 For residential schemes, 7 main scenario types were tested with the following mix of dwellings and including affordable housing provision (where required by and in accordance with the Council's previous stages preferred policy options):

Figure 3: Residential Scheme Types

Scheme Type	Overall Scheme Mix
1 House (AH £ contribution - 10% equivalent)	1 x 4BH
5 Houses (20% AH)	4 x 3BH; 1 x 4BH
10 Houses (30% AH)	5 x 2BH; 5 x 3BH
15 Houses (40% AH)	5 x 2BH; 10 x 3BH
25 Mixed (40% AH)	8 x 1BF; 17 x 2BF; 6 x 2BH; 12 x 3BH; 7 x 4BH
50 Mixed (40% AH)	12 x 1BF; 20 x 2BF; 16 x 2BH; 36 x 3BH; 16 x 4BH
80 Flats (40% AH)	30 x 1BF; 50 x 2BF

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats; AH = Affordable Housing (policy assumption)

2.2.3 The assumed dwelling mixes were again 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 (as at 2.2.1) so as to ensure that viability has been tested with reference to the ongoing housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels representing varying residential values seen currently in the area and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values). The scheme mixes are not exhaustive – many other types and variations may well be seen. This fits the necessary overview process.

2.2.4 As above, a key area of the assumptions setting for the residential scenarios was to reflect and further test the Council's approach and policies, including on affordable housing – as set out at Strategic Policy 3 (SP3) of the adopted Core Strategy. SP£ is to be found on page 69 of the Core Strategy DPD (web-link to the DPD as follows: http://www.sevenoaks.gov.uk/documents/core_strategy_adopted.pdf).

2.2.5 The approach to this aspect of the assumptions reflects the sliding scale of affordable housing policy targets, as at Figure 3 above, to include consideration of the Council's requirement for a 10% equivalent financial contribution towards meeting affordable housing needs from the smallest schemes (of 1 to 4 dwellings inclusive). 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.

2.2.6 Full details of the private and affordable housing numbers and types (the dwelling mix) assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.

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

Unit Sizes (sq m)	Affordable	Private
1-bed flat	51	45
2-bed flat	67	60
2-bed house	76	75
3-bed house	86	95
4-bed house	110	125

2.2.8 As with many areas of the study assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. No single size or even range of assumed sizes will represent all dwellings coming forward. Since there is a relationship between dwelling sizes, their values and their build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq m terms) rather than the specific dwelling sizes to which those levels of costs and values are applied. With this approach, the indicative 'Values Levels' (VLs) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. This approach also fits with the way developers tend to price and assess schemes; and is consistent with CIL principles. It provides a more relevant overview context for considering the potential viability scope and the also, purely as an additional measure, reviewing the potential CIL charging rate outcomes as proportions of the schemes values and costs (see Chapter 3 - section *reference TBC on final* - for more on those indications).

2.2.9 The dwelling and development sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward for smaller and average family accommodation, within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. We acknowledge that these 3 and 4-bed house sizes, in particular, may be small compared with some coming forward. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing and in reviewing the results.

Commercial 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. The following (see Figure 5 below) sets out the various notional scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from key types of commercial development considered likely to be relevant in the District. Affordable housing did not feature in any of these scenarios; either on or off-site / by way of financial contributions.

2.2.11 In essence, the commercial / non-residential study aspects dealt with considering at a suitable level the relationship between the variables of values and costs associated with different scheme types, following a typical CIL viability study approach and without the added complications of other planning obligations or potential “trade-offs”. Figure 5 below summaries the scenarios appraised through a full residual land value approach; again Appendix I (the second sheet there) provides more information.

2.2.12 As will be seen later other development use types less central to the plan delivery were considered first in simple value / cost relationship terms from which it became clear that the fuller assessments would not produce CIL funding potential in a regular or reliable way.

Figure 5: Commercial Development Types Reviewed - Overview

Development Type	**Example Scheme Type(s) and potential occurrence**	**GIA (m^2)**	**Site Coverage**	**Site Size (Ha)**
Large format Retail - supermarket	Large Supermarket – in / edge of town – PDL / greenfield	2000	33%	0.61
Large format Retail – retail warehousing	Retail warehouse – edge of town – greenfield / PDL	2500	31%	0.81
Small format retail – convenience store	Various locations.	300	60%	0.05
Town centre (comparison?) retail – TBC – *potential additional appraisals / commentary*	Town centre - TBC	TBC	TBC	TBC
Business development - Offices	In town office building - PDL	7000	300%	0.23
Business development - Offices	Edge of town / business park type office building. Greenfield / PDL.	2500	31%	0.81
Business development - Industrial / Warehousing	Move-on type industrial unit including offices - industrial estate. Greenfield / PDL.	200	40%	0.05
Business development - Industrial / Warehousing	Larger industrial / warehousing unit including offices - industrial estate. Greenfield / PDL.	2500	31%	0.81
Hotel	Budget Hotel – various locations – edge of town	4500	100%	0.45
Residential Institution - Care home	Nursing home - rural - Greenfield / PDL.	5000	30%	1.67
Residential Institution - Care home	Nursing home – urban - PDL	3000	120%	0.25
Institutional – Community / health	Clinic or similar - TBC	1000	35%	0.29
Leisure? TBC	TBC – review and potentially supplement work – *Value vs cost & potentially further appraisal - TBC*	TBC	TBC	TBC
Agriculture	*Dealt with in Value vs cost terms linked also to tone of industrial / warehouse outcomes -*			

2.2.13 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial scheme scenarios that could come forward in the District to varying extents. 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 searching. We also received some additional indications through our process of seeking local soundings. Further information is provided within Appendix III to this report. *(Draft Appendix III – ongoing work - to follow)*

2.2.14 The site coverage percentages indicated in Figure 5 above are based on information provided by and discussed with the Council's planning officers - using their local knowledge and monitoring records. This was supplemented / verified by local development and researched examples where possible. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme.

2.2.15 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, although this could not be exhaustive by any means for any such study. 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, agricultural storage, surgeries / similar, and day nurseries.

2.2.16 Potentially there is a very wide range of such schemes that could come forward. Alongside their viability, it is also relevant for the Council to consider their likely frequency as new builds or major extension schemes, the distribution of these and their role in the delivery of the development plan (Core Strategy) overall; particularly during the life of the first CIL Charging Schedule again. 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 found that this presents a sufficiently clear picture to demonstrate the range of situations in which the development costs will largely take up or even out-weigh the value created, so that such schemes do not show development viability. The nature of this key "value minus costs relationship" follows the basis of residual valuation thinking (it is the essence of that) so that we can see the wider range of scheme types unlikely to show any level of viability in this sense. *(Refer also to section 3 costs / values table)*

2.2.17 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.

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

2.2.19 Further information on this section of the review process is provided within the findings commentary in Chapter 3 *(add specific ref once report settled)*.

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

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. As mentioned previously, this is in order to test the scope for and the sensitivity of scheme viability to the requirement for a range of potential CIL charging rates (potentially including geographical values variations and / or with changing values as may be seen with further market variations). In the case of Sevenoaks and given the values variations seen in different parts of the District through the initial research stages, the VLs covered market values the range £2,250 to £5,000/sq m (£209 to £465/sq m) at £250/sq m (£23/sq ft) intervals. These are set out within Appendix I; VLs 1 to 12.

2.3.2 As above, the trial CIL rates were explored iteratively. This involved increasing the trial rate applied to each scenario, over a scale at £25/sq m steps from £0 up to £200/sq m. By doing this, we could consider the potential for schemes having varying sales values (as expressed by the series of VLs) to support CIL contributions at various potential rates (with varying affordable housing content - as per the Council's sliding scale policy targets). 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 £200/sq m potential charging rate level trial was not considered relevant in Sevenoaks District.

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 a range of information so as to look for common themes and pointers to inform the assumptions setting and review of results stages. Therefore we also considered existing information for example contained within the Council's previous Affordable Housing Viability Study Viability research documents, Council supplied 'Hometrack' data; and from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview, noting again that judgments need to be made for this strategic overview; and not just based on historic data or particular scheme comparables.

2.3.4 Carried out in this way, the overview enabled us to compare our research data (sourced from web-based review of the overall market and current new-build schemes) with the high level Hometrack information provided by the Council.

2.3.5 A framework needs to be established for gathering and reviewing property values data. For Sevenoaks District we based our research of residential values patterns on the Council's Core Strategy approach to the hierarchy of settlements. On discussion with the Council 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; again based on the settlements hierarchy approach.

2.3.6 This framework (our means of describing and considering the values as they vary across the District) provided the following basis of settlements:

- Main settlements:
    - Sevenoaks – main town (also considered with respect to constituent Ward areas)
    - Swanley – secondary town ('ST')
    - Edenbridge – rural service centre ('RSC')
- Local Service Centres ('LSC'):
    - New Ash Green
    - Otford
    - Westerham
- Service villages ('SV' - 17 no. – as per Core Strategy Policy LO 7):
    - Brasted
    - Crockenhill
    - Eynsford
    - Farningham
    - Halstead
    - Hartley
    - Hextable
    - Horton Kirby
    - Kemsing
    - Knockholt Pound
    - Leigh
    - Seal
    - Sevenoaks Weald

- Shoreham
- South Darenth
- Sundridge
- West Kingsdown

2.3.7 Our first stage desktop research considered the previous affordable housing study background research, Hometrack data (for values patterns) and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types being marketed in the District at April – May 2012. Together, this informed a District-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. We were able to look at particular settlements / localities (as at 2.3.6 above), and consider how the prevailing values varied between those. This research is set out at Appendix III.

2.3.8 Following this research, variable values were observed in all areas. This is as would be 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. Values patterns are often blurred to some extent and especially at a very local level. However, in this study context we need to consider this at a higher level and look for any clear variations between localities / settlements where significant development may be occurring in the Core Strategy context. 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, particularly in villages) produce inconsistencies. This is not unusual to Sevenoaks District. 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 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 the CIL.

