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# North Dorset District Council Community Infrastructure Levy Preliminary Draft Charging Schedule

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Consultation response on behalf of a Developer  
Consortium

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## 1. Introduction

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## 1. Introduction

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### Overview

1.1 This paper has been prepared by Savills on behalf of a landowner and developer Consortium comprising:

- Taylor Wimpey Plc
- Wellbeck Land
- C G Fry & Son Ltd

Hereafter known as 'the Consortium'.

1.2 This report is submitted in response to consultation on North Dorset District Council's (NDDC) Community Infrastructure Levy (CIL) Preliminary Draft Charging Schedule (PDCS), and has particular regard to the Gillingham Southern Extension.

1.3 The PDCS was published for public consultation in the period July to September 2015. These comments primarily relate to the proposed rates for residential development within the Gillingham Southern Extension, although there are a number of points that relate to NDDC's proposed approach to CIL elsewhere in the District.

1.4 This report responds to the North Dorset Whole Plan Viability and CIL Study prepared by Peter Brett Associates (PBA) in February 2015 including their Viability Assumptions and the proposed CIL rates based upon evidence within this study.

### Savills Research

1.5 Savills in January 2014 published research that assessed the impact of CIL on development viability<sup>1</sup> (**see Appendix 2**). The research focused on the level of CIL balanced against affordable housing provision and demonstrated that there is a trade off required to enable a deliverable five year housing land supply. The key finding of the report is that "*for local planning policies to be viable, there is a three way trade-off between the costs of CIL, Section 106 funding of infrastructure and affordable housing policy, with the costs of local standards and the move to zero carbon being additional costs to be factored into the trade-off*" (emphasis added).

1.6 The research notes that the ability of an area to afford CIL largely depends on the strength of its housing market. Where the housing market is stronger (higher £ per sq ft) the total "pot" available for these contributions is higher. In contrast, lower value areas see reduced viability and subsequently a reduced "pot". It therefore becomes a question for local authorities to consider the appropriate trade-off.

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<sup>1</sup> CIL – Getting it Right, Savills (UK) Ltd, January 2014

### Structure of this Representation

1.7 This representation is structured as follows:

**Section 1** gives an introduction to the representation

**Section 2** gives planning and legal background

**Section 3** outlines specific points about the available evidence bases, notably in respect of infrastructure delivery and the emerging Joint Core Strategy

**Section 4** outlines our objection to the principle of applying CIL on strategic sites

**Section 5** provides an analysis response to the PBA viability appraisal

**Section 6** sets out suggested measures for effective operation of CIL

**Section 6** provides conclusions.

1.8 Where relevant this representation provides comment on the supporting evidence/existing guidance and also makes reference to policy documents, a list of which can be found at **Appendix 1**.



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## 2. Summary of National Policy and Legal Context

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### Introduction

2.1 In respect of the preparation of Charging Schedules and supporting documentation, it is important to have regard to the Government policy, guidance and law. This includes:

- Part 11 of the Planning Act 2008; Community Infrastructure Levy Regulations 2010 (as amended)
- National Planning Policy Framework (NPPF)
- Planning Practice Guidance (PPG) CIL Guidance 2014 (as amended)
- Non-statutory Guidance

### Planning Act 2008 (as amended)

2.2 Section 205 (2) of Part 11 of the 2008 Act (as amended by the Localism Act 2011) states that:

*"In making the regulations the Secretary of State shall aim to ensure that the overall purpose of CIL is to ensure that costs incurred in supporting the development of an area can be funded wholly or partly by owners or developers of land in a way that does not make development of the area economically unviable."*

2.3 Section 212 of the Planning Act requires the examiner to consider whether the "drafting requirements" have been complied with and, if not, whether the non-compliance can be remedied by the making of modifications to the DCS. The "drafting requirements" mean the legal requirements in Part 11 of the Planning Act and the CIL Regulations so far as relevant to the drafting of the charging schedule. In considering the "drafting requirements", examiners are required in particular to have regard to the matters listed in Section 211(2) and 211(4). This requires examiners to consider whether the relevant charging authority has had regard to the following matters:

- Actual and expected costs of infrastructure;
- Matters specific by the CIL Regulations relating to the economic viability of development;
- Other actual and expected sources of funding for infrastructure; and
- Actual or expected administrative expenses in connection with CIL.

2.4 Regulation 14 of the CIL Regulations (as amended) expands on these requirements, explaining that charging authorities must, when striking an appropriate balance, have regard to:

- The desirability of funding from CIL (in whole or in part), the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
- The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

2.5 The Examiner will need to determine whether appropriate evidence on infrastructure needs and development viability has been presented by the Council.

### National Planning Policy Framework

2.6 It is important that the preparation of CIL is in the spirit of the NPPF, notably that it is delivery-focused and “positively prepared”<sup>2</sup>.

2.7 The NPPF outlines 12 principles for both plan making and decision taking, notably that planning should “proactively drive and support sustainable economic growth”<sup>3</sup>. Plan making should “take account of market signals such as land prices and housing affordability” and that “the Government is committed to ensuring that the planning system does everything it can to support sustainable economic growth”<sup>4</sup>.

2.8 Furthermore, the NPPF refers to the “cumulative impacts”<sup>5</sup> of standards and policies relating to the economic impact of these policies (such as affordable housing) and that these should not put the implementation of the Plan at serious risk. Existing policy requirements should therefore be considered when assessing the impact of CIL on development viability.

2.9 The NPPF calls for local authorities to boost significantly the supply of housing<sup>6</sup>. It requires local authorities to:

- Meet the full, objectively assessed needs for housing, including identifying key sites;
- Identify deliverable sites to provide five years worth of supply and developable sites further ahead;
- Provide a housing trajectory for the plan period describing how the five year supply is to be maintained.

2.10 The NPPF expressly states that CIL “**should be worked up and tested alongside the Local Plan**” and “**should support and incentivise new development**”<sup>7</sup>. To comply with this policy, CIL Charging Schedules must be demonstrated to have positive effects on development and have regard to an up-to-date Local Plan. The absence of adverse effects on the economic viability of development, whether serious or otherwise is not enough to justify CIL proposals. Charging Authorities have a positive duty when it comes to setting CIL rates and formulating their approach on the application of CIL.

2.11 CIL Examiners’ reports, such as those for Mid Devon (February 2013) and Winchester City Council (October 2013), have set a clear precedent for CIL to be considered in the round, including the testing of policy-compliant levels of affordable housing and other policy costs.

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<sup>2</sup> Paragraph 182, National Planning Policy Framework, March 2012

<sup>3</sup> Ibid, Criterion 3, March 2012

<sup>4</sup> Ibid, Paragraph 19, March 2012

<sup>5</sup> Ibid, Paragraph 174, March 2012

<sup>6</sup> Ibid, Paragraph 47, March 2012

<sup>7</sup> Ibid, Paragraph 175, March 2012



### Planning Practice Guidance

2.12 In 2014 the Government published an online resource of Planning Practice Guidance (PPG) which provided technical guidance on a series of planning related topics. Relevant to CIL, the PPG (2014) states:

- Charging schedules should be consistent with, and support the implementation of, up-to-date relevant Plans<sup>8</sup>.
- The need for balance (as per Regulation 14<sup>9</sup>).
- The need for “*appropriate available evidence to inform the Draft Charging Schedule*” (as per Schedule 211(7)(a) of the 2008 Act<sup>10</sup>).

2.13 The PPG re-affirms the requirement of paragraph 175 of the NPPF which states that, where practical, charging schedules should be worked up and tested alongside the Local Plan. It also states that “*a charging authority may use a draft plan if they are proposing a joint examination of their relevant Plan and their levy charging schedule*”<sup>11</sup>.

2.14 The policy direction from central government is very much towards facilitating development. This policy imperative should have a major material bearing on the CIL rates. This applies to the evidence to support the balance reached between the desirability of funding infrastructure through CIL and the potential effects on economic viability of development across that area.

2.15 The Guidance states that it is up to charging authorities to decide how much potential development they are willing to put at risk through CIL (the “appropriate balance”). Clearly this judgement needs to consider the wider planning priorities. Furthermore, the CIL Guidance outlines that CIL receipts are not expected to pay for all infrastructure but a “significant contribution”<sup>12</sup>. The overall approach and rate of CIL will have to pay attention to the development plan and intended delivery.

2.16 The Guidance also states that charging authorities may adopt differential rates in relation to:

- Geographical zones within the charging authority’s boundary
- Types of development; and/or
- Scales of development<sup>13</sup>

2.17 It explains that where a particular type or scale of development has low, very low or zero viability, the charging authority should consider setting low or zero rates for that type of development. The opportunity to define a CIL rate by development scale is important in this instance.

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<sup>8</sup> Paragraph 10, Reference ID: 25-010-20140612, Planning Practice Guidance, revision date 12 June 2014

<sup>9</sup> CIL Regulations 2010 (as amended)

<sup>10</sup> Paragraph 19, Reference ID: 25-019-20140612, Planning Practice Guidance, revision date 12 June 2014

<sup>11</sup> Paragraph 11, Reference ID: 25-011-20140612, Planning Practice Guidance, revision date 12 June 2014

<sup>12</sup> Paragraph 95, Reference ID 25-095-20140612, Planning Practice Guidance, revision date 12 June 2014

<sup>13</sup> Paragraph 21, Reference ID 25-021-20140612, Planning Practice Guidance, revision date 12 June 2014

### Non-Statutory Guidance

2.18 In addition to the regulations and statutory guidance, two specific non-statutory guidance documents have been published which are directly relevant to the CIL rate setting process. These two guidance documents have been recognised by Inspectors elsewhere as valuable sources of advice regarding the approach to, and assumptions to be used in, the setting of CIL levy rates for residential development. The two documents are:

- Financial Viability in Planning, RICS (August 2012) and
- Viability Testing Local Plans, Local Housing Delivery Group (June 2012) (Harman Report)

2.19 Reference is made to these guidance documents where relevant throughout this representation.



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### 3. Planning Overview and Housing Delivery

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### 3. Planning Overview and Housing Delivery

#### The Development Plan

- 4.1. The Development Plan for NDDC includes the saved policies of the adopted North Dorset District Wide Local Plan (2003), which was originally drawn up to cover the period 1994-2011. NDDC are currently preparing a new North Dorset Local Plan which will cover the period 2011 to 2031. This is being prepared in two parts, Part 1 sets out the strategic policies for the District and was submitted for examination by the Secretary of State in December 2014. Examination hearing sessions took place in March 2015 and NDDC are currently consulting on proposed modifications to the Local Plan Part 1.
- 4.2. A separate Local Plan Part 2 will provide more detailed policies and site allocations.