2.3.9 At this level and potentially relevant to the consideration of the local approach to the CIL, some key themes on values patterns emerged. Looking at the settlements /

localities as above, we found the following key themes (again, subject to the above qualifications with respect to variances from typical values levels):

i) Relatively low values, in the high values wider Sevenoaks context, in the northern areas of the District:

 Swanley (ST); New Ash Green (LSC); Hextable, Horton Kirby, South Darenth and West Kingsdown (SVs)

ii) Indications also of lower values in Farningham (consistent with the Hometrack values patterns indications) and in some cases on the eastern side of Sevenoaks (Hometrack suggests some lower values in Sevenoaks Northern Ward; not necessarily Eastern).

iii) What might be described as more typical higher, and often significantly higher, values across the central and the majority of the southern areas of the district; centred on Sevenoaks itself (the main town, side – Kippington – containing some of the highest values) and with similarly high or higher still values in the rural areas / smaller settlements in the central south and south east of the District. In this context, values in the LSCs of Otford, particularly, and to a lesser extent Westerham were seen to be typically well above the lower value areas noted at point (i) above.

iv) As at note (i) above, again relatively low values in the district context in the south western “corner” of the District – at Edenbridge (RSC). Values here were noted to be at similar levels to those seen typically in the northernmost areas.

v) Overall, therefore, and certainly at a level appropriate for CIL consideration, a pattern was observed and supported by both our research and the Council supplied Hometrack sourced data whereby high central and southern / south western area values are tipped by notably lower value areas across the north and to the south west corner of the district.

2.3.10 Ultimately this leads to the consideration of viability variations as would affect the potential CIL funding scope and therefore any differentiation needed for that by locality. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen. Through ongoing discussion and consideration of the various data and knowledge sources, this evolved to a settled, evidenced view of the key characteristics of the District - to inform potential options for an appropriate local approach to CIL charging.

2.3.11 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 develops the above picture by indicating how our selected range of values levels (VLs) reflects the above patterns. More is also provided on this in Chapter 3.

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

Revenue (GDV) - Sales Value Level (VL) & indicative relevance by locality	**VL 1 – 4**	**VL 4 - 9**	**VL 9 - 12**
	Areas including – Swanley (ST); New Ash Green (LSC); Hextable, Horton Kirby, South Darenth, West Kingsdown (SVs); Edenbridge (RSC). Note – current new build values indicated to be above the bottom end of this range.	Remainder of district – central axis Sevenoaks to Westerham; north to Otford and Eynsford; south and south east (i.e. south excluding Edenbridge)	High-end values, above typical for the district – most likely scheme specific e.g. in parts of Sevenoaks, LSCs (except Edenbridge) and in some SVs (not those linked more typically with VL 1 - 4).
£ per sq m	2,250 – 3,000	3,000 – 4,250	4,250 – 5,000 (+)
£ per sq ft equivalent	209 - 279	279 - 395	395 – 465 (+)

2.3.12 In addition to the market housing, within the dwelling mix scenarios we have assumed a requirement for affordable housing which is varied in accordance with the Core Strategy policy target (%) positions that would apply in tandem with the various CIL trial rates and other usual development costs. Within the proportions (overall %s) of affordable housing, we have assumed that approximately 65% is affordable rented tenure and 35% 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). This is a fairly typical approach to targeting an appropriate affordable housing tenure mix; at a high level as is appropriate.

2.3.13 It must be noted that 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 pitching of the initial purchase share percentage, the rental level charged on the RP's retained equity and the interaction of these two would usually be scheme specific considerations to some degree. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

2.3.14 For the affordable housing, the revenue that is assumed to be received by a developer is based on only the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the HCA expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant (assumed no reliance on it).

2.3.15 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 in the context of 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 a wide range of RP type financial appraisals carried out with software as used by many RPs – 'SDS Proval'. 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.

2.3.16 For affordable rented properties the assumption has been made that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set (i.e. that they represent 80% of MR including service charge). This is to ensure that the percentage of MV figure does not reach a point that in practice would be unaffordable or impractical. For the purposes of this study we have used the High Weald Broad Rental Market Area (BRMA) LHA rates as the upper limit, being the most relevant to Sevenoaks District for this overview.

2.3.17 Using the LHA rate, including as a form of cap, in this way to estimate the transfer value of an affordable rented property means that in practice, taken across the whole values range (range of value levels - VLs) the transfer price as a proportion of open market value generally reduces as the VL increases. This varies by property size (bedroom numbers) and market value (MV) so that in some instances we see the mid range values producing the highest % MV affordable revenue figures. The variances are reflected in our appraisals, in accordance with the detailed affordable housing revenues assumptions sheet included as that last part of Appendix I *(DSP note - to combine)*. Comparative figures for affordable rents based on varying %s of MR and for social rented tenure indications are also provided there, though those were not used in our base appraisals.

2.3.18 In broad terms, the transfer price assumed in this study varies between 35% and 65% of market value (MV) dependent on tenure, unit type and VL. 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.

2.3.19 It is worth noting again that affordable housing will not be liable for CIL payments. This is the case under the regulations nationally; not just in the Sevenoaks District 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** (completed Scheme ('capital') value) **- Commercial**

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, again a range of assumptions need to be made with regard to values. In these cases, this meant compiling reasonable assumptions on (annual) rental values and % yields that would drive the levels of GDV. The strength of the relationship between the GDV and the development costs was then considered 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, such that clear viability would not be shown and so 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 varying levels and are representative of low, medium and high values assessed as relevant for each commercial / non-residential scheme type in the District in order to assess the sensitivity of the viability findings to varying values. They are necessarily estimate and were assumed for new builds. 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 nil 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. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Sevenoaks-only factor and it does not detract from the necessary viability overview process that is appropriate for CIL.

2.4.5 These varying rental levels were combined with yields assumed at 6.5% to 7.5% (varying dependent on scheme type). All schemes were appraised initially using a yield assumption of 7.5% which, following further review, we considered appropriate to develop as the base set for most forms of commercial / non-residential development. This envisages good quality new development, rather than relating mostly to older accommodation which much of the marketing / transactional evidence provides. Retail and hotel scheme types were also appraised using a 6.5% yield assumption which was felt to be more reflective of likely levels for those scenarios – particularly the larger retail types (supermarkets / retail warehousing) and the hotel. This range, overall, enabled us to explore the sensitivity of the outcomes to such variations, given that in practice a wide variety of rental and yield expectations or requirements could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (6.5% for large retail and hotel overviews) were the most appropriate at the current time in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to such assumptions 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, particularly in the yield assumption, but also in rental value assumptions, 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, or assumptions that would rely on infrequent circumstances 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 likely viability outcomes to changes in the values and allowed us to then consider the most relevant areas of the results in coming to our overview on the parameters for potential CIL charging rates. 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

Scheme Type	**Value Level (Annual Rent Indication £ / sq m)**		
	(“Low”)	(“Medium”)	(“High”)
Large format retail (supermarket)	£230	£260	£290
Large format retail (retail warehouse type)	£175	£200	£225
Small format retail (principally convenience stores)	£110	£140	£170
Town centre (comparison?) retail – TBC?			
Business development – in-town offices	£170	£200	£230
Business development – out of /edge of town	£170	£200	£230
Business development - Industrial / Warehousing - Small	£80	£90	£100
Business development - Industrial / Warehousing - Larger	£70	£80	£90
Hotel (budget) *- TBC*	£175	£200	£225
Residential Institution (care/nursing home)	£160	£180	£200
Institutional – community / health	£120	£150	£180

2.4.8 We are making this viability assessment following a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we still have a weak economic backdrop feeding through in to significant ongoing property market uncertainty. Although there were a range of mixed signs in 2011, we are still seeing low levels of development activity. This is caused by a cocktail of factors e.g. as a result of low occupier demand, and related to poor availability of attractively priced and readily available finance for property development and purchasing. At the point of closing-off the study, there continues to be mixed messages and some signs of economic recovery, but the UK economy is now "officially" back in recession following two consecutive quarters of negative growth. This perhaps sums up the ongoing uncertainty.

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

2.4.10 The equivalent survey headlines for Q1 of 2012 (the RICS latest overview) stated:
'Activity stabilises and confidence turns less negative

- *Both demand and available space stabilise in Q1, but rent expectations remain in negative territory*
- *New development still falling, but at the slowest pace since 2007*
- *Little change in investment enquiries, but capital values still expected to ease in the near term'*

The survey went on to comment as follows:

'The latest RICS UK Commercial Market Survey shows there was little change in overall activity during the first quarter. The net balance readings for both occupier demand and available space broadly stabilised, resulting in slightly tighter market conditions compared to last quarter. As such, there was a small improvement in the rental outlook; rent expectations remain negative, but less so than in the previous quarter. Surveyors in many parts of the country are continuing to suggest that occupiers are remaining cautious with regards to new letting activity.

At the headline level, occupier demand and available space were largely unchanged in Q1, at +3 and +4 respectively, suggesting a relatively flat quarter for activity. However, the rental picture has yet to materially improve - or even stagnate - with expectations easing in the short term. On the investment side, enquiries to purchase also stabilised, while future activity is set to pick up slowly in the coming three months.

The results suggest there are fewer development projects in the pipeline, as new starts are continuing to fall. They are, however, declining at the slowest pace in five years. Moreover, capital values are still expected to ease further at the national level; 9% more surveyors expect them to fall rather than rise in the coming quarter.

At the sector level, demand for space fell in the retail sector, while it stabilised for offices and increased for industrial space. Available space continued to rise for office and retail units, but showed modest declines for industrial - the first such reading since 2005. In the industrial sector, rents are stabilising following several consecutive decreases. Rents are still expected to decline for office and retail units.

On the investment side, only the industrial sector saw new enquiries and capital value expectations stabilise this quarter, with the net balances just edging into positive territory. There were declines for the office and retail sectors, though at a lesser pace than in last quarter.'

2.4.11 As with residential development, consideration was given to the Sevenoaks District context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally.

2.4.12 On review, it was considered that the key types of schemes could occur in some form at the main town of Sevenoaks, secondary town of Swanley and the rural service centre of Edenbridge. In the main, significant business or retail proposals would be unlikely to occur outside these 3 principal settlement areas. Beyond those, smaller scale office, industrial, retail or other developments could be seen in the smaller settlements hence a variety of scenarios has been considered.

2.4.13 However, in each case it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the District. This was borne out on review of the commercial values data, as per the examples included at Appendix III. As can be seen, there is great variety in terms of values within each of the towns 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 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 CIL overview context. In respect of other commercial / non-residential development types again a district-wide overview was considered appropriate.

2.4.14 While the highest in-town retail rents are typically in Sevenoaks, we consider that out of town / edge of town retail, supermarket and convenience store developments of the types likely to be more relevant as new builds would tend to generate similar values in a range of locations across the District (with values being more scheme specific than general location-led). In general, we consider office rents in the District to be modest. The retail values in general are similar to those we have seen in a range of locations. Industrial / warehousing rents again are at similar levels to those we have seen in a range of local authority areas. As a general observation, this does not appear to be an area that has attracted higher-end purpose built offices, research facilities and the like to any significant degree. Much of the office stock is in smaller suites, older buildings and conversions, etc. *(DSP note – to revisit as Appendix III is finalised and potentially to draw-out further local characteristics / "relativities" re the main locations of various commercial stock types from our observations and on rental levels – this will be seen at Appendix III detail, but TBC).*

2.4.15 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 on the basis of a uniform approach District-wide to exploring the CIL charging rate scope in viability terms for commercial uses. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

2.5 Development Costs – General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required; and is appropriate.

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 as these are highly specific and can distort comparisons at this level of review. This is the established approach at this level of review.

2.5.4 In our view, and again related to the need to consider balance (and not "push to the limits") in setting CIL charging rates, this is another factor that should be kept in mind; in some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is 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 Q4 2011 and a Sevenoaks District location index (117 relative to a national level of 100) is used. This is noted to be one of the highest locational adjustments that we have worked with and produces a build costs basis which might in a range of cases be considered to be on the high-side. Nevertheless, given the nature of the study, the balance to be found by the Council and the potential for future costs increases, we decided to leave this assumption as it stands – i.e. including this full location adjustment even though it is higher than the BCIS indicated for a wide range of adjoining localities and areas farther afield, including Surrey and most London Boroughs; and ahead of the London Postal Districts location adjustment factor. This is a factor to be considered when viewing other assumptions and the outcomes. It is undoubtedly having the effect of reducing the RLV results compared with those related to a reduced location adjustment to the BCIS base build costs indications. As with other cost-side assumption areas, however, the overall build costs view is part of the study thinking in this context of finding the right local balance through avoiding assumptions that leave insufficient scope when the CIL charging is applied in practice. Costs shown are for each development type (residential and commercial) – see Figure 8 below:

Figure 8: Build Cost Data (BCIS Median, Q4 2011, Location Index 117)

Development use	Example property type	BCIS Build Cost (£/m²)*
Residential	Houses - mixed developments	£952
Residential	Flats	£1,084
Large format retail	Supermarket	£1,261
Large format retail	Retail warehouse	£586
Small format retail	Convenience Store	£763
Town centre retail – if applicable - TBC	*TBC*	*TBC*
Business development	Town Centre Office Building	£1,449
Business development	Out of / edge of town office building	£1,359
Business development	Industrial unit including offices	£866
Business development	Larger industrial / warehousing unit including office element	£476
Hotel	Budget hotel	£1,508
Residential Institution	Nursing (care) Home	£1,492
Institutional	Community / Health	£1,473
Leisure – if applicable - TBC	*TBC*	*TBC*

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

2.6.2 As noted, the above build cost levels do not include contingencies or external works. An allowance for externals has been added to the above base build cost on a variable basis depending on the scheme type. This is typically between 14% and 21% of base build cost for flatted and housing schemes, respectively, based on analysis of specific schemes within the BCIS dataset. A notional allowance for externals of 20% of base build cost has been added for all commercial / non-residential schemes, based on a range of information sources and cost models and pitched at a level above some information seen on this assumption 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 overview assumptions 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, 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 An allowance of 5% has been included for sustainable construction standards to Code for Sustainable Homes level 4 equivalent standards – reflecting the Council's policy and projecting to 2013 requirements of Core Strategy Policy SP 2. In addition, on a notional basis and to cover related costs (e.g. associated with renewable energy requirements) a further allowance of £3,500 per dwelling (all dwellings) has been made in this respect. In practice such cost allowances could in fact be directed towards other sources of cost increases over the base build cost assumptions should those become relevant. *(DSP to further check wording prior to final. SDC to note that as discussed any CfSH 6 trials will show very poor viability outcomes on the whole – may wish to consider wording re being more appropriate to review as further information becomes available during the life of the 1st Charging Schedule – but we can discuss / consider).*

2.6.5 As a general basis, build contingencies at 5% of build cost have also been allowed. This is a relatively standard assumption in our recent experience. We have seen variations either side of this level in practice, but with usual assumptions in the 3% to 5% range.

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

2.6.7 The interaction of costs and values levels will need to be considered again at future local CIL review points. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we have seen build costs fall, but moving ahead they are expected to rise again. 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, tender prices have been at relatively consistent (flat) levels. This trend is forecast to continue through to the first half of 2013 after which, currently, very steady tender price increases are forecast through to early 2017 (rising from about a 1 – 2% per annum increase in 2013 to 4.5% at the end of 2016. Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (revised 8th February 2012) stated on build cost trends:

‘Experian show contractors reporting that construction enquiries fell for the second month running in December 2011, compared with the previous month.

According to the Office for National Statistics (ONS), the total volume of orders in 3rd quarter 2011 rose by 13% compared with the previous quarter but fell by 6% compared with a year earlier.

Experian revised their forecast of construction output in January 2012. Their current forecast shows total construction output rising by 1.9% in 2011, followed by a fall of 5.6% in 2012; output then rising by 1.1% in 2013 and by 4.7% in 2014. The Construction Products Association (CPA) also revised its forecast of construction output in January 2012, with the forecast for 2011 for total construction output now standing at 1.8% growth, followed by a fall of 5.2% in 2012, a small rise in 2013 of 0.4%, and a stronger rise in 2014, by 3.8%.

Following an unsustainable 15% rise in 2010, new work output looks to have endured public sector cuts so far to remain in positive territory in 2011. However, a deeper contraction is now expected in 2012, likely extending into 2013, before a return to steadier growth in 2014. Private sector investment growth is not expected to start mitigating the sharp decline in public spending until at least the latter part of 2013. It is anticipated that despite the public spending cuts, the infrastructure sector will continue to grow modestly over the forecast period. The level of new work output in 2012 is expected to be around 12% below the pre-recession level of 2007, but 10% above the 2009 low of the recession.

With workload increasingly scarce and upside potential commercially limited, tender prices look pressed to remain static over the first year of the forecast period. However, as increasing input costs can no longer be absorbed, the return of a limited degree of tender price inflation is tentatively envisaged in the second year of the forecast. Potential downside risk to the forecast is prominent.

The BCIS forecast is for tender prices to remain static in the year to 4th quarter 2012, rising by 1.8% over the following year.'

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 type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

Professional, planning and other fees:	*Total of 10% of build cost*
Site Acquisition Fees:	*1.0% agent's fees* *0.75% legal fees*

	Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).
Finance: *scheme is debt funded)*	6.5% p.a. interest rate *(DSP note - TBC) (assumes*
	Arrangement fee variable – basis 1% of loan
Marketing costs:	*3.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 20% of 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, planning and other fees:	*Total of 12% of build cost*
Site Acquisition Fees:	*1.0% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
Finance:	*6.5% p.a. interest rate (DSP note – TBC) (assumes scheme is debt funded)* *Arrangement fee variable – 1% loan cost*
Marketing / other costs:	*(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 (DSP note – TBC)

<u>*Developer Profit*</u>*:* *20% of GDV (noted to provide an element of viability cushioning in comparison with what may be a more typical assumption of circa 15% GDV).*

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme scale, having the effect of increasing the periods over which finance costs are applied (see Figure 9 below):

Figure 9: Build Period

Scheme Type	Build Period (months)
1 Unit - housing	6
5 Units - housing	6
10 Units - housing	9
15 Units - housing	12
25 units - mixed housing	18
80 units - flatted	24
Large retail -supermarket	9
Large retail – retail warehousing	7
Small retail (principally convenience stores)	6
Business - in-town offices	18
Business – edge of town / other / business park offices	12
Business - Industrial (small)	6

Business - Industrial / Warehousing (larger)	8
Hotel (budget)	12
Care Home	16
Institutional (community/health)	9

2.10 Other planning obligations - section 106 Costs

2.10.1 An ongoing site specific s.106 planning obligations allowance (financial contribution) has been factored into the appraisal assumptions as well (alongside affordable housing and CIL trial rates in all cases for residential schemes). On discussion with the Council it was considered that a great majority of existing Planning Obligation requirements on future schemes *(with the potential exception of some larger scheme scenarios?)* would be taken up within the CIL proposals, but nevertheless that small scale site specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. For the residential scenarios, the appraisals therefore included a notional sum of £1,000 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.

2.11 Indicative land value comparisons and related discussion

2.11.1 As discussed previously, in order to consider the likely viability scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the out-turn results of the development appraisals (the RLVs) and some level of benchmark or comparative land value indication. As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the varied land supply picture that the Council expects to see in coming years, predominantly from previously developed land (PDL) comprising former commercial / employment uses and in some cases the reuse and intensification of existing residential and other sites;

but potentially also including from lower value and in some very limited circumstances greenfield sites. For Sevenoaks District, our emphasis for land value comparisons is placed on PDL scenarios and not greenfield.

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

2.11.3 This also needs to be viewed in the context that invariably (as we see across a range of CIL viability studies) the CIL trial 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. Small shifts in the CIL trial rate only significantly affect viability in the case of schemes that are only marginally viable 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. 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 Council's 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. Similarly, indications from local sources were very limited. We reviewed information sourced as far as possible from the VOA, previous research / studies / advice provided by the Council, seeking local soundings, EGi; and from a range of property and land marketing web-sites.

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 brownfield (PDL) sites; envisaging a potential spectrum of sites from lower to 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, with data provided only on a limited regional basis in the later reporting. None of the information in the latest report is sufficiently local to Sevenoaks for anything other than a general / relative picture between regions and certain locations which are listed. Information has been sourced from existing data and research together with general indications and soundings - all as far as were available to source.

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 of £1,300,000/ha and £3,000,000/ha so that we can see whether our RLVs fall beneath or above each of these levels.

2.11.8 In the event that 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 in the range £250,000 - £500,000/ha in the Sevenoaks District; likely only relevant to greenfield (for example enhancement to farmland or amenity land value). 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). 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. We are also aware of garden land being valued indicatively at say £850,000/Ha in a similar local authority context, purely as a further indication of a potentially lower value scenario in certain circumstances and in general of the range of comparisons that could be relevant overall.