#### Housing Delivery

- 4.3. The introduction of CIL represents an additional obligation and therefore must be assessed holistically to establish the cumulative impact of CIL and existing planning obligations, to ensure that the delivery of development would not be threatened by its introduction. Savills has therefore reviewed the identified housing supply for NDDC to determine whether the proposed CIL rates would threaten the delivery of the development during the Plan period.

#### Future Supply

- 4.4. The emerging Local Plan relies on the Gillingham Southern Extension to deliver 1,800 new homes over the plan period, approximately 32% of the overall Local Plan housing requirement. Given the timescales and phasing which would inevitably be a part of developing a site of this strategic scale, it is important that CIL is considered in the round across the land in the Consortium’s control.

#### Applying the Guidance

- 4.5. The PPG CIL Guidance<sup>14</sup> must be followed in the preparation of a charging schedule. The Consortium wishes to outline a number of observations against relevant aspects of the Guidance.

**Table 6: CIL PPG Extracts and Implications for NDDC**

Paragraph and Reference ID	Topic	Guidance	Implications for North Dorset District Council
Paragraph 008, Reference ID: 25-008-20140612, CIL Guidance	Rate setting	<i>"Charging authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified"</i>	It is imperative that a CIL rate is not set which could have a negative impact on housing delivery.

<sup>14</sup> PPG CIL Guidance, 2014 (as amended)



Paragraph and Reference ID	Topic	Guidance	Implications for North Dorset District Council
(revision date 12 June 2014)		<i>in the relevant Plan."</i>	The contribution of the South Gillingham strategic site to the housing supply puts greater importance on the viability testing of large scale development.
Paragraph 009, Reference ID: 25-009-20140612, CIL Guidance (revision date 12 June 2014)	Positive duty	<i>"The levy is expected to have a positive economic effect on development across a local plan area."</i>	To be a success, CIL must facilitate development and enable infrastructure delivery required to support development.
Paragraph 010, Reference ID: 25-010-20140612, CIL Guidance (revision date 12 <sup>th</sup> June 2014)	Positive duty	<i>"Charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area."</i>	Reliance must therefore be had on infrastructure evidence and viability evidence, with reasoned consideration of the views of the key stakeholders and delivery agents.
Paragraph 010, Reference ID: 25-010-20140612, CIL Guidance (revision date 12 June 2014)	Positive duty	<i>"Charging schedules should be consistent with, and support the implementation of, up-to-date relevant Plans."</i>	The approach to viability testing must be grounded on the viability of strategic sites and other developments needed to support the delivery of the housing requirement identified in the emerging Local Plan.
Paragraph 011, Reference ID: 25-011-20140612, CIL Guidance (revision date 12 June 2014)	Spending	<i>"Charging authorities should think strategically in their use of the levy to ensure that key infrastructure priorities are delivered to facilitate growth and economic benefit of the wider area."</i>	A difference must be distinguished between "scheme mitigation" infrastructure and "strategic infrastructure" required to address the delivery of the whole plan (i.e. to address cumulative impacts).
Paragraph 019, Reference ID: 25-019-20140612, CIL Guidance (revision date 12 June 2014)	Viability assessment	<i>"...A charging authority should directly sample an appropriate range of types of sites across its area....The exercise should focus on strategic sites on which the relevant Plan relies, and those sites where the impact of the levy on economic viability is likely to be most significant."</i>	As above, the Viability Assessment evidence should test the strategic site allocation. The viability inputs and assumptions in the testing of the generic site typologies must be realistic and reasonable. We do not consider this to be the case for all of those assumptions used in the Viability Assessment.
Paragraph 020, Reference ID: 25-020-20140612, CIL Guidance (revision date 12 June 2014)	Viability assessment	<i>"A charging authority should take development costs into account when setting its levy rate or rates, particularly those likely to be incurred on strategic sites or brownfield land. A realistic understanding of costs is essential to the proper assessment of viability in an area."</i>	Reliance must therefore be placed on infrastructure and viability evidence, with reasoned consideration of the views of the key stakeholders and delivery agents. The additional costs of strategic development must be recognised.
Paragraph 021, Reference ID: 25-021-20140612, CIL Guidance (revision date 12 <sup>th</sup> June 2014)	Differential rates	<i>"If the evidence shows that the area includes a zone, which could be a strategic site, which has low, very low or zero viability, the charging authority should consider setting a low or zero levy rate in that area."</i>	We object to the principle of CIL on the Strategic Allocations as outlined in Section 4 of this representation.



Paragraph and Reference ID	Topic	Guidance	Implications for North Dorset District Council
Paragraph 028, Reference ID: 25-028-20140612, CIL Guidance (revision date 12 June 2014)	Infrastructure list	<i>"It is good practice for charging authorities to also publish their draft infrastructure lists and proposed policy for the associated scaling back of section 106 agreements at this stage [Preliminary Draft Charging Schedule] in order to provide clarity about the extent of the financial burden that developments will be expected to bear so that viability can be robustly assessed."</i>	Infrastructure evidence on the onward use of Section 106 contributions should be published. It is clear that Section 106, whilst potentially scaled back in some cases, will continue to play an important role in relation to infrastructure delivery. The updated Guidance is clear that the sharing of infrastructure evidence should be earlier in the process.
Paragraph 038, Reference ID: 25-038-20140612, CIL Guidance (revision date 12 June 2014)	Examination	<i>"The examiner should establish that the charging authority has complied with the legislative requirements set out in the Planning Act 2008 and the Community Infrastructure Levy Regulations as amended; the draft charging schedule is supported by background documents containing appropriate available evidence; the proposed rate or rates are informed by and consistent with the evidence on economic viability across the charging authority's area; and evidence has been provided that the proposed rate or rates would not threaten delivery of the relevant Plan as a whole."</i>	"Appropriate available evidence" must be published by the JCS authorities. This requires the full detail of the viability appraisals.  A relevant input to the evidence of economic viability is the likely use of "scheme mitigation" Section 106.
Paragraph 061, Reference ID: 25-061-20140612, CIL Guidance (revision date 12 June 2014)	Payment in kind	<i>"...where an authority has already planned to invest levy receipts in a project there may be time, cost and efficiency benefits in accepting completed infrastructure from the party liable for payment of the levy. Payment in kind can also enable developers, users and authorities to have more certainty about the timescale over which certain infrastructure items will be delivered."</i>	The operation of Payment in Kind needs to consider the implications of the 2014 Regulations, which make clear that reductions in the CIL rate are not possible for infrastructure which is provided to mitigate the impacts of development (and hence typically "site specific").
Paragraph 062, Reference ID: 25-062-20140612, CIL Guidance (revision date 12 June 2014)	Payment in kind	<i>"This document [the Infrastructure Payments Policy Statement] should confirm that the authority will accept infrastructure payments and set out the infrastructure projects, or type of infrastructure, they will consider accepting as payment (this list may be the same list provided for the purposes of Regulation 123)."</i>	An Infrastructure Payments Policy Statement should be produced.
Paragraph 083, Reference ID: 25-083-20140612, CIL Guidance (revision date 12 June 2014)	Borrowing	<i>"Charging authorities are not currently allowed to borrow against future levy income. However, the levy can be used to repay expenditure on income that has already been incurred. Charging authorities may not use the levy to pay interest on money they raise through loans."</i>	The use of wider funding sources to enable infrastructure delivery should be considered.
Paragraph 093, Reference ID: 25-	Planning	<i>"...Charging authorities should work</i>	This is an important principle that NDDC

Paragraph and Reference ID	Topic	Guidance	Implications for North Dorset District Council
093-20140612, CIL Guidance (revision date 12 June 2014)	obligations	<i>proactively with developers to ensure they are clear about the authorities' infrastructure needs and what developers will be expected to pay for through which route. There should be no actual or perceived 'double dipping' with developers paying twice for the same item of infrastructure."</i>	should be aware of.
Paragraph 094, Reference ID: 25-094-20140612, CIL Guidance (revision date 12 June 2014)	Planning obligations	<i>"The levy is intended to provide infrastructure to support the development of an area, rather than making individual planning applications acceptable in planning terms. As a result, some site specific impact mitigation may still be necessary in order for a development to be granted planning permission. Some of these needs may be provided for through the levy but others may not, particularly if they are very local in their impact. Therefore, the Government considers there is still a legitimate role for development specific planning obligations to enable a local planning authority to be confident that the specific consequences of a particular development can be mitigated."</i>	This is a key point, and distinguishes between the strategic infrastructure used to address cumulative impacts, which are required to deliver the plan as a whole and the scheme mitigation infrastructure used to mitigate the impact of the sites.
Paragraph 106, Reference ID: 25-106-20140612, CIL Guidance (revision date 12 June 2014)	Grampian conditions	<i>"In England, the National Planning Policy Framework sets out that planning conditions (including Grampian conditions) should only be imposed where they are necessary, relevant to planning and to the development to be permitted, enforceable, precise and reasonable in all other respects. When setting conditions, local planning authorities should consider the combined impact of those conditions and any Community Infrastructure Levy charges that the development will be liable for."</i>	Grampian conditions must be used sparingly. NDDC should publish a policy on the use of Grampian conditions.
Paragraph 107, Reference ID: 25-107-20140612, CIL Guidance (revision date 12 June 2014)	Highway agreements	<i>"Charging authorities should take care to ensure that their existing or forthcoming infrastructure list does not inadvertently rule out the use of section 278 agreements for highway schemes that are already planned or underway, or where there would be clear merit in retaining the ability for developers to contribute towards specific local highway works through s278 agreements."</i>	The cost of Section 278 infrastructure is a relevant consideration for the viability evidence.
Paragraph 107, Reference ID: 25-107-20140612, CIL Guidance (revision date 12 June 2014)	Highway agreements	<i>"Where section 278 agreements are used, there is no restriction on the number of contributions that can be pooled."</i>	Pooled Section 38/278 Agreements may represent a feasible alternative to pooled Section 106 contributions in relation to new/improved roads.