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

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

2.11.11 Overall, the indicative land value comparisons at £1,300,000 to £3,000,000/ha as set out in the footnotes to the results tables (at Appendices IIa and IIb) are considered appropriate as guides against which increased confidence is shown in viability outcomes as the RLVs meet or exceed such guides. Any further information, as far as was available, is set out within the wider research as included at Appendix III. The results trends associated with these are seen at Appendices IIa and IIb, as are also explained in chapter 3 below.

3 Findings

3.1 Introduction

3.1.1 Results summaries are included at Appendix IIa (residential scenarios) and Appendix IIb (commercial/non-residential). In each case these reflect the scenarios explained in Chapter 2 and set out at Appendix I. Within Appendices IIa and IIb there are different tables according to the type of host site assumed for the scenarios and bearing in mind the variables / dynamics introduced at 2.1.6 and discussed at section 2.11 above – e.g. greenfield and PDL (e.g. former commercial).

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

3.1.3 In summary Appendix IIa and IIb results tables show:

- Left side column(s): Scheme scenario (Residential: dwelling numbers / scheme type and affordable housing proportion; Commercial; Scheme scenario).
- Under each residential scheme type: Increasing value (GDV) level (increasing by VL 1 - 12) set out reading downwards alongside each scheme type.
- Under each commercial scheme type: Increasing value (GDV) – L (low); M (Medium); High (H) so as to enable sensitivity to rental assumption to be explored. The 'M' value levels considered the key area regarding current time balanced interpretation of results, 'L' and 'H' looking at the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location and / or market movements.
- Left hand side of main table area: RLV appraisal results expressed in £s. (Non colour-shaded section – white and table grey areas).

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

- Far right side – 2 columns showing the range within which the potential theoretical maximum CIL charging rate lies for each scenario based on the assumptions made. The lowest of these figures (left side column of these 2) shows the maximum charging rate assuming the highest land value comparison in each case had to be met (£3,000,000/ha). The higher figure (far right column) shows the theoretical maximum charging rate in each scenario in the event that the lower of the land value comparison levels in each case were relevant (£1,300,000/ha). This is calculated by deducting the benchmark land value plus premium (where applicable) from the residual land value created by the appraisal (our RLV outcome) with £0 CIL and dividing the result by the assumed relevant floor area of the development to get a theoretical maximum CIL rate per sq m.

- Within each of those sections the coloured cells (see the explanatory text below) are the key areas in terms of reviewing trends. The trial CIL rates – in £s per sq m are shown across the top row - applied as a key part of the iterative process of exploring the effect on likely viability (or risk to the scheme proceeding) of those rates increasing over the scale tested. As discussed earlier, realistically this has to be carried out in steps to control to reasonable parameters the extent of the appraisal modelling exercise overall. Providing these trial rates span a sufficient range and the steps between each trial level are not too large, the iterative process can be applied and considered successfully. It is not necessary, and would not be practical or economic to further extend this process. In Sevenoaks District's case, we considered rates of £0 to £200/sq m covering the range of scenarios that in our experience and from review of emerging results provided us with suitable parameters and context for review with the Council.

- It is important to note that the colour-coding at Appendices IIa and IIb, and in the other summary tables included in the report text below, is intended to provide a rough guide to the nature of the results only – it helps to highlight the general results trends. Based on the accepted nature of such an exercise, i.e. not being an exact science, this must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between CIL rates and the high level of the local infrastructure needs. We can see the results trends as indicative outcomes vary with increasing sales values (GDVs – as expressed through increasing VLs 1 to 12; L, M & H values for commercial); increasing CIL trial rate; changing scheme type and (for the residential scenarios) affordable housing content with that.

- Taking into account the above comments, the colours therefore indicate general trends as follows:

    - Darkest green coloured table cells (results) - Considered to be very good viability prospects; the best results from the range produced. (RLVs greater than £3m/ha; potentially representative of land with established residential use or upper-end commercial land for example in respect of retail proposals).

    - Paler green coloured table cells (results) - Considered to provide good viability prospects in a range of circumstances, with RLVs in the range £1.3m/ha to £3m/ha and therefore meeting a wide range of likely former commercial use and lower residential values expectations, but possibly not reaching sufficient levels for high-value commercial (e.g. retail) or some residential scenarios. Therefore whilst these results indicate workable schemes on a range of PDL site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above).

    - Palest (white/grey coloured table cells (results)) – Positive RLVs, but which are under our base land value comparison of £1.3m/ha and therefore indicating reduced confidence in results relating to PDL scenarios. Potentially representative of lower value PDL (commercial) sites and, should they have some limited relevance locally, greenfield development scenarios where enhancement to existing use values could still be sufficient in a range of circumstances.

  - Red coloured table cells (results) – negative RLVs – schemes in financial deficit representative of clearly poor viability outcomes – no prospect of viable schemes based on the assumptions collection used in each case. Under these circumstances especially, as part of our review process we weigh-up the degree to which the assumptions would need to move in favour of viability so that we can form a view on whether that level of shift in assumptions may be realistic or not.

- Footnotes at the bottom – reminder of land value benchmark (comparison) indications applied in arriving at the colour-shading of the RLVs to provide a guide to the results trends; all bearing in mind the context and explanations provided within this report. The does not preclude the use of the results tables for other land value comparisons, by comparing the RLV (per ha) in each cell of the coloured table sections with any particular land value level. This has been mentioned, for example, in respect of typically lower greenfield land enhancement values should those become relevant to local delivery.

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

3.1.5 On reviewing the results and 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 are to be, kept in mind – for example:

a. We can clearly see the significance of the affordable housing impact on development viability (as the % affordable content increases), in comparison with that from CIL where the gradually stepped increasing trial charging rate generally produces small or graded viability impacts. Generally, with increasing affordable housing proportion, we see more areas of red/white shaded results; less green. This is a general feature of this review work more widely – not a Sevenoaks District specific factor.

b. In terms of the scale of CIL impacts relative to other factors such as the sales values and affordable housing, and potential "trade off" between CIL and affordable housing, this means that quite a significant drop in the potential CIL rate and / or sales value (VL) improvement is needed to balance a drop in RLV level that is produced by a step-up in affordable housing proportion. Comparisons would all be affected by factors such as the affordable housing policy step being made, market value levels, affordable housing tenure and affordable housing revenue levels. However, it appears necessary to improve the VL by one or two steps to counterbalance a 10% step-up in affordable housing requirements. There is a form of double viability effect from affordable housing when considering it in parallel with the CIL, in that firstly by itself it has a significant viability impact and, secondly, affordable homes will not pay the CIL charge. Therefore the cost burden will fall on the market homes.

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

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

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

iii. The economic backdrop and property market remains uncertain and could continue to falter. Reducing sales volumes could further affect prices in time directly impacting the GDV assumptions. This is why we have explored a range of value levels.

iv. The need for residential developments to also accommodate affordable housing provision (as has been assumed, and varied, alongside the trial CIL rates) together with other wider planning objectives such as sustainability and any on-site / local measures needed under s.106. Such aspects will also need to remain priorities of the Council. HCA funding for affordable housing appears to be uncertain and likely to continue being limited in application for the foreseeable future. Again, appropriate revenue assumptions (without grant) have been made.

v. Developer's profit level (and related funders') requirements could well vary. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed. However, we felt it appropriate in particularly poor commercial market conditions to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs/risks. This, again, is part of setting assumptions which fit with a balanced approach by ensuring that costs are included at an appropriate level overall, and in any event not so low as to make the viability outcomes look falsely positive.

d. The potential CIL charging rates need to be considered alongside other factors relevant to the locality and the Council's further progression of the development plan, for example regarding:

i. Location and frequency of scheme types relevant to key portions of the local growth planning – considering where development will be located (in relation to the values patterns for example) and on what site types.

ii. Types and frequency of schemes likely to be relevant including accepting that, in practice, variation is very wide – particularly for commercial/non-residential development, where schemes could be seen in many shapes and sizes, uses and combinations thereof. However, it is necessary to consider the local relevance of those alongside their likely typical viability in terms of any scope to support viability.

iii. Respecting any clear values patterns but also understanding that there are bound to be imperfections in defining any viability zones or similar. In practice values can change over a very short distance (within schemes, different sides or ends of roads, with different aspects, school catchments, with other local variations, etc). The charging schedule should be as simple as possible including where there are to be variations by geographical / other zones.

iv. Some schemes will have inherently poor levels of viability even before affordable housing and / or CIL requirements. There will be instances where no amount of adjustment to CIL rates, for example, would overcome viability issues. The economy / market, funding availability and therefore the underlying demand for property of any type and the value flowing from that is likely to be a bigger determinant of viability so that affordable housing and / or CIL charging are not likely to render an otherwise viable scheme unviable providing they are not fixed at too high a level.

v. Conversely some schemes / scheme types may in theory have been able to fund a greater level of CIL payment than the recommended levels (and/or greater levels of other obligations including affordable housing). However, this is appropriate in the context of balance in setting levels, i.e. not adding undue risk to delivery and therefore moving forward with the local economy and growth in accordance with the development plan.

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

vii. The scale of affordable housing and local infrastructure needs, and therefore likely provision shortfall and funding gap relating to these, in assessing the balance. The Council needs to optimise affordable housing provision in the circumstances, and secure a meaningful but realistic level of funding through CIL as a key ingredient of the overall funding packages.

viii. The collection of CIL payments from net new development. In practice we understand that a number of developments in the District will entail some level of "netting-off" of existing accommodation in the CIL charging calculations. CIL will not be paid on existing floorspace that is being retained or replaced – it will be charged only on new / added floorspace. This means that the CIL rate will not be applied to the full scale of new development in many cases. This could be by way of replaced or re-used / part re-used buildings. Our appraisals have not factored-in any "netting-off" in this way, because this will have a highly variable influence on scheme outcomes. The "netting-off" effect is however expected to further contribute to ensuring that schemes remain deliverable and that the charging rates(s) are not set "right up to the margin of economic viability" as part of this overall theme (see 3.1.6 below). In some scenarios the ability to "net-off" existing floor space could significantly help overall scheme viability and act as a balance against other costs and obligations.

ix. Continued practical application of affordable housing policy targets and detail (including collective consideration of the effects of numbers rounding, dwelling and tenure mix, dwelling size and construction specification). The Council's brief also asked us to consider what converting existing affordable housing requirements into a CIL (charge per sq m) type approach might mean as an indication of potential CIL rate(s) that included the local affordable housing obligations rather than those being separate to CIL as per the current regulations. This is considered later, necessarily at a high level. *(DSP note - to add)*

x. Potential scope to consider CIL contributions or part contributions 'in-kind' and maintaining a general awareness that whether through payments, provision in-kind, or alongside other costs / obligations, what counts above all for viability is the collective costs and obligations that could be applicable to developments (the costs / obligations could be in various forms and combinations subject to balancing-out within the available viability scope and the operation of the Procedures and Regulations). It follows that a lower CIL rate could provide more flexibility on s.106 for example.