### Regulation 123 List and Infrastructure Delivery

4.6. The Planning Act 2008 (as amended)<sup>15</sup> defines infrastructure as:

- “(a) roads and other transport facilities,
- (b) flood defences,
- (c) schools and other educational facilities,
- (d) medical facilities,
- (e) sporting and recreational facilities, and
- (f) open space.”

4.7. There is a requirement within the CIL Regulations to provide a list of “*relevant infrastructure*”<sup>16</sup> to be wholly or partly funded by CIL. It is also lawful<sup>17</sup> for CIL to be used to reimburse expenditure already incurred on infrastructure, a tool which could have useful implications in respect of the forward funding obtained for major strategic infrastructure.

4.8. The Consortium considers it imperative that the evidence supporting CIL:

- Clearly outlines the key infrastructure projects required to support development (this being a key test of the Regulations); and
- Produces an up to date, consistent and well informed evidence base of economic viability in order to test various development typologies against CIL rates.

4.9. The sequencing of the delivery of infrastructure is also an important consideration.

4.10. The CIL Guidance<sup>18</sup> places a strong emphasis on the need for local authorities to demonstrate when setting their Charging Schedule that they have been realistic when assessing what residual Section 106 and 278 requirements will remain. In order to do this it is therefore necessary for NDDC to prepare a draft list of relevant infrastructure (referred to as a ‘Regulation 123 list’) to establish what on-site infrastructure is anticipated to continue to be delivered through Section 106 planning obligations.

4.11. NDDC has published a Draft Regulation 123 list to support the PDCS, which sets out the types of infrastructure which it currently envisages will be paid for through either CIL or Section 106 contributions. Whilst we welcome the publication of a Regulation 123 list at this initial stage in the CIL process, it is not clear in the current drafts how CIL payments will be separated from Section 106 payments, and which projects will be funded by CIL.

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<sup>15</sup> Section 216, Planning & Compulsory Purchase Act 2008 (as amended)

<sup>16</sup> Regulation 123, CIL Regulations 2010 (as amended)

<sup>17</sup> Regulation 60(1), CIL Regulations 2010 (as amended)

<sup>18</sup> Paragraph 017 Reference ID: 25-017-20140612, PPG CIL Guidance, revision date 12 June 2014



- 4.12. This concern is particularly relevant to development on the Gillingham Southern Extension, where infrastructure requirements are greater than on smaller sites and the timing and delivery is critical to ensure the delivery of well planned communities.
- 4.13. As mentioned earlier in this representation, the Consortium strongly believe that Section 106 agreements only should be used on the Strategic Allocations with a £0 per sq m residential CIL rate applied. Such an approach would provide clarity in terms of the infrastructure delivery mechanism and also ensure its delivery in a timely manner through bespoke Section 106 agreements. The risk of 'double dipping' would be removed through a clear demarcation between CIL and Section 106.
- 4.14. A consequential impact of this approach would be to amend the Regulation 123 list to exclude infrastructure projects associated with the Strategic Site Allocation. PPG states that:
- "Where the Regulation 123 List includes a generic item (such as education or transport), Section 106 contributions should not normally be sought on any specific project in that category".<sup>19</sup>*
- 4.15. It is envisaged by NDDC that the Strategic Site Allocation will cater for its own infrastructure requirements. This approach adds further weight to the recommendations in this representation that a £0 per sq m rate is adopted for the Strategic Site Allocation.
- 4.16. It is therefore considered that specific Section 106 Agreements are the most appropriate mechanism to ensure that all future infrastructure needs are delivered on the Strategic Site Allocation. Furthermore, the Consortium advise that the Regulation 123 list is amended to provide greater clarity on the operation of CIL and Section 106 contributions.

### Historic Section 106 Contributions

- 4.17. The CIL Guidance states that *"when a charging authority introduces the levy, Section 106 requirements should be scaled back to those matters that are directly related to a specific site... For transparency, charging authorities should have set out at examination how their Section 106 policies will be varied, and the extent to which they have met their Section 106 targets"*<sup>20</sup>.
- 4.18. This information has not been published as part of the PDCS consultation. As part of the Local Plan evidence base, NDDC prepared an IDP<sup>21</sup> which evaluates the impact of developments on a range of infrastructure items in their locality. Whilst some items of infrastructure may be funded from other sources, since the infrastructure has been included in the IDP it can be assumed to represent a cost to the development and should form part of the Gross Development Costs in the viability assessment.
- 4.19. It is important that a reasonable cost assumption is included for Section 106 planning obligations and infrastructure items, based on the IDP, in the viability assessment of sites. The outputs from this assessment should determine the appropriate quantum of affordable housing to be sought in the JCS authorities, as the

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<sup>19</sup> Paragraph 097, Reference ID: 25-097-20140612, PPG CIL Guidance, 2014 (as amended)

<sup>20</sup> Ibid. Paragraph 098, Reference ID 25-098-20140612

<sup>21</sup> North Dorset Local Plan 2011 to 2016 Part 1 - Infrastructure Delivery Plan, NDDC, November 2014



affordable housing percentage bears the greatest area of flexibility given that it does not indicate whether a development is acceptable in planning terms (unlike other Section 106 obligations).

- 4.20. The Consortium would therefore ask for further detail on the anticipated Section 106 contributions to be sought by NDDC to ensure that a realistic figure is included in the viability assessments. This information should be broken down by scheme type to enable a comparison on a cost per unit basis. This will help ensure that the combined total cost of Section 106 and CIL is not in excess of historically delivered Section 106 contributions and will not therefore adversely impact the deliverability of any sites coming forward.



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## 4. Principle of CIL on Strategic Allocations

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## 4. Principle of CIL on Strategic Allocations

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- 4.1 The Gillingham Southern Extension is a fundamental component of the housing land supply in the emerging Local Plan. Ensuring its viability is therefore fundamental to the successful delivery of the Local Plan objectives and to the planned future growth of North Dorset.
- 4.2 It is also the case that large strategic sites are inevitably the more complex and challenging to plan and deliver than smaller developments. They frequently involve a number of landowners and often have a patchwork of developers/promoters working on a consortium basis.
- 4.3 The infrastructure requirements of the large strategic sites are substantially different to smaller sites. They generally require major highways works, utilities and servicing infrastructure, new schools, open space and recreation facilities, health infrastructure and local shops and community facilities etc. Many strategic sites also contain a mix of commercial employment uses. The total costs of the infrastructure can add up to tens and in some cases hundreds of millions.
- 4.4 The timing and delivery of all forms of infrastructure are critical to the creation of good places. For example, the timely delivery of roads and upgrading of junctions may be required to enable access or support sustainable transport opportunities, or there may be a need for education facilities early in the lifetime of a development in order to meet the localised demands on education facilities. Some of these works will be delivered directly as part of the development, others will be funded by the development and delivered by a third party such as the local authority.
- 4.5 The complexity that goes hand in hand with large strategic sites therefore requires careful consideration of both infrastructure funding and delivery mechanisms. It is for this reason that Section 106 agreements on such sites are therefore often lengthy and complex, indeed this is an inevitable consequence of needing to ensure that the development is deliverable and that infrastructure is provided at the right time and in the right place. The bespoke nature of Section 106 agreements is essential and captures in a single, legally binding document the phasing of infrastructure. It provides certainty to both the developers/promoters of the costs of development and enables this to be accurately tied into the complex cash-flow models which are needed to determine land value on the large strategic sites.
- 4.6 Due to their complexity, Section 106 agreements on the large strategic sites can take some time to prepare, however, for the reasons set out above we consider these to be the only robust, transparent and refined means of dealing with the infrastructure requirements.
- 4.7 The introduction of CIL as a means of capturing land value uplift to fund infrastructure is an effective mechanism for smaller developments where there is a limited impact on infrastructure and little or no on-site provision. Provided it is clear and unequivocal on the Regulation 123 list that the CIL charges will address all infrastructure requirements then in many cases a separate Section 106 agreement will not be required. Landowners and developers alike will have the certainty and can plan accordingly.

- 4.8 The PDCS sets out a proposed differential CIL rate for the strategic allocation in the emerging Local Plan. It is clearly the intention that some or all of the infrastructure needed to support this development is to be funded through CIL. However, it is not at all clear what this will fund, whether the developments which make CIL contributions will be prioritised for the spending of these receipts and whether there will be any obligation on the charging authority concerned to deliver the infrastructure in a timely fashion. This leads to uncertainty for all concerned and makes it very difficult for developers promoters to plan for and cash-flow the development.
- 4.9 It is for this reason that, rather than combining Section 106 and CIL, we very strongly advocate the use of Section 106 agreements only and the setting of a £0 per sq m differential CIL rate on the large strategic sites.
- 4.10 This approach will provide much needed clarity which is essential for both charging authorities and those promoting and/or developing strategic sites. Setting a £0 per sq m CIL rate for the strategic allocations and at the same time excluding these allocations from the infrastructure provision within the Regulation 123 list will ensure that the infrastructure is delivered in an agreed manner through bespoke Section 106 agreements. All ambiguity and concerns regarding the potential for 'double dipping' within the Regulation 123 list will be removed.
- 4.11 As a consequence there is greater certainty over the delivery of the development and the timing of its contribution towards the housing land supply.
- 4.12 Savills has been involved in the preparation of a number of CIL charging schedules where it has been agreed with the charging authority that the infrastructure on the strategic allocations is most effectively and efficiently dealt with through Section 106 agreements. As a consequence a CIL rate of £0 per sq m has been applied to the allocated areas.
- 4.13 A good comparable example is South Gloucestershire. Having originally set residential CIL rates for the major strategic allocations within the Preliminary Draft Charging Schedule, South Gloucestershire Council took the decision to remove all CIL charges from the strategic allocations of 600 dwellings or more. In so doing, it was recognised by officers in the committee report that:
- “... in order for consistency and to minimise the added level of complexity and uncertainty that a CIL charge would introduce, potentially threatening the Council's ambitious housing delivery targets, £zero charges are therefore proposed for the strategic sites”.*
- 4.14 Similar examples exist in Bath & North East Somerset where a £0 charge was adopted for the strategic development at Bath Western Riverside and also at East Swindon where a £0 rate has been adopted for the strategic development. A £0 rate is also proposed for strategic sites in East Dorset, Christchurch, west Dorset, and Weymouth & Portland. Further examples of this approach exist elsewhere across the country.
- 4.15 These examples have been provided to NDDC the confidence that this approach has been adopted successfully elsewhere and could easily be replicated in this Charging Schedule.

4.16 In all cases developers promoting major strategic developments are aware that there are significant infrastructure requirements. Not only are these requirements a planning necessity, but they are important to house buyers and consequently therefore also to developers. Setting a £0 per sq m rate does not prevent or frustrate the delivery of infrastructure. On the contrary it ensures that infrastructure is dealt with in the most appropriate manner for the strategic developments through agreed arrangements between the authority and promoters/developers.

### **Conclusion for Strategic Allocations**

4.17 For the reasons set out above we strongly urge NDDC to fundamentally revisit the approach to infrastructure delivery and funding on the Southern Gillingham Extension. In so doing we urge NDCC to adopt the same approach as East Dorset, Christchurch, West Dorset, and Weymouth & Portland and others and to place reliance upon Section 106 planning obligations exclusively as the most effective mechanism for managing infrastructure delivery.

4.18 Without prejudice to our objection on the principle of applying a CIL rate on the Southern Gillingham Extension, the subsequent sections of this representation will review the viability evidence and methodology in detail.



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## 5. Viability Appraisal

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## 5. Viability Appraisal

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### Introduction

5.1 The proposed CIL rates for NDDC have been supported by a viability report produced by Peter Brett Associates LLP (February 2015), herein referred to as the PBA Report. We have analysed and responded to the PBA Appraisal and provided our response in three parts:

- Part 1 - Summary of PBA Assumptions
- Part 2 - Assessment of Appraisal Inputs
- Part 3 - Savills Assumptions and Appraisals

### Part 1 – Summary of PBA Assumptions

5.2 With reference to our client's specific interest, we have focused solely on the Southern Gillingham Extension, which has a proposed residential CIL rate of £18 per sq m. Our comments subsequently relate to the viability assumptions in the PBA Report that are applicable to this site only.

5.3 We have identified a number of points within the PBA Report that we would question. The effects of these could be significant when assessing the appropriate level of CIL. We set out our primary concerns below:

- Section 106/278 Allowance
- Infrastructure Costs
- Affordable Housing Provision vs. Policy
- Affordable Housing Revenue
- Benchmark Land Value
- Profit Margin

5.4 Further detail on the specific areas of disagreement are set out in **Part 2** below.

### Part 2 - Assessment of PBA Appraisal Inputs

#### Section 106/278 Allowance

5.5 The key to delivery of the Southern Gillingham Extension is the on-site mitigation required, such as education, public open space and other community infrastructure. CIL will not contribute towards on-site 'scheme mitigation' and hence the only way of accounting for these elements will be through a Section 106/278 obligation or contribution, or via a planning condition.



- 5.6 PBA confirms that on the larger sites *'the approach to infrastructure requirements will vary and could be considered through both S106 and CIL'*. It is unclear which costs will be covered through S106 and which through CIL. Use of the terminology *'infrastructure requirements'* is also misleading and might lead the reader to think that the roads and services will be covered by the S106/ CIL costs. To mitigate the impacts of the development, on-site works should be covered by S106 and off-site costs should be covered by CIL.
- 5.7 PBA state within their report that the following S106 costs will apply:
- S106/ S278 costs (inc. junction improvements/ local cycle links/ public transport) £2.5M
- 5.8 PBA then go on to state:
- Items not included in S106, but included within the CIL rate, are to comprise education, strategic cycle/ pedestrian links, strategic public transport, community facilities and recreation improvements. PBA have excluded these costs from the viability assessment as they are to be considered through CIL contributions.
- 5.9 The differentiation between the items included within S106 and CIL are unclear. There is reference to local pedestrian/ cycle links within the S106 costs, but also mention of strategic cycle/ pedestrian network within the CIL costs. Similarly, travel plan and public transport improvements are referenced in the S106 costs, whilst strategic public transport is included within the CIL costs. There is possible double counting within these elements and it would seem that PBA have not accurately factored in the S106 costs required.
- 5.10 The level of estimated Section 106 contribution is too low for a strategic site typology. Key to the delivery of these sites is the on-site mitigation required, including education, public open space, play areas, sport and leisure, public art and other community infrastructure.
- 5.11 We understand that these contributions, amongst others are currently required by North Dorset District Council via Section 106 contributions and are clearly outlined as site-specific mitigation requirements by the emerging Local Plan. CIL will not contribute towards onsite 'scheme mitigation' and hence the only way of accounting for these elements will be through a Section 106/278 obligation or contribution, or via a planning condition.
- 5.12 Savills have had sight of infrastructure costs associated with the 1,800 unit development at the Southern Gillingham Extension. The total S278 costs are estimated at approximately £10M and are to include highway improvements, pedestrian and cyclist improvements, public transport improvements and a travel plan. This is significantly higher than the £2.5M suggested by PBA which is supposed to cover S106 and S278 costs. This excludes the on-site provision of education, extra care and sports facilities.
- 5.13 Savills have had regard to recent large scale planning permissions that have required significant enabling on-site contributions. We provide the following examples for good record.

Site	Development	Total S106 Costs	S106 cost per dwelling	CIL contributions
Burgess Hill Northern Arc, Sussex	3,000 dwellings on a 180 Ha site	£58M (including 10% contingency)	£21,000 per dwelling	£0
Wimborne, Dorset	Outline application for 630 dwellings	draft S106 contributions approximately £7M	£11,000 per dwelling	£0
Shaftesbury, Dorset	Resolution to approve application for 191 dwellings	HOTs for section 106 of approximately £3M	£15,700 per dwelling	N/A

5.14 Taking an average of the S106 contributions required at the sites above gives an average of £15,900 per plot.

5.15 Winchester City Council brought their CIL charging schedule into effect in April 2014 and have adopted a £ zero CIL rate for 3 strategic allocations proposed in the emerging Joint Core Strategy. A Residential Viability Report undertaken by Adams Integra was prepared in support of the proposed charging schedule. The report has regard to infrastructure costs associated with the strategic allocations and confirms the following:

*'These strategic allocations significant infrastructure contributions have been agreed or will be needed on these sites with a range of between £10,000 and £27,000 per unit. We have considered the viability of each strategic allocation at the mid point of that range (£17,000 per unit) and it has become clear that in terms of viability there is no scope for a CIL in addition to these negotiated on site S106 infrastructure packages within these specific strategic allocation areas.'*

5.16 On the basis of Adams Integra's Residential Viability Report, Winchester City Council have understood that these strategic allocations have no scope for CIL and have subsequently adopted a £ zero CIL rate.

5.17 The letter from the Inspector examining the East Devon CIL of 24 April 2014 confirms that S106 costs on large strategic sites are likely to be significantly higher than the figure of circa £5k per dwelling that had been allowed for by in the PBA East Devon Community Infrastructure Levy Viability Study 2013.

5.18 At Chichester District Council's CIL examination, further evidence was submitted by Peter Brett Associates which had regard to S106 costs associated with Strategic Development Allocations. The following examples were referred to:

Site	Total Dwellings	Total S106 Costs	Total S278 Costs	Cost per Dwelling
Land West of Chichester	1600	£19,065,200	£5,760,000	£15,516
Allocated land at Tangmere	1000	£7,530,000	£3,600,000	£11,130

5.19 Savills believes that the evidence provided above confirms that large strategic sites such as the Gillingham Southern Extension will provide major infrastructure items through S106 contributions, and a cost of £15,000 per plot is therefore considered appropriate. Savills have used this assumption in our calculations.

### Infrastructure Costs

5.20 Opening up works, such as the provision of on site roads, services, utilities and drainage, are included in a generic infrastructure allowance within the PBA Report, which has been calculated based on the size of the site. PBA calculate the infrastructure costs for sites accommodating 501 plus units at £17,000 per unit. With 1,800 units proposed at the Southern Gillingham Strategic Extension, this assumption concludes total infrastructure costs of £30,600,000.

5.21 Appendix B of the Harman Report (Viability Testing Local Plans) states that strategic infrastructure costs are typically in the order of £17,000 and £23,000 per unit for larger scale schemes. It would seem that PBA have applied the lower end of the spectrum in relation to infrastructure costs, which does not accurately reflect the costs associated with a strategic site of this scale.

5.22 Taking into consideration the typical infrastructure costs stated by the Harman Report, Savills believe it is reasonable to adopt the mid point of £20,000 per unit for a strategic site of this nature. This equates to a total of £36,000,000 for opening up works at the Gillingham Southern Extension, which is significantly higher than the estimated infrastructure works proposed by PBA.

### Affordable Housing Percentage

5.23 The PBA Report runs a number of viability appraisals with varying affordable housing rates. PBA recommends that the Gillingham Southern Extension 'appears viable at a range of viability up to 25%'. Even at 25% affordable housing, the results of the viability testing is marginal.