3.1.6 It is important to ensure that affordable housing targets are balanced and with regard to CIL it is important to avoid "setting a charge right up to the margin of economic viability"[2] in accordance with the tone of the Government (CLG) guidance. Local authorities have significant scope to consider exactly how they will assess and arrive at the right balance in a particular area.

3.1.7 A common theme running through all of the results (commercial and residential) is that they are highly sensitive to varied appraisal inputs and to the range of land value comparisons. A relatively small adjustment, particularly in some assumption areas can have a significant effect on the result.

3.1.8 This assessment process explores the degree to which changes in key assumptions produce varying results. In this way it is not a specific valuation exercise (it cannot be) but it has enabled us to consider the likelihood of a wide range of potential CIL charging rates being achievable and suitable. In the case of poor viability results (no or low viability prospects), this included looking at the extent to which assumptions

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

would need to vary in order to improve the viability appraisal outcomes sufficiently to create workable scenarios. The opposite was considered for scenarios with good viability prospects (i.e. the potential leeway for those outcomes to decline but still be potentially viable). In both of these cases we considered whether those changes in assumptions amounted to realistic scenarios or not, given what we can currently see of market conditions, etc.

3.1.9 There may be cases where specific developments are unable to bear some or all of the additional cost of CIL (in the same way that is sometimes seen with other obligations on a scheme). Such viability outcomes are unlikely to be solely limited to CIL charging, however. They are more likely to be associated with market conditions (arguably the biggest single factor), affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually the collective costs impact on schemes will be relevant for consideration where viability issues arise in scheme specific cases, so that some level of prioritisation may be required – bearing in mind that CIL payments will be non-negotiable.

3.1.10 As discussed above, one of the variable factors which will contribute positively to viability in some circumstances and could affect the collective view of costs and obligations is the potential deduction of existing floor space from the scale of development that will trigger CIL charging.

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

- This is not just a Sevenoaks District factor, but one that we firmly believe will have to be recognised in any similar assessment and practical local application of affordable housing targets and the Government's CIL regime – regardless of location.

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

3.2 Values patterns and implications - Residential

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

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

3.2.3 As set out at Figure 6 (at 2.3.11 above) these showed overall that high residential values are consistently seen across the central and most southern areas of the District – including the main town of Sevenoaks, local service centres of Westerham and Otford, together with areas northwards to Eynsford and south / south east to rural areas which include some of the highest values seen in the District. Most of the service villages (excluding Hextable, Horton Kirby, South Darenth and West Kingsdown in the north which indicate typically lower values) are within the higher value areas.

3.2.4 In contrast, areas across the northern end of the District (including the secondary town of Swanley, the local service centre of New Ash Green and the northern service villages listed at 3.1.14 above) together with the rural service centre of Edenbridge in the south west. The typical values levels available to support viability across these confined lower values areas of the District are considered to be similar to each other.

3.2.5 This produces a picture which in our view justifies a potential dual charging rate approach for the District (i.e. putting in place higher and lower charging rates corresponding to these two key sets of circumstances) but not a more complicated one. We consider that any further differentiation could become complex and would be difficult to justify in the CIL context given that it would most likely still not reflect all of the very local area subtleties on values changes (as noted for example at 3.1.5 d iii) and building on the principles set out earlier (see section 2.3 on values).

3.2.6 Whilst at Figure 6 (2.3.11) VL 1 values (£2,250/sq m) were included as part of the overall range potentially applicable to the lower value areas of the District (as outlined at 3.1.15) they are considered to be beneath typical levels for new builds even in those areas. At Appendix IIa we can see that VL1 related results are generally poor as would be expected given the relationship with usual build and other development costs at that level. At 30% affordable housing with more than £100/sq m CIL the RLVs turn negative. The same applies at 40% affordable housing combined with more than about £25/sq m CIL charging. Viewed overall, few of the results would support positive land value comparisons of the type most likely to be relevant in Sevenoaks District (PDL), although looking at the smaller schemes with 20% affordable housing there could be some workable scenarios with these limited values if greenfield or other similarly lower value sites became relevant.

3.2.7 VL 2 values (£2,500/sq m), relevant towards the lower end of current values in this District Context, produce improved results as expected. Nevertheless, overall the results at these relatively low value levels suggest scope for only a limited range of viable scenarios based on the assumptions used. Again these would more likely relate to any greenfield or other lower land value scenarios and then probably with a combination not exceeding 30% affordable housing with, say £75-100/sq m CIL. Given local land value levels, a range of PDL scenarios are likely to remain difficult at these value levels, irrespective of CIL and irrespective of affordable housing requirements in many cases too.

3.2.8 Significant improvements in viability are seen on moving to a VL 2 to 3 assumption with VL3 (£2,750/sq m) indicating a greater number of scenarios that become potentially workable while supporting more meaningful levels of obligations including affordable housing and CIL contributions. This (together with VL 4 at £3,000/sq m) aligns more closely with the new build value seen through our research, for example in Edenbridge, albeit that current / recent new builds information is limited. At VL3 we see negative RLVs only from the large all flatted scheme scenario. The smaller schemes considered with 10% equivalent (contribution) and 20% affordable housing indicate some workable PDL scenarios (green shaded results areas) but with the RLVs falling beneath the lower end PDL comparison value of £1.3m/ha as the CIL rate exceeds the £175/sq m trial level. In these smaller scheme instances, it tends to become more relevant to also consider the actual RLVs (left hand side – uncoloured – table areas) and there we can see that in fact a more modest CIL rate would be appropriate. A rate of no more than around £75/sq m may well be more appropriate.

3.2.9 At VL 4 (£3,000/sq m) – potentially the upper end for the lower value areas (as at 3.1.15) and lower end for the higher value areas (as at 3.1.14), we can see again a further improved tone of results. Tested alongside the full range of CIL charging rates, the scenarios with up to 30% affordable housing show positive results, although the RLVs fall to around the £1.3m/ha level at the highest CIL trial levels (£175 - 200/sq m). The 40% affordable housing scenarios suggested broadly equivalent results with £75 - £100/sq m CIL (less in the case of the large all-flatted scheme only).

3.2.10 We consider that the results overview strengthens the needs to consider a CIL charging rate specific to the lower value areas of the District; differential treatment from the higher value areas. Again, recognising the need for judgments rather than having scope to rely on fixed pointers or cut-offs, our overview is that a suitable CIL charging rate for these areas would be around £75/sq m. In all cases at VL 4 this level of charge would be sufficiently beneath the maximum level of CIL charge that could be made based on the assumptions made, including a land value of £1.3m/ha as we consider to be appropriate to most lower value scenarios.

3.2.11 At VL 5 upwards (6 in the case of the larger flatted scheme assumptions), again with each step we see significantly improved results. Depending on the affordable housing and scheme type assumption, values at VL 6 – 9 (as are relevant to the higher value areas) support the tested affordable housing obligations alongside most of the CIL trial rates. This is with RLVs reaching the upper comparison level of £3m plus; after applying up to £200/sq m CIL charging in many cases.

3.2.12 However, we consider that the pitching of the CIL charging rates for the higher value areas should be tempered somewhat from those highest levels trialled. Again there are no fixed cut-offs, but there are a number of pointers towards the right balance being found at a lower rate of around £125/sq m in our view. These include the need in many cases to support 30 or 40% affordable housing, allowing scope for higher values to fall to some extent if relevant with further market uncertainty (placing less reliance on values levels being maintained), the possibility of abnormal costs and rises in build or other costs.

3.2.13 As noted previously, there may be instances of lower value schemes and localities where developments struggle in viability terms, even without any significant CIL and / or affordable housing contribution. Wider scheme details or costs and obligations / abnormals can render schemes marginally viable or unviable prior to the consideration of obligations such as affordable housing or CIL. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. In this sense, CIL is unlikely to be solely responsible for very poor or non-viability. Once again, these are not just local factors; we note them in much of our wider viability work. The same principles apply to commercial schemes too.

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

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

- Scheme density – linked to land take (site area occupied) and the land value requirement / expectation.

- Build costs – generally, but including related to sustainable design and construction.
- Other costs side influences – profit levels, finance, fees, etc.
- Any abnormal development costs.

3.2.16 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) and other indicators. These aspects are considered further where some guide information and comparisons are provided – see section 3.11 *(cross-ref TBC on final)* below.

3.2.17 For clarity, our intention is that the residential outcomes and recommendations also apply to sheltered housing schemes (where nursing home style care and support is not being provided).

3.3 Values and implications - Commercial

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

3.3.2 No clear values distinctions for commercial uses were seen by settlement / area. Here the variations are more specifically driven – i.e. by development quality, type, precise location, orientation, visibility, access and parking provision etc; rather than necessarily by the settlement in which a proposal is situated.

3.3.3 In reality, most types of commercial or non-residential development could occur across a range of locations within the District. Conversely, but supporting the same thinking, any larger retail, business development (office or industrial / warehousing), hotel or other mainstream commercial proposals are likely to occur in a relatively limited range of locations most likely restricted to the main towns (Sevenoaks and Swanley) and possibly to the rural / local service centres in smaller scale way. For the types of the development likely to come forward as new schemes, it is difficult to distinguish values on general geographical location alone. This can be seen from existing development. The quality of individual schemes, their particular siting and details seem to be more of a driver of any significant values differences locally. *(TBC on further review by DSP – Appendix III context – as at 2.4.14 & elsewhere above).*

3.3.4 It was considered that the local commercial property market (focussed in Sevenoaks and to the north of the District) should logically be treated as a District-wide one in practical terms, which is part of a larger sub-regional market. We consider that otherwise we would be seeking to fragment it unduly, adding complication and (as with residential) still not reflective of the particular variations which could be seen on a range of site specifics in practice. *(Again, context points to be settled – ongoing review).*

3.3.5 Overall, following the consideration of options we are of the opinion that a simple and clear District-wide application of the CIL by commercial / non-residential development type will be most appropriate here, as has been the case in a number of other local authority CIL cases progressed to this extent to date (including based on our studies). No clear evidence *(to date – TBC)* has been found to support and justify an alternative approach. No amount of attempted sensitivity to particular local value variations is likely to be capable of actually respecting the variations likely to be seen in practice. There are no clear broad patterns without this becoming very complicated. Appendix III contains information on examples.

3.3.6 In carrying out the research for this study however, we developed the view that the key variable characteristics associated with different types of commercial / non-residential development require an approach that varies the CIL rate by commercial use.

3.3.7 Therefore in the following section the outcomes of the assessments are discussed by development type / use – with reference to the commercial / non-residential development scenarios considered.

3.4 Commercial / non-residential factors and findings (general)

3.4.1 As would be expected, the commercial / non-residential appraisal findings are very wide ranging. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield in presenting a view of sample ranges within which the capital values (GDVs) could fall; based on capitalising estimated rental levels, deducting the various development and other costs and then considering the sensitivity of viability outcomes to changes in these factors.

3.4.2 In this way we have explored various combinations of assumptions (including capitalised rental levels) which produce a range of results from marginal or negative outcomes (meaning very limited or nil CIL scope) to those which produce meaningful and in some cases considerable potential CIL funding scope form a viability point of view. To illustrate the trends we see, the coloured tables in Appendix IIb use the same "colour-coding" principles as the residential results tables (again with the bolder green table shading indicating the best prospects of viable schemes within the results ranges, through paler green, white and red; red indicating a clear lack of viability).

3.4.3 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; the equivalent of residential scheme density. This can affect results considerably, combined with the assumed land buy-in cost for the scheme. The colour-shading of the Appendix IIb results (RLVs per ha) is again based on whether or not the RLV reaches £1.3m, £1.3 – 3.0m or £3m plus / ha. As with the residential results viewing principles, these are purely rough guides to increasing confidence in the results representing viable schemes as the RLVs rise.

3.4.4 Factors such as build costs clearly have an impact, but for the given scheme scenarios are not likely to vary to an extent which makes this a more significant single driver of outcomes than the influence of values (rents and yields). The relationship between values and costs is vital. There are some commercial use types where build costs, or build and other development costs, will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development. Further information is included later in this report.

3.4.5 We will now summarise the assessment findings for the commercial development scenarios considered.

(SDC – please not that DSP is currently reviewing all commercial results – as at draft report stage, Appendices are as those sent with the interim reporting 27.04.12 – high level outcomes and provisional CIL charging rates recommendations will not be affected, but details TBC).

3.5 Retail scenarios

3.5.1 In general, we saw good viability prospects from the sample retail scenarios we ran, based on the range of assumptions applied. These schemes showed the best viability outcomes from the wide range seen from the commercial / non-residential scenarios overview.

3.5.2 As a high level outcome this is consistent with our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work. This tone of results is shown by the largely green coloured cells in the Appendix IIb results summary tables; particularly based on the 6.5% yield view, which is considered to be an appropriate assumption in the CIL context and more likely to be relevant than the 7.5% yield outcomes for this use. However, the results need to be considered collectively and rates not pushed to the margin of viability, as recognised above.

3.5.3 We consider that the CIL charging rate for the larger retail scenarios (supermarkets and retail warehousing) could be set at a level equivalent to the upper parameter for the residential rate - put forward at £125/sq m. This is again a question of making an overview rather than there being any specific pointers or limits to a suitable charging rate. A higher rate could be justified for the larger format retail uses such as these, however we also need to take into account the potential for relatively high land value expectation to be associated with this form of development, together with the significant overall development costs. We can see also that the supermarket appraisals with lower value assumptions produced results indicating poorer viability prospects – so that this sensitivity also needs to be considered.

3.5.4 The retail warehousing scenario produced the most positive outcomes overall owing to the very strong relationship between the values and the relatively low development costs. However, this scenario also starts to produce marginally less favourable outcomes as the CIL rate rises; and more so if lower rental values are assumed. There are a range of factors which, together, suggest that setting retail charging rates right up to or beyond the highest level explored may not be appropriate in Sevenoaks District at this stage. We are of the opinion that, say, £125/sq m for larger retail would strike an appropriate balance; aligned to the suggested upper end residential rate parameters should those be pursued as part of the Council's CIL implementation approach in the District.

3.5.5 Whilst appraising the smaller retail category, principally envisaging new local / neighbourhood convenience stores, we explored the sensitivity of that scenario type to varied size (floor area). However, the key factor differentiating these types of retail scenarios from the larger ones is the basic value / cost relationship related to the type of premises and the use of them. They are simply different scenarios (or "uses") where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Regulation 13(1) of the CIL Regulations states that differential rates may be set by different intended uses of development. It does not refer specifically to "Use Classes". We are of the opinion that a small retail use is different to a large retail use in viability terms because it displays different characteristics and serves different markets. In his Examination report into the recently conformed Portsmouth CIL Charging Schedule, the Inspector agreed with the above. Since altering the small retail unit floor area does not trigger varying values or costs inputs at this level of review, basically the reported values / costs relationship stays reasonably constant; so that we do not see altering viability prospects as we alter its floor area. This means that the outcomes for the small retail scenarios (as for many others) are not dependent on the specific size of unit and specific floor area will not produce a different nature of use and value / cost relationship.

3.5.6 Whilst it is not critical in viability terms for these reasons, we consider that creating a link with the scale of sales floor space associated with the Sunday Trading provisions (3,000 sq ft / approx. 280 sq m) would be an option and potentially appropriate threshold for any differentiation between CIL charging rates for retail development, linked to the typical intended use.

3.5.7 There are alternatives for potential consideration in terms of differentiating between the smaller and larger retail formats which, given the points above, we consider to be principle that needs to be catered for within the Council's CIL approach. As an example, and alternative could be a higher floor-area threshold of say 500 sq m; again with no fixed rules but seeking an appropriate way of respecting the viability differences between the smaller and larger retail formats. The Council's experience of recent delivery and / or and current / future development proposals may assist in considering this further. *(SDC – may need to clarify whether we need to bring-in town centre (comparison) retail in to this commentary / PDCS consideration – if potential delivery in the lifespan of charging schedule. See also provisional text at 3.5.14 below – TBC).*

3.5.8 Respecting the sensitivities, we consider that a CIL charging rate set at approximately half of the larger retail format charging rate would be appropriate. This would put the charging rate (linked to a threshold as considered above) in the range of our £50 - £75/sq m trial rates. We consider this to be appropriate for the smaller retail formats. With reference to the further information provided at Figure 12 (at 3.11.2 below) simply as an additional guide to the context of the potential CIL charges, a rate of this order would also maintain to a reasonable degree a proportional burden when the CIL charging rate is considered as a proportion of the GDV. Again whilst a higher rate could be justified, it would be preferable in our view to proceed in this way and (as with all CIL aspects) this could be kept under review.

3.5.9 An alternative would be to proceed with a single rate for retail, placed at a mid-point, on the basis that in some cases the increased potential would not be yielded in respect of the larger retail proposals (supermarkets and retail warehousing); and in others there may be a marginally greater viability impact than would have been the case with a lower (smaller retail format) rate. In our view this would be less reflective of the viability scenarios than suitably differentiated rates for retail development.

3.5.10 For smaller new convenience type developments, the actual sums of money available for land purchase can become relatively small. This tends to increase the sensitivity of the viability outcome to increased costs – e.g. from an increasing CIL charging rate.

These types of units could be associated with mixed uses where they will need to provide a positive contribution to overall viability (perhaps as part of supporting other non-viable or less viable uses within mixed developments, local centre improvements or new housing developments, etc).

3.5.11 Again, we can see the deterioration in results as the values reduce – to a greater extent with this smaller retail scenario. The same sensitivity to the yield assumption exists and, depending on the investment view based on the strength of the leaseholder's covenant, etc, this could also be a differentiating factor from the larger retail scenarios.

3.5.12 Overall, we recommend that the Council considers a CIL charging rate applicable to smaller retail that is set well beneath the higher retail rate recommended level. A single rate alternative (i.e. applicable to all) would need to be set beneath the level supportable based on larger retail formats alone. If differentiating as suggested, this does not have to link to a specific floor area size (although it will be appropriate to define clearly at which point the higher retail rate would apply).

3.5.13 While we understand the prospect of new build comparison shopping units to be relatively limited in planning (and in economic) terms in the coming few years, we consider that – should that form of development come forward – it would be appropriate to link that to a similar level of CIL charging proposed for smaller retail developments; rather than to the higher (larger retail) rate. This could be relevant in any parades, neighbourhood centres and similar locations, for example. Town centre shopping development would normally come with higher development costs. A number of town centre retail schemes are currently stalled - nationally. As related to other CIL matters, we suggest that the Council keeps its approach to CIL implementation under review with respect to any necessary widening-out of the current stage testing. *(Provisional text – as at 3.5.7 above – TBC)*

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

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

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

3.6 Business Development – Office / Industrial / Warehousing scenarios

3.6.1 In terms of likely scheme viability, these scenarios are simpler to discuss than retail. Whilst, again, actual proposals could be highly variable in nature, this is because the overview results convincingly show that there is no foreseeable scope for any meaningful level of CIL charge to be applied to such schemes in Sevenoaks District (at least not without adding further delivery risk to schemes).

3.6.2 This reflects similar findings across widely varying areas the country in a growing number of local authorities' work on the CIL to date – principally due to the recent / current economic conditions and insufficient demand to underpin development bearing in mind the risks and viability difficulties. The value/cost relationship for a wide range of business development types is simply insufficient to enable the evidencing of a CIL charging rate.

3.6.3 These results indicate that only with the most optimistic GDVs (highest capitalised rental scenarios produced by the most favourable yield and annual rent assumptions combinations), higher density (site coverage) and / or lower land value expectations do we see what we consider to be marginally viable schemes for high-end offices. Even then, those would most likely be on the basis of greenfield or other relatively low value land with a modest CIL charging rate. There would then be little room for increased yield assumptions, minor changes in rental levels or increases in costs / abnormals etc, leading again to negative viability outcomes. All in all this represents a sensitive set of circumstances where, on balance, the potential to add risk to already very difficult delivery prospects points in our view to a nil (£0/sq m) CIL charging rate for business development. Again, this could be kept under review.