5.24 Paragraph 6.3.6 of the PBA Report provides the following conclusion:

*'In terms of the Gillingham southern extension, our testing identifies that, given the larger infrastructure requirements, it is recommended that a lower rate of CIL is required. We would expect a rate of approximately £18 would be feasible for this site. However, if the Council was minded to seek a greater level of S106, than envisaged in this report or further unknown or higher infrastructure costs are likely then it could choose to lower the CIL rate further or seek a zero rate.'*

5.25 As highlighted above, the costs for Section 106 and opening up works have been insufficiently calculated and lower than would be expected at a strategic site of this nature. Savills have proposed increased costs to cover the adequate S106 and infrastructure contributions and would expect this to have an impact on the level of affordable housing likely to be viable at the Gillingham Southern Extension.

### Affordable Housing Revenue

5.26 Affordable housing is a key component of the CIL viability testing. It is therefore of paramount importance that the affordable housing assumptions are realistic and reflective of current market conditions. With this in mind, we would highlight the impact of the July 2015 Budget announcement on the affordable housing sector, which can be summarised as follows:

- An absolute rent reduction of 1% per annum on social and affordable rents until 2020;
- A Freeze on Local Housing Allowance ( the housing benefit cap);
- A reduction in the benefit cap to £23,000 in London and £20,000 in the rest of the Country, from the current £26,000; and
- The abolition of Housing Benefit for under-21's and the end of Social Rents for Local Authority and Housing Association tenants who earn more than £30,000 (£40,000 in London).

5.27 We are aware that Registered Providers are consequently renegotiating Section 106 packages, with a direct impact on land values. These amendments will subsequently have a significant impact on Registered Providers and the valuation of affordable / social rental products in CIL viability work. The impact will vary depending on the tenure split prescribed by the Local Planning Authority, as only social and affordable rental products are affected; however, we are aware of offers being reduced by £10k - £30k per plot.

5.28 For the purpose of viability appraisals these policy requirements will clearly result in a reduction in affordable revenues for developers. In light of this, we would strongly advocate the Council undertaking additional viability testing to take account of these changes.

5.29 We note the method that has been adopted by PBA applies a basic discount to market value, which given the quantum of affordable housing on larger sites is neither accurate or sufficiently robust. We would either suggest that the RICS guidance note on the "Valuation of Land for Affordable Housing" is used or the LA's advisor approaches a selection of local RPs to offer a more informed view.

5.30 Savills Affordable Housing Team have undertaken revised viability testing on the affordable units using industry standard valuation approaches to establish the aggregate value of the affordable units and then calculate the likely package price (the price that a Registered Provider) will pay for those units.

5.31 The interpretation of the GDV for the Shared Ownership units (which is defined as the Market Value (Subject to Shared Ownership Leases)) is based on three key elements which make up the value, including the proportion of MV subject to Vacant Possession, the value of the rental income on the unsold equity and whether the leaseholder buys additional chunks of the unsold equity. This calculation provides the Gross open market of the units, however the RP will not pay this price, as they need to deduct further internal costs for elements such as their own professionals, marketing, letting fees, management costs etc, which have been calculated at 6% on costs for a strategic development of this nature. The modelling exercise has concluded that the overall value of Shared Ownership is 70% of the open market value.

5.32 To calculate affordable rent levels the Affordable Housing Team calculate 80% of market value and then subtract a service charge to find the affordable rent level by unit type. This value is then used to calculate the net rental income from the properties making allowances for management, maintenance and major repair costs. The net cashflow is then discounted back to present day to provide the value of the properties, which concludes that the overall value of Affordable Rented Stock is 41% of the open Market Value. These assumptions have been applied to our appraisal. Savills are happy to provide further information on the methodology applied, if necessary.

### Benchmark Land Values

5.33 For the Gillingham Southern Extension, PBA have assumed a benchmark land value (BLV) of £400,000 per net developable hectare, which equates to approximately £162,000 per net developable acre.

5.34 To inform this BLV, PBA have based their findings on a *'review of recent viability evidence of sites currently on the market, a review of viability appraisals in support of planning applications, published data on land values and discussions with council officers and the local development industry'*. Evidence of this research is not provided within or appended to the PBA report. Due to the omission of factual sales evidence within the PBA Report, Savills do not consider the BLV appropriate for the Gillingham Southern Extension.

5.35 PBA make reference to comparable sites of varying sizes with planning permission for between 13 and 75 dwellings which are currently on the market. Apart from the fact that the minimum price calculations for these sites are not robust as they are still on the market, Savills are of the opinion that these sites are not directly comparable to a Greenfield site of approximately 129 Ha intended for the development of 1,800 dwellings. Savills would encourage PBA to have regard to recent sales transactions which have been agreed or exchanged, on sites of a strategic nature.

5.36 Savills urge PBA to reconsider their approach in relation to BLV for Gillingham (Strategic) and apply a BLV which reflects the current demand and prices being achieved for strategic sites in the Dorset area.

5.37 Savills have had regard to a number of recent option agreements for Greenfield land, and the minimum price provisions set out within these. Together they provide a good benchmark for minimum land values for Greenfield land and provide a more robust evidence base than the assumptions used by PBA. Some of the details remain confidential:

- Option A, Dorset – option bids received in August 2015, with land likely to accommodate 90 dwellings on 6 acres, and the remaining 7 acres as SANG land. The average minimum purchase price £375,000 per net developable acre.
- Option B, Dorset – option agreed with a minimum purchase price of £250,000 per net developable acre.
- Option C, Hampshire – option agreed with a minimum purchase price of £275,000 per net developable acre.
- Option D, Dorset – option agreed with a minimum purchase price of £150,000 per gross acre.

- 5.38 From the evidence above it can be seen that in comparable markets, minimum land values tend to be agreed within a range of £250,000 - £375,000 per gross acre (£617,750 - £926,625 per Ha).
- 5.39 Savills has researched a number of option agreements and the minimum price provisions set out within these. This research is supported by a letter from Haslams Chartered Surveyors, which was produced as part of Savills representations to the Bracknell Forest Draft Charging Schedule (**Appendix 4**).
- 5.40 Having regard to the effect of CIL, we would expect the lowest acceptable level of BLV to be a minimum of £300,000 per net developable acre (£741,300 per hectare) for a Greenfield strategic site. We have used this level within our calculations.

### Developers Profit

- 5.41 The PBA Report has assumed a profit margin of 20% on GDV for the Open Market units. A lower profit margin of 6% has been assumed on the GDV of the affordable units. This equates to a blended average of 17% for the Southern Gillingham Extension typology. The blended profit rate adopted by PBA in the Viability Study is below the minimum level required by national housebuilders.
- 5.42 The NPPF states that to ensure viability developments should provide competitive returns to a willing land owner and willing developer. A competitive return to a developer is one that provides a sufficient return for the developer to continue a successful business through the economic cycle, taking account of the risk profile of the business. We are therefore concerned that the profit margin included in the Viability Study is 20% on GDV for the private housing and 6% on GDV for the affordable housing, reflecting a blended rate in the region of 17.5% on GDV. This assumption is too low and does not take account of the minimum returns required by shareholders of quoted Plc housebuilders.
- 5.43 We have attached a report on Competitive Developer Return (**Appendix 3**), which provides evidence on the minimum profit margins required by Plc housebuilders. The key focus is the distinction between gross (site level) margin and net operating margin. A point discussed in the Harman Report, which suggests that "Overheads for house-building typically lie in the range of 5%-10% of gross development value". This is particularly relevant for large Greenfield sites and regeneration areas, where large up-front costs have an impact on a developer's required Return on Capital Employed (ROCE), as a higher margin is required to reflect the higher risk.
- 5.44 Taking this in to account, we would therefore ask that a **minimum** profit level of 20% on GDV (blended) plus 25% ROCE across all tenures, subject to consideration of the risk profile of the scheme, is adopted in the viability testing.
- 5.45 In line with above, Savills have used a blended profit margin of 20% on GDV within our appraisal.

### Zero Rate of CIL

5.46 Savills have had regard to a number of Local Authorities have proposed or are proposing lower or £ zero CIL rates for strategic sites on the basis of “scheme mitigation” infrastructure provision. The most recent (and local) example is Winchester City Council, which adopted £ zero CIL rate for three strategic development sites (all Greenfield). The CIL was implemented in April 2014. The examiner’s report noted:<sup>22</sup>

*“The three strategic sites account for 8,000 of the 12,500 homes planned in the CS to 2031. Under the CIL proposals these sites would be nil rated. Two of the three strategic sites already have planning permission, and will not, therefore, fall under the CIL regime. The planning permissions at North Winchester and West of Waterlooville include S.106 Agreements that will fully fund their identified infrastructure requirements, which are significant. The third, at North Whiteley, is expected to be the subject of a single planning application soon, again with a comprehensive S.106 Agreement securing its significant infrastructure requirements. At the hearing, the Council confirmed that CIL monies will not be used to support the strategic sites, other than through broader PUSH related infrastructure. It also confirmed that it was fully satisfied with its S.106 approach and I have noted the support of the North Whiteley developer consortium (NWC) for the Council’s CIL proposals. I have examined the viability evidence and the S.106 infrastructure requirements. I concur with the Council’s consultants’ view that the significant site specific infrastructure costs at each site (much of which is already secured through S.106 Agreements), along with the lower land values on the South Hampshire sites, mean that an additional CIL charge could not be justified on viability grounds.”*

5.47 There is a further example of a “developer-led” approach in Hertsmere, where the Inspector’s Report (paragraph 27) outlined:

*“The Council proposes a Nil CIL rate in the Elstree Way Corridor. This reflects the specific circumstances here. There are substantial site specific infrastructure requirements directly related to this complex urban site. The Council’s approach is to deal with these matters through S.106 obligations and, in recognition of that, it has excluded Elstree Way Corridor infrastructure from its Regulation 123 list. The evidence clearly demonstrates that, once site-specific infrastructure (which could exceed £10,000 per unit) is factored in, there is no scope to impose a CIL charge.”*