3.6.4 Overall, we consider that in order to create meaningful CIL scope on any level of regular basis, the collective assumptions would need to be moved to points that are too optimistic overall at the current time - and that this is likely to be the case for these development types for the short-term future at least. The potential 2-4 years or so likely typical CIL charging schedule review period again could be relevant here in terms of taking a further look to check this picture in the not too distant future (see also 3.12.2 below).

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

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

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

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

3.7 Hotels

3.7.1 The hotel scenarios reviewed represent a range of outcomes that are again very sensitive to the values driving the appraisals.

3.7.2 The test scenarios showed that only with what we consider to be an optimistic collection of assumptions, probably including improved values, could we see clear scope for CIL charging. This might only be at levels up to around those applicable to small retail; as above – say £50 to 75/sq m. Given the sensitivities of even those more optimistic scenarios to added cost or other negative influences on viability, however, overall we do not see a picture which represents clear, reliable scope for CIL charging.

3.7.3 We think this represents a case where the Council will need to consider the likelihood of development of this type being pursued or occurring regularly in the coming few years (thinking about what that means for the potential CIL infrastructure funding yield etc) balanced against the potential to add further significant risk to its potential delivery.

3.7.4 On balance, therefore, we recommend that, at the current point, a zero (£0) charging rate should be considered for this use type. In looking for the right balance, it appears that the likely limited CIL yield (contribution to funding gap) potential may not outweigh the added risk to the viability of any new build / extension proposals for hotel use. It appears to be a use where potential viability is quite finely balanced, so that a number of factors could quickly reduce what at this high level review stage appears a potentially workable scenario in certain circumstances. This could be considered further and, again, could be kept under review pending experience of the CIL in operation and of course varying market conditions etc. Experience in practice may influence future reviews.

(DSP note – on updating of Appendix IIb consider scope to add any more specific results commentary).

3.8 Residential Institutions – Care Homes

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

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

3.8.3 On the assumptions applied, we began to detect a very similar tone of results to those associated with hotels. Therefore, we did not continue with further trials only to produce additional sets of negative RLV results. So, similarly, our evidence suggests poor viability prospects unless assumptions are moved in favour of viability by increasing values and / or reducing costs from the levels assumed. Again, at this point we consider that would need to occur to too significant a degree in order to reliably support strong viability outcomes. Therefore, in our view the discussion on these becomes a similar one about balance and potential added risk to development. Experience in practice could show viability being established across a range of circumstances, but we have not been able to clearly evidence viability to that point at present.

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

3.8.5 Again, therefore, from our viability viewpoint a zero (£0) CIL charging rate is recommended at this initial stage of implementation CIL.
(DSP note – as hotels – TBC)

3.9 Agriculture

3.9.1 Given the rural setting of large parts of Sevenoaks District, we considered the development of agricultural facilities at a high level – with barns, animal sheds, stores, packing sheds and the like in mind.

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

3.9.3 Research confirmed this poor relationship between development values and costs (as very briefly outlined at Figure 15 below) so that we did not pursue it further and recommend that agricultural development of this nature be subject to a £0 (nil) CIL charging rate.

3.10 Other uses – including Community Uses

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

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

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

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

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

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

3.10.7 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA's Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS.

3.10.8 Figure 15 below provides examples of the review of the 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 to 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. We consider that these types of value / cost relationships would be seen in a wide variety of locations.

Figure 10: Other uses – example value / cost relationships

Example development type	Annual rental value (£/sq m)	Indicative capital value (£/sq m)	Base build cost –BCIS** (£/sq m)	Viability prospects and Notes
Halls – community halls, etc	£10 - 30	£100 - 300	Approx. £1,500 (General purpose halls)	Clear lack of development viability
Community centres, clubs and similar	£20 - 40	£200 - 400	Approx. £1,400 (Community centres)	Clear lack of development viability
Garages & depots	£40 – 75 (max £125)	£400 – 750 (max £1250)	£780 (Builders yards, highways depots and similar)	Similar to low grade industrial (B uses) – costs generally exceed values
Storage – e.g. on farms / other	Wide range say £30 - 80	£300 – 800	Approx. £470 - £530 (agricultural storage to purpose built warehouse)	As above – assumed similar to B type uses. Poor relationship between values and costs. No evidence in support of regular viability.
Surgeries / similar	£90 - 185	£900 – 1,850	Approx. £1,400 - £1,500 (health centres,	Insufficient viability to clearly out-

Example development type	Annual rental value (£/sq m)	Indicative capital value (£/sq m)	Base build cost –BCIS** (£/sq m)	Viability prospects and Notes
			clinics, group practice surgeries).	weigh costs on a reliable basis.
Day nurseries	£80 - 125	£800 – 1,250	Approx. £1,500 - £1,600	Costs generally exceed values. Lack of development viability
Leisure – other bowling / cinema	£115 - £125	£1,533 (@7.5% yield)	Approx. £1,100-£1,200	Likely marginal development viability at best.
Leisure – private health / fitness	£120	£1600 @7.5% yield)	Approx. £1,700 (Gymnasia, fitness centres etc)	Costs outweigh values. No evidence in support of regular viability.

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

**general indication excluding local costs indexing, external works, fees, contingencies, sustainability additions, etc.

3.10.9 With the exception, potentially, of retail linked types such as mentioned at 3.5.14 to 3.5.16 above (should the Council consider those sufficiently relevant to the plan delivery and propose include those with the CIL charging scope), our recommendation is for the Council to consider a zero (£0) CIL rate in respect of a range of other uses such as these. As in other cases, this could be reviewed in future - in response to monitoring information. Our overriding view is that the frequency of these other new build scenarios that could reliably support meaningful CIL scope is likely to be very limited.

3.10.10 As alternatives, and we understand that there is no guidance pointing either way, the Council could consider leaving such other proposals to “default” to a nominal rate; or to a higher rate (e.g. £50/sq m) to capture contributions from a small number of developments. That strategy would involve considering the risk that any other developments from a potentially wide range that could come through as new builds or extension schemes (exceeding the 100 sq m CIL Regulations threshold) could be presented with viability difficulties.

3.11 Charge Setting and CIL Rate Review

3.11.1 To further inform the Council's rate setting and ongoing work, also we have considered the range of potential CIL rates (trial rates) that have been viability tested in terms of their proportion of completed development value (sales value or 'GDV'). *(SDC – although it provides a less clear and consistent background measure in our view, we could also look at some examples of trial CIL rates as %s of development costs. To do so we need to fix what we are regarding as developments costs – e.g. build costs (including external works, fees and contingency) / wider development costs.*

3.11.2 The values *(and – if applicable as above – costs)* assumptions used to calculate the following proportions are as assumed within the study. *(SDC – although this is purely a further guide layer, our view is that CIL rates of approximately 3 to 4% GDV for residential are appropriate and this fits with the residential rates recommendations. A broadly similar proportional effect might also be considered for commercial).* See figures 11 and 12 below:

Figure 11: CIL Trial rates as % of GDV – Residential

<table>
<tr><td rowspan="3">CIL Rate (£/sq m)</td><td colspan="5">Value Level (VL)
– intermediate VLs as examples only
(£/sq m)</td></tr>
<tr><td>VL 2</td><td>VL 4</td><td>VL 6</td><td>VL 8</td><td>VL 10</td></tr>
<tr><td>£2,500</td><td>£3,000</td><td>£3,500</td><td>£4,000</td><td>£4,500</td></tr>
<tr><td rowspan="2">Indicate locality / potential CIL charging zone</td><td colspan="2">Lower values zone</td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="4">Upper values zone</td></tr>
</table>

£25	1%	0.83%	0.71%	0.63%	0.56%
£50	2%	1.67%	1.43%	1.25%	1.11%
£75	3%	2.5%	2.14%	1.88%	1.67%
£100	4%	3.33%	2.86%	2.5%	2.22%
£125	5%	4.17%	3.57%	3.13%	2.8%
£150	6%	5%	4.29%	3.75%	3.33%
£175	7%	5.83%	5%	4.38%	3.89%
£200	8%	6.67%	5.71%	5%	4.44%

Figure 12: CIL Trial rates as % of GDV – Commercial (for development uses associated with CIL scope from viability findings – %s for other development uses not provided)

Scheme Type	CIL Trial Rate (£/sq m)	7.50% Yield & annual rent £ & GDV / sq m			6.50% Yield & annual rent £ & GDV /sq m		
		L £230	M £260	H £290	L £230	M £260	H £290
Large Retail - Supermarket		£3,066	£3,466	£3,866	£3,537	£3,999	£4,460
	£25	0.82%	0.72%	0.65%	0.71%	0.63%	0.56%
	£50	1.63%	1.44%	1.29%	1.41%	1.25%	1.12%

Scheme Type	CIL Trial Rate (£/sq m)	7.50% Yield & annual rent £ & GDV / sq m			6.50% Yield & annual rent £ & GDV /sq m		
		L £230	M £260	H £290	L £230	M £260	H £290
	£75	2.45%	2.16%	1.93%	2.12%	1.88%	1.68%
	£100	3.26%	2.89%	2.59%	2.83%	2.5%	2.24%
	£125	4.08%	3.61%	3.23%	3.53%	3.13%	2.80%
	£150	4.89%	4.33%	3.88%	4.24%	3.75%	3.36%
	£175	5.71%	5.05%	4.53%	4.95%	4.38%	3.92%
	£200	6.52%	5.77%	5.17%	5.65%	5%	4.48%
Large Retail - Retail Warehouse		L £175	M £200	H £225	L £175	M £200	H £225
		£2,333	£2,666	£2,999	£2,692	£3,076	£3,461
	£25	1.07%	0.94%	0.83%	0.93%	0.81%	0.72%
	£50	2.14%	1.88%	1.67%	1.86%	1.63%	1.44%
	£75	3.21%	2.81%	2.5%	2.79%	2.44%	2.17%
	£100	4.29%	3.75%	3.33%	3.71%	3.25%	2.89%
	£125	5.36%	4.69%	4.17%	4.64%	4.06%	3.61%
	£150	6.43%	5.63%	5%	5.57%	4.88%	4.33%
	£175	7.5%	6.56%	5.84%	6.5%	5.69%	5.06%
	£200	8.57%	7.5%	6.67%	7.43%	6.5%	5.78%
Small Retail – e.g. convenience store		L £110	M £140	H £170	L £110	M £140	£ 170
		£1,466	£1,866	£2,266	£1,692	£2,153	£2,615
	£25	1.71%	1.34%	1.10%	1.48%	1.16%	0.96%
	£50	3.41%	2.68%	2.21%	2.96%	2.32%	1.91%
	£75	5.12%	4.02%	3.31%	4.43%	3.48%	2.87%
	£100	6.82%	5.36%	4.41%	5.91%	4.64%	3.82%
	£125	8.53%	6.70%	5.52%	7.34%	5.81%	4.78%
	£150	10.23%	8.04%	6.62%	8.87%	6.97%	5.74%
	£175	11.94%	9.38%	7.72%	10.34%	8.13%	6.69%
	£200	13.64%	10.72%	8.83%	11.82%	9.29%	7.65%

3.11.3 The Council may wish to use the above information as part of the wider context for considering its CIL charging rates and options, in its balancing of objectives and also considering potential CIL yields from various scenarios (meaning here the potential total sums to be collected - based on the assumptions used). Comparison of potential CIL charging rates with current s.106 contributions levels could also be a useful aspect for context / benchmarking what the potential CIL rates mean in practice compared with previous / existing s.106 obligations levels and with regard to any particular implications for scenarios where s.106 may continue to play a major role. *(SDC – DSP could provide comparisons with info on typical previous / existing s.106 from the Council, but in SDC's case - with often relatively modest s.106 sums having been sought - this may not help the messages around seeking usually greater levels of contributions under CIL.....may not help to add positive context for the potential CIL charging rates?)*

3.11.4 In considering the potential "yield" (as at 3.11.3) from CIL and implementing particular options / approaches - as well as looking at any comparisons with s.106 scenarios - the Council will need to factor-in the principle that CIL will not be chargeable on affordable housing.