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<sup>22</sup> Paragraphs 29 & 30

5.48 Savills provides a table below which confirms it is not unusual for Local Authorities to adopt a £ zero CIL rate for strategic allocations:

Local Authority	Charging Zone	Adopted CIL Rate
Surrey Heath	Princess Royal Barracks	£0 per sq m
Winchester City Council	South Hampshire Urban Areas	£0 per sq m
Poole Borough Council	Poole Power Station Site	£0 per sq m
Swindon	Swindon's new communities	£0 per sq m
Gosport	Rowner redevelopment area	£0 per sq m
Eastleigh	Central Eastleigh Urban Area and 'Strategic Extensions'	£0 per sq m
East Hampshire	Whitehill and Bordon eco town	£0 per sq m
Test Valley	Strategic sites - Whitenap, Hoe Lane, Park Farm, George Yard/Black Sawn Yard, Picket Piece and Picket Twenty extension land	£0 per sq m
Basingstoke and Deane	Manydown (zone 1)	£0 per sq m
Bournemouth	Development outside the Town Centre AAP Area	£0 per sq m
Mid Devon	Strategic sites	£0 per sq m
Vale of White Horse	Crab Hill and Monks Farm	£0 per sq m
South Oxfordshire	Didcot: North East and Ladygrove East site, Wallingford site B	£0 per sq m

5.49 We would also note that the emerging CIL charging schedules for East Dorset, Christchurch, West Dorset, and Weymouth and Portland all propose a £ zero CIL rate for strategic allocations. These have been through the examination process and adoption is anticipated this autumn.

5.50 Savills considers there is enough evidence to reinforce a £ zero CIL rate on the Southern Gillingham Extension.



## Part 3 – Savills Assumptions and Appraisal

5.51 Given the concerns set out in Part 2, Savills have run a variety of viability assessments, details of which can be found at **Appendix 5**. The viability assessments include the following changes:

- Revised S106 costs
- Revised opening up/ infrastructure costs
- Revised benchmark land value
- Applied 20% blended profit margin
- Applied a range of affordable housing rates. These mirror the PBA report, greatest weight should be placed on the results that are at policy compliant levels.

5.52 For clarity, Savills assumptions have been compared to the assumptions made within the PBA Report, as shown in the table on the following page. For consistency we have used the same remaining inputs for our appraisal.

Typology	PBA Report Assumptions	Savills Assumptions
Section 106 Costs	£2.5M	£27M (£15,000 per dwelling)
Opening Up/ Infrastructure Costs	30M	£36M (£20,000 per dwelling)
Benchmark Land Value	£162,000 per net developable Acre	£300,000 per net developable Acre
Blended Profit	17%	20%
Affordable Rent	55% of MV	41% of MV
Intermediate	65% of MV	70% of MV

5.53 Incorporating the revised assumptions above, Savills have run the following viability assessments using a variety of Affordable Housing Scenarios:

Typology	Dwellings	On-site Affordable Provision	Residualised Land Price	Price per net developable Acre	Maximum CIL Payable (CIL Ceiling)	50% buffer (CIL Payable)
Typology 1	1800	35%	<b>(-£7,444,916)</b>	N/A	Nil	-
Typology 2	1800	25%	£5,943,035	£49,941	Nil	-
Typology 3	1800	15%	£18,578,604	£156,123	Nil	-
Typology 4	1800	5%	£31,159,074	£261,841	Nil	-
Typology 5	1800	0%	£37,447,513	£314,685	£10	£5

5.54 These viability assessments indicate that the cumulative effect of these changes, alongside the application of a variety of affordable housing scenarios, results in the residual land value (RLV) falling below the threshold land value of £300,000 per net acre (£741,290 per net developable hectare).

5.55 A benchmark land value of £300,000 per net developable acre equates to a residualised land value of £35,700,000. Typology 5 incorporates no affordable housing, and the residualised land value therefore exceeds the benchmark land value by £1,747,513. We have assumed the development will comprise a total of 169,064 sq m, and have divided this figure into the surplus land value, which confirms the maximum CIL payable in this scenario is £10 per sq m. An appropriate buffer of 50% has been applied to the CIL Ceiling, and therefore assumes a viable level of CIL for the Southern Gillingham Extension is between £0 - £5 per sq m.

5.56 Not only is a £ zero rate of CIL recommended in each of these scenarios, but applying an appropriate viability buffer (50%) reduces this further, indicating that the proposed CIL rates have been proposed at marginal levels for sites of this scale. The use of a 50% viability buffer is supported by the Rother Examiner's Report, which states at paragraph 9:

*"Since these strategic sites are of considerable importance in providing the ability of Rother to meet its housing targets, I consider that it would be prudent to increase the buffer to circa 50%..."*

5.57 We would therefore ask that the proposed CIL rates be reviewed in light of the additional information and viability testing set out above.



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## 6. Effective Operation of CIL

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## 6. Effective Operation of CIL

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### CIL Operation

6.1 Despite the narrow scope of the examination, we urge NDDC to make clear at the earliest opportunity, the supporting documentation needed to operate CIL and to make it available for consultation. Practically, this needs to be done as soon as possible, so that participants and stakeholders are able to comment on the effective operation of CIL. Whilst this supporting information is not tested at examination, this information is critical to allow for the successful implementation of CIL and to demonstrate that the CIL has been prepared positively and supports sustainable development.

6.2 The documentation should include:

- Guidance on how to calculate the relevant chargeable development/level of CIL
- Guidance on liability to pay CIL/Appeals process
- Policy for payments by instalments
- Approach to payments in kind
- Guidance on relief from CIL and a policy on exceptional circumstances for relief from CIL

6.3 Further comments on a selection of these points is provided in this section.

### Relief

6.4 With regard to Discretionary Relief and Exceptional Circumstances Relief, we note that NDDC has not proposed any of these policies out in their PDCS. At this stage they are seeking comments on both available options.

6.5 Savills does not consider there to be any detriment arising from the Council making available such reliefs within policies as part of its Charging Schedule, as the Council will still retain control over the application of the policies. There are strict tests surrounding the availability and applicability of Exceptional Circumstances Relief. It would therefore only be applicable to those schemes that can justify the need for it and meet those strict tests.

6.6 Our client therefore considers it appropriate that NDDC make both Discretionary and Exceptional Circumstances Relief available from the adoption of CIL. We would therefore ask that relief is included in the Charging Schedule and that the intended approach to doing so is outlined at the DCS consultation stage.

### Instalments Policy

6.7 Our Client is concerned that NDDC has not published an Instalments Policy, instead deferring its publication until the Charging Schedule has been adopted. It is important that the timing of delivery of development is considered to ensure that the CIL does not put unnecessary pressure on cash flow and viability.

6.8 Ultimately, developer cashflow is an important consideration, notably in respect of upfront infrastructure costs typically associated with strategic development. The Instalment Policy should aim to reflect, as closely as possible, the timing of delivery of the development, to ensure that the CIL does not put unnecessary pressure on cashflow and viability.

6.9 We would strongly advocate that NDDC adopts a similar approach to Chichester District Council's who are proposing the following Instalments Policy:

**Table 11: Recommended Instalments Policy**

CIL Liability	Number of Instalments	Payments
Any amount less than £50,000	1	Full payment within 60 days of commencement
Amounts from £50,001 to £250,000	2	£50,000 payable within 60 days of commencement Balance payable within 120 days of commencement
Amounts from £250,001 to £500,000	3	£100,000 payable within 60 days of commencement 50% balance payable within 120 days 50% balance payable within 180 days
Amounts from £500,001 to £1,000,000	4	£250,000 payable within 60 days of commencement 33% balance payable within 120 days 33% balance payable within 180 days 33% balance payable within 240 days
Amounts over £1,000,000	4	In principle, as set out above for amounts over £500,001, but instalments for this scale of development will be open to negotiation on an individual basis.

Source: Chichester District Council's Proposed Instalments Policy

6.10 We believe that there should be an overriding mechanism which, in certain situations should the CIL payments threaten the viability, and thus the deliverability of the scheme proposed, can be negotiated and agreed on a one-to-one basis. This is in line with the PPG which states:

*"An instalment policy can assist the viability and delivery of development by taking account of financial restrictions, for example in areas such as development of homes within the buy to let sector. Few if any developments generate value until they are complete either in whole or in phases."*<sup>23</sup>

6.11 The CIL Regulations now allow for Payment in Kind through the provision of infrastructure. However, there remain notable deficiencies in the operation of CIL, caused primarily by the CIL Regulations, which places NDDC and the development industry in a difficult position.

<sup>23</sup> Paragraph 055 Reference ID: 25-055-20140612, Planning Practice Guidance, revision date 12 June 2014

### Payment in Kind

- 6.12 The scope to reduce the CIL liability via utilisation of Payment in Kind is therefore restricted to those items of infrastructure which are not required to mitigate the impact of a development, which for strategic sites would exclude most (if not all) site-specific and 'scheme mitigation' infrastructure.
- 6.13 Payment in Kind is therefore not a credible option, which further emphasises the need to ensure that the Regulation 123 List does not include any items of infrastructure intended to be delivered through Section 106 agreements on strategic sites.

### Reviewing CIL

- 6.14 The CIL Guidance states that charging authorities '*must keep their Charging Schedules under review*<sup>24</sup> to ensure that CIL is fulfilling its aim and responds to market conditions. The Consortium therefore requests that regular monitoring is undertaken by NDDC to ensure that any detrimental impact of CIL on housing delivery is noticed promptly and remedied. A review period of between 2-3 years from adoption, or sooner if there is a substantive change in market conditions or Central Government policy, should be publicly committed to by the authorities.

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<sup>24</sup> Ibid. Paragraph 044, Reference ID 24-044020140612, CIL Guidance (2014)



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## 7. Conclusion

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## 7. Conclusion

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- 8.1 This paper has been prepared by Savills on behalf of a landowner and developer Consortium comprising:
- Taylor Wimpey Plc
  - Wellbeck Land
  - C G Fry & Son Ltd
- 8.2 The Consortium is concerned with aspects of the approach adopted by NDDC and PBA towards CIL rates for residential development. Furthermore, we have concerns relating to the assumptions used in the viability models and would ask that PBA provide evidence on the aspects we have highlighted, including the impact of the July 2015 Budget announcement on the affordable housing sector . We feel it necessary to stress that if the CIL level is set too high, it will almost certainly have a negative impact on a large proportion of development coming forward, especially bearing in mind the reliance on the Southern Gillingham Extension for growth. We believe that once the assumptions – as mentioned above – have been clarified, it will show the proposed CIL levels need reviewing.
- 8.3 As discussed throughout this submission, we do not believe that the supporting evidence has shown that the proposed CIL rates will not put at risk the delivery of strategic development. The authorities have selected to charge a rate at the margins of viability, allowing no flexibility for site specific circumstances of viability.
- 8.4 The CIL Guidance gives the authorities the ability to set differential rates for strategic sites, to reflect specific viability circumstances. The guidance also makes it clear that **“there is no obligation to impose a Community Infrastructure Levy for its own sake. Charging authorities can set a zero rate if they wish...”** (emphasis added); we suggest the authorities review the proposed rates in respect of strategic sites and consider this further in light of the viability appraisal results provided by Savills.
- 8.5 We consider that the published Preliminary Draft Charging Schedules and the evidence base that supports them does not conform with the CIL Guidance in respect of the areas discussed earlier in these representations. We suggest that it would be prudent to withdraw the Preliminary Draft Charging Schedules and to review the supporting evidence in light of the amended guidance, before re-consulting on the Preliminary Draft Charging Schedules.
- 8.6 The Consortium is open to meeting with NDDC and its advisors to discuss amendments to the approach taken. We believe this should be arranged as soon as possible.





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## Appendix 1 – List of Documentation

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## Appendix 1 - List of Documentation

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### General

Community Infrastructure Levy Guidance, DCLG (2014), Planning Practice Guidance Website  
Community Infrastructure Levy Regulation (2010) (as amended)  
National Planning Policy Framework, DCLG (March 2012)  
Planning Act (2208) (as amended)  
CIL – Getting it Right, Savills (UK) Ltd (January 2014)  
Developer Profit, Savills (UK) Ltd (October 2014)



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## Appendix 2 – CIL Getting it Right, Savills

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# CIL – Getting it right

January 2014



## Setting Community Infrastructure Levy Rates to Support the Construction of More New Homes

■ For local planning policies to be viable, there is a three way trade-off between the costs of CIL, Section 106 funding of infrastructure and affordable housing policy, with the costs of local standards and the move to zero carbon being additional costs to be factored into the trade-off.

■ Based on generic assumptions and before local specifics, the capacity to pay CIL and Section 106 on large greenfield sites equates to between 20% and 30% of unserviced land value in many markets. However, this capacity falls away towards zero where affordable housing policies apply at higher percentages in excess of 30%, and at lower percentages in markets in which potential sales values for volume sales are below £250 per sq.ft.

■ These are important markets, in which 85% of residential development outside London takes place. At sales values of £225 per sq.ft., in order for there to be enough 'in the pot' for CIL and Section 106 combined to be paid at £10,000 per plot, affordable housing policy would need to have been set at 10%. This is the trade-off that needs to be recognised when Local Plans are tested for their viability.

■ In stronger markets, there is more capacity to fund infrastructure via CIL and Section 106. At a sales value of £300 per sq.ft., with a 30% affordable housing policy, there is enough 'in the pot' for CIL and Section 106 to be paid at £15,000 per plot. However, this falls away to around £10,000 per plot if affordable housing policy is set at 40%.

■ The capacity to pay CIL varies widely, according to local policy on Section 106 payments. Even with scaled back Section 106 policy, the cost of Section 106 infrastructure is unlikely to be less than £3,000 per plot on large greenfield sites and it can often amount to significantly more than £10,000 per plot.

■ Viability testing of CIL cannot be robust if there is no clarity on Section 106 policy. From the other end of the lens, a zero CIL rate for strategic sites offers the greatest flexibility to use Section 106 to fund infrastructure and mitigate site impact, subject to the restrictions in the revised regulations.



### Consistency is key

CIL is designed to contribute towards the funding of local infrastructure, to facilitate sustainable development. This is clearly a desirable outcome, provided the levy is set at a level that does not threaten the viability of the development plan.

Our objective in this report is to seek more consistency in the rate setting process, with particular regard to viability assessment, as the majority of authorities move towards implementation of CIL charging schedules. It is written with our experience of advising and representing members of the Home Builders Federation on appropriate rate setting at a local level across England and Wales.

Within this report, we review the rates at which CIL is being set by charging authorities across the country for the residential development of **large greenfield sites**, as these are such an important part of national housing land supply. Alongside this, we present a new benchmark for the capacity to pay CIL and Section 106 on such sites, based on a broad view on development economics, local market strength and affordable housing policy.

This paints a picture of the diverse approach that charging authorities are taking to the rate setting process. The result is wide variation in how authorities are striking the balance between fund raising and economic viability, in order to facilitate the scale of development outlined in their Local Plans.

## What is the benchmark?

■ The benchmark is based on the residual development appraisal of a large greenfield site, with generic assumptions relating to significant variables. It gives a starting point for review of policy viability, before examination of local specifics.

### How much CIL can be paid?

The National Planning Policy Framework requires that local planning policies should be tested for their viability, such that:

*“The sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”* (para 173)

The costs of CIL and planning obligations are paid out of land value, as long as there is sufficient value remaining for the land to come forward for development (benchmark land value). If the residual value remaining (after deduction of all costs from total revenues) is too low, then the land is not economically viable to develop, as shown in Graph 1 below.

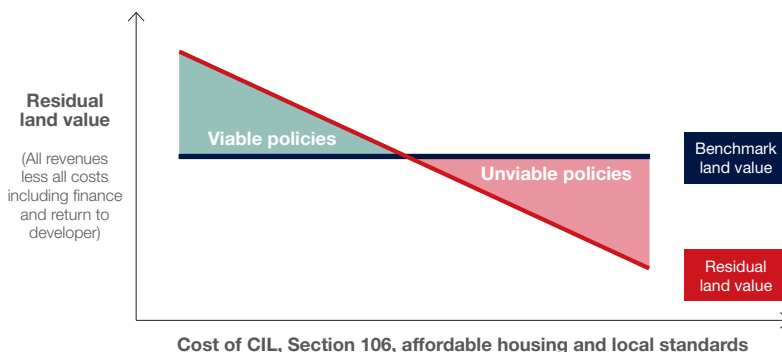
“It is rarely, if ever, the case that the pot of money is large enough to fund all policies”

The most crucial assumption in the policy testing process is the benchmark level of land value required to provide a competitive return to land owners, across the types of site that make up the housing land supply in the charging authority (usually the local authority area). This should be set at a level which includes a ‘viability cushion’, as recommended in the Local Housing Delivery Group guidance on the viability testing of local plans. When testing the viability of CIL, this reflects the government guidance that CIL should not be set at the margins of viability. This is particularly important for CIL, which is a fixed charge with no flexibility for variance, should individual sites be unviable.

The viability test will establish the pot of money that is available from development, to fund policies. It is rarely, if ever, the case that the pot of money is large enough to fund all policies, as the cost of delivering infrastructure is so substantial. If viability testing of the Local Plan and CIL is carried out concurrently, then the local authority can choose which policies take precedence.

However, if introduction of a CIL charging schedule follows the Local Plan, then the policies in the Plan must be costed fully in the testing of CIL. This includes affordable housing policy, Section 106 funding for infrastructure, any local standards that go beyond national standards and the additional known policy costs of moving towards zero carbon by 2016. In this case, CIL may be ‘crowded out’ by the cost of other policies.

GRAPH 1 Cumulative impact of policy on financial viability



Source: Savills Research



## How does viability vary across markets?

To take a view on the viability of policies across the country, we have developed a model for the viability of large greenfield sites in different strength markets. The output is a benchmark amount available to pay CIL, Section 106 infrastructure funding and the cost of local policies, taking account of affordable housing policy. It gives a starting point for review of policy viability, before examination of local specifics.

Table 1 shows the benchmark amount per plot, as an average across all tenures. This varies significantly, according to sales value and affordable housing policy, with little or no level of CIL being viable in lower value markets, where sales values are at £175 per sq.ft. In these markets, developers and local

authorities need to work together to find ways of bringing sites forward, using policy flexibility and whatever public investment in infrastructure that can be made available.

Even in mid-priced markets there is a viability squeeze. For instance, at sales values of £225 per sq.ft., in order for there to be enough 'in the pot' for CIL and Section 106 combined to be paid at £10,000 per plot, affordable housing policy should be set at 10%.

In stronger markets, there is more capacity to fund policies. At a sales value of £300 per sq.ft., with a 30% affordable housing policy, there is enough in the pot for CIL and Section 106 to be paid at £15,000 per plot. However, this falls away to around £10,000 per plot if affordable housing policy is set at 40%. Viable amounts

at lower affordable housing policies of 10% and 20% in higher value markets are greyed out in the tables, as such policies are unlikely to apply in these areas.

This is all based on generic assumptions relating to significant variables, such as the proportion of the site that is developable, the costs of site infrastructure and local land values. The specifics of the local market may differ from these generic assumptions.