3.12 Summary – CIL Charging Rate scope and other Recommendations

3.12.1 In summary, from a viability point of view we recommend the following for consideration by Sevenoaks District Council in taking forward the setting of rates within a preliminary draft charging schedule (see figure 13 below):

Figure 13: Recommendations Summary - CIL Charging Rates

Summary on CIL Viability – Potential Rates and Guidance for the Council's consideration
Residential -
Recommendation: Differentiated Rates - In lower value areas an appropriate rate of £75/sq m (i.e. Swanley, New Ash Green and adjoining areas in the north of the District; Edenbridge in the south west). In higher value areas an appropriate rate of £125/sq m (i.e. rest of District centred on Sevenoaks, including Westerham, Otford and all areas excluding the suggested lower rate zones as above).
Retail – generally - option to differentiate; alternative to set a single rate.
Retail – large format – supermarkets and retail warehousing – usually out of town centre (TBC)
Recommendation: Rate – suggested not exceeding £125/sq m (being within greater viability scope) - if differentiating.
Retail – small format - principally convenience stores but (if the Council expects significant provision of any such developments within the life of the charging schedule) also applicable to all other retail categories including town centre comparison shopping and potentially to retail linked uses (e.g. motor sales, retail warehousing/wholesaling clubs - should those be included with the charging schedule). (TBC)
Recommendation: Up to approximately half large retail rate – suggested appropriate range £50 to (maximum) £75/sq m - if differentiating.
Retail alternative – single charging rate – necessarily close to suggested lower rate. Suggested not exceeding £75/sq m if considered, but means compromise and

considered by DSP to be a less suitable approach.
Business Development - Office and Industrial (B1, B1a, B2, B8)
Recommendation: Zero rate (£0)
Hotels and Care Homes
Recommendation: Zero rate (£0) on balance in preference to a low / nominal rate (Alternative: nominal / low CIL rate, but difficult to justify in viability terms and added risk to potentially marginal schemes).
Community and other uses, including Agricultural
Recommendation: Zero rate (£0) on balance in preference to a low / nominal rate (Alternative: nominal / low CIL rate, but difficult to justify in viability terms and again added risk to potentially marginal schemes).

3.12.2 In all cases (applicable also to commercial/non-residential scenarios) any rates considered below the levels and parameters that we set out are within the scope of our viability findings.

3.12.3 ***Additional recommendation*: To consider monitoring and review.** The DCLG Charge Setting Procedures (paragraph 75)[3] state that: '*The Government has not specified a recommended lifetime for charging schedules and there is no requirement in the Act placing charging authorities under a duty to review their charging schedules. However, charging authorities are strongly encouraged to keep their charging schedules under review'*. This is important to ensure that CIL charges remain appropriate over time – for instance as market conditions change, and also so that they remain relevant to the gap in the funding for the infrastructure needed to support the development of the Council's area. Although there is no fixed period or frequency for this we recommend that the Council begins to consider its more

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

detailed implementation strategies around CIL, including how it will monitor and potentially review CIL collection and levels – informed by the experience of operating it in practice. In discussion with a range of local authority clients, potential review periods (i.e. initial charging schedule life-spans) typically of say 2 to 4 years (as at 3.2.15 and 3.6.4) are currently being discussed at early CIL implementation stages. In due course, we may begin to see patterns and practices emerging on this.

3.12.4 To provide context for these monitoring and review processes, we expect that charging authorities will need to follow their local property and development markets by staying aware of trends in values and costs for example through gathering information on local schemes, tracking market movements and perhaps monitoring trends seen from site specific viability outcomes.

3.12.5 ***Additional recommendation:*** **To implement such monitoring processes and use them to inform the future review of the local implementation of the CIL.** The DCLG CIL Overview[4] document (at paragraphs 19 and 20) touches on the intended open and transparent nature of the levy and in doing so states that charging authorities must prepare short monitoring reports each year.

3.12.6 In our experience of updating viability based work, it is beneficial to do so at points where a key viability influence or influences may be changing or enough is known about it / them to enable full consideration – e.g. associated with reviewing impacts or potential impacts from a notable move in the market, amendment or introduction of other government level or local policies (e.g. on affordable housing or sustainability); rather than at abstract points.

3.12.7 This is because the collective costs and obligations to be carried by a development scheme are key to its viability. In this regard it has been noted that by itself CIL may not be one of the more significant influences on viability. Particularly given that CIL charging will be non-negotiable (and also consistent with the NPPF), it follows that the charging authority (Sevenoaks or any other) will need to be mindful of these

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

collective impacts and will need to continue operating other policy areas with appropriate adaptability where scheme specific issues arise and need to be discussed through the sharing of viability information.

3.12.7 ***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 detrimental way, as costs (negative balances) are carried in advance of sales income. Considering the spreading of the cost burden as far as may be permissible even on some smaller schemes, may well provide a useful tool for supporting viability in the early stages.

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

3.12.9 Within its brief as an added point rather than central to the current CIL considerations, the Council also asked DSP to consider what a charging rate might look like for residential development in the event the government's regulations develop to include affordable housing within the CIL charging regime. In practice, from site to site, the sum added to the rates discussed in this report would vary with the market value, dwelling type and tenure of the affordable dwellings that the sum is to create equivalence with (assuming the principle would be to collect a level of financial contribution broadly equivalent to receiving on-site; for adding to the base CIL charging rate). If this were progressed (nationally) then it would make the scheme appraisal very similar to looking at developments which made CIL payments but then also made a financial contribution towards meeting affordable housing needs in addition to that. This situation will most likely be seen in practice on some individual sites when CIL is implemented in its current form. However, this is quite a complex matter to consider if envisaged as fully imported into the CIL regime. It is quite likely that a complete overhaul of how affordable housing obligations are sought and calculated would be needed, because the floor area of the affordable housing (currently related to the affordable housing policy target %) would need to be factored-in for application to the market housing floor areas in accordance with CIL principles. We consider that the thinking on the level of contribution may need to be considered in one of two ways - as follows.

3.12.10 The first potential route to assessing affordable housing equivalence would be to look at the gap between market sales revenue(s) and the affordable housing transfer payment(s) that would have been made through on-site provision. Detailed work could be carried-out to create a grid indicating these revenue gaps across the wide range of market values (VLs), dwelling types and affordable housing tenure variations that might apply. This grid would look like the affordable housing revenues background assumptions sheet included at Appendix I. This was also explained at 2.3.12 to 2.3.19 above. Depending on how the use of CIL operated for affordable housing (if indeed it develops to that point in the future), it could then be possible to closely estimate the likely revenue gaps across a wide range of situations, or prepare an approach ready for use with specific sites. As an alternative and probably more readily workable scenario in the CIL context, an overview could be made by fixing the revenue gaps based on average %s of MV or on some other assessment of typical figures from within the range shown by the grid.

3.12.11 Depending on how it might operate, the approach to considering affordable housing financially within CIL as at 3.12.10 (seeking to reflect the revenue gaps) may be too complex in the CIL context. As an alternative, therefore, we consider that reference to the affordable housing build costs including external works (and potentially also including the professional fees, contingencies and any sustainability factors, etc) could have the potential to be a more suitable and consistent overview method of “pricing” the affordable housing element to come within the CIL umbrella.

3.12.12 If the approach at 3.12.11 were to be developed, then at present the assumptions set out with in this study (at sections 2.6, 2.7 and Appendix I) would be used to assess on an overview basis the affordable housing total build costs. We consider that this could have the potential to provide a suitable overview basis, subject of course to further development and review. A calculation would need to be carried out whereby the

3.12.13 Purely as an example, we could take the study assumptions for the base build cost for houses including external works (£1,095/sq m), add the 15% for professional fees and contingency plus the 5% sustainable construction cost uplift. There could be other ways of looking at this, but in experience developers generally accept that affordable housing produces little or no land value (particularly rented tenure) but seek to get as close a s possible to recouping reasonable build costs. This example, purely as an indication, would produce a figure in the order of £1,315/sq m prior to allowing for the renewable energy addition as well (approximately a further £40/sq m based on an 85 sq m dwelling). This indicates that a further £1,350 - £1,400/sq m could be an appropriate level of "charge" per sq m of affordable housing brought within these principles; based on substituting this for direct provision. The same calculation would produce a higher figure generally for schemes of or containing flats, although a "blended rate" could be arrived at to reflect a dwelling mix. As above, it can be seen that this is a complicated area which would require detailed consideration in the knowledge of how the CIL would operate to "incorporate" affordable housing funding requirements. Under this example calculation, the base CIL rate parameters for residential (£75 – 125/sq m) would be added to the above. As an aside, this also gives a rough feel for the relative viability impacts of CIL and affordable housing.

3.12.14 Were the above affordable housing to develop (and this would not be on a local-only basis), then as with other aspects of CIL, ongoing monitoring and review would be needed.

Main text of DRAFT V2 study report ends.
May 2012.