If there is evidence of Section 106 payments having been agreed and paid at higher levels, then the specific circumstances of these sites should be understood, to test whether they are representative of the economics of the bulk of the land supply pipeline in the district. →

TABLE 1

### Amount available for CIL and S.106 (£ per plot, all tenures)

Affordable Housing %	Sales value per sq.ft.								
	350	325	300	275	250	225	200	175	150
0%	45,800	39,400	33,000	26,600	20,200	13,800	7,400	1,000	0
10%	38,300	32,700	27,100	21,500	15,900	10,200	4,600	0	0
20%	30,900	26,000	21,200	16,400	11,500	6,700	1,800	0	0
30%	23,400	19,400	15,300	11,300	7,200	3,100	0	0	0
40%	16,000	12,700	9,500	6,200	2,900	0	0	0	0
50%	8,600	6,100	3,600	1,100	0	0	0	0	0

Source: Savills Research

TABLE 2  
**Amount available for CIL and S.106 as % of unserviced land value**

Affordable Housing %	Sales value per sq.ft.								
	350	325	300	275	250	225	200	175	150
0%	37%	37%	36%	35%	34%	31%	26%	8%	0%
10%	35%	35%	34%	33%	31%	28%	20%	0%	0%
20%	33%	32%	31%	30%	27%	22%	11%	0%	0%
30%	30%	29%	27%	25%	21%	14%	0%	0%	0%
40%	25%	23%	21%	18%	11%	0%	0%	0%	0%
50%	17%	15%	11%	5%	0%	0%	0%	0%	0%

Source: Savills Research

→ **Land Value Capacity**

Expressing the benchmark as a proportion of land value gives a useful perspective on the capacity to pay CIL and Section 106. In higher value markets, the capacity to make the combined payment is between 20% and 30% of unserviced land value at 30% affordable housing, but this falls away towards zero at higher affordable housing policies in excess of 30%, particularly in markets where sales values are below £300 per sq.ft. (Table 2).

This is important, as more than 70% of residential development is in markets where new build sales value potential for volume sales is no more than £250 per sq.ft, as shown

in Graph 2. Outside London, 85% of development is in these markets. Clearly, development does take place in these mid- to lower-value markets, generally on smaller sites that are less expensive to develop. Sales values on these smaller sites are not constrained by the competitive sales environment found on larger sites, so their viability can be supported by sales values that are higher than those achievable on the larger sites.

What is at issue here is the urgent need to bring forward large sites in areas where unmet housing need is greatest, as national housing need cannot be met without development of such sites. The analysis demonstrates there is only a limited potential to

fund infrastructure from planning obligations and levies in markets where sales values are less than £250 per sq.ft. Many of the country's allocated greenfield sites are located in these markets, so other sources of infrastructure funding will be required here. It also indicates that allocation of more large greenfield sites in higher value markets would release more capacity to fund infrastructure from obligations and levies.

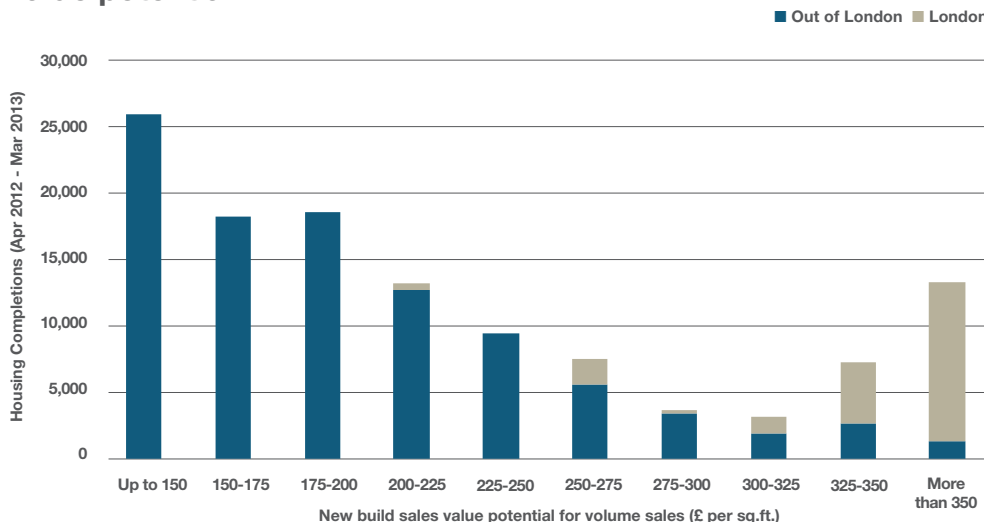
**The Three Way Trade-Off**

Section 106 payments are varying considerably in the emerging CIL world, depending on whether local policy is to scale back Section 106 alongside CIL, or whether significant site specific infrastructure will continue to be funded via Section 106. Some authorities have stated that Section 106 on large sites will be scaled back to amounts in the order of £3,000 per plot, to cover the amounts typically payable for smaller scale road and pedestrian connections, play parks and community buildings.

In other cases, major items of transport and education infrastructure will be funded via Section 106 on the large greenfield sites. At the East Cambridgeshire examination, a higher figure of £10,000 per plot was used as an assumption, but funding of such items of major infrastructure can exceed £15,000 per plot.

Whether Section 106 payments are nearer £3,000 or £15,000 per plot has a dramatic impact on the amount of CIL that is payable within our benchmark amount, as shown in

GRAPH 2  
**Housing completions in England, by volume new build sales value potential**



Source: Savills Research Note: London sales values are shown for context only, as these are not relevant to the values achievable on greenfield sites

TABLE 3  
Amount available for CIL – assuming £3,000 S.106 per plot (all tenures)

Affordable Housing %	Sales value per sq.ft.									
	350	325	300	275	250	225	200	175	150	
0%	420	360	300	230	170	110	40	0	0	£ per sq.m. of market housing
10%	390	330	270	200	140	80	20	0	0	
20%	350	280	230	170	110	50	0	0	0	
30%	290	230	170	120	60	0	0	0	0	
40%	210	160	110	50	0	0	0	0	0	
50%	110	60	10	0	0	0	0	0	0	
0%	11%	10%	9%	8%	6%	5%	2%	0%	0%	% of sales value
10%	10%	9%	8%	7%	5%	3%	1%	0%	0%	
20%	9%	8%	7%	6%	4%	2%	0%	0%	0%	
30%	8%	7%	5%	4%	2%	0%	0%	0%	0%	
40%	6%	5%	3%	2%	0%	0%	0%	0%	0%	
50%	3%	2%	0%	0%	0%	0%	0%	0%	0%	

Source: Savills Research

TABLE 4  
Amount available for CIL – assuming £15,000 S.106 per plot (all tenures)

Affordable Housing %	Sales value per sq.ft.									
	350	325	300	275	250	225	200	175	150	
0%	300	240	180	110	50	0	0	0	0	£ per sq.m. of market housing
10%	260	190	130	70	10	0	0	0	0	
20%	200	140	80	20	0	0	0	0	0	
30%	120	60	0	0	0	0	0	0	0	
40%	20	0	0	0	0	0	0	0	0	
50%	0	0	0	0	0	0	0	0	0	
0%	8%	7%	6%	4%	2%	0%	0%	0%	0%	% of sales value
10%	7%	5%	4%	2%	0%	0%	0%	0%	0%	
20%	5%	4%	2%	1%	0%	0%	0%	0%	0%	
30%	3%	2%	0%	0%	0%	0%	0%	0%	0%	
40%	1%	0%	0%	0%	0%	0%	0%	0%	0%	
50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	

Source: Savills Research

Tables 3 and 4. At the scaled back level of Section 106 of £3,000 per plot (Table 3), the viable level of CIL reaches £170 per sq.m. (around 5% of sales value) in higher value sales markets of £300 per sq.ft., at an affordable housing policy of 30%.

However, at the 40% affordable housing policy that often applies in such markets, this is squeezed to £110 per sq.m.

At higher levels of Section 106 of £15,000 per plot (Table 4), the capacity to pay CIL in addition is much lower, falling away to zero in most markets, other than the higher value markets in which sales values exceed £300 per sq.ft.

The revised CIL Guidance recognises the need for clarity on the interaction between CIL and Section 106, by formalising the need to be explicit

on what is funded via each mechanism during the rate setting process.

As such, the so-called 'Regulation 123 list' of infrastructure is now part of the evidence base required during the rate setting process, although it is regrettable that the proposed requirements for formal consultation on any subsequent changes to this list have not been introduced. →



### → Appraisal assumptions

The benchmark is the result of a residual development appraisal, adopting a standard set of assumptions which are shown in Table 5. Amongst these, the appraisal should allow for a competitive return to the developer. We use 20% margin on gross development value across all tenures, in line with evidence that this is a minimum requirement across the cycle.

The allowance for on-site infrastructure, at £20,000 per plot, is in the middle of the range of £17,000 to £23,000 per plot outlined in the Local Housing Delivery Group guidance.

The proportion of the site that is developable varies widely. We have assumed 50% of the site is developable for residential use, but this is often lower and can be as low as 30%, in which case the amount available to pay CIL and Section 106 will be lower than the CIL benchmark presented here.

### Land Value and Viability Buffer

It is crucial to set a benchmark land value to represent a competitive return to land owners, such that the local land supply will continue to come forward for development.

Our benchmark appraisal uses a benchmark land value that includes a viability cushion. This has regard to

TABLE 5 Assumptions summary

Net Dev Area (% gross area)	50%		
Interest rate	6.5%		
Marketing (% of sales)	3%		
Professional fees (% of build costs)	12%		
Additional build cost to 2013 Building Regulations (£ per dwelling)	1,000		
Infrastructure (£ per dwelling)	20,000		
Density (dwellings per acre)	14.2		
Dwelling size (sq.ft.)	1,030		
Coverage (sq.ft. per net dev acre)	14,600		
Developer profit on all GDV (excluding marketing and finance, to cover overheads)	20%		
Sales value (£ per sq.ft)	300	250	200
Affordable value as % of market value	43%	48%	55%
Build cost (£ per sq.ft)	97	91	86
Land value benchmark inc. buffer (£000 per gross acre)	290	190	95

These are generic assumptions for larger sites with a capacity of more than 500 homes. Local specifics will vary. On smaller sites, costs of infrastructure may be lower but benchmark land values are likely to be higher.

both minimum land value and market land value, as shown in Graph 3.

Minimum land value represents the lower end of land owners' expectations of realisable value. It is a feature of option agreements between land owners and developers, representing the minimum value at which land will be released by the land owner to the developer.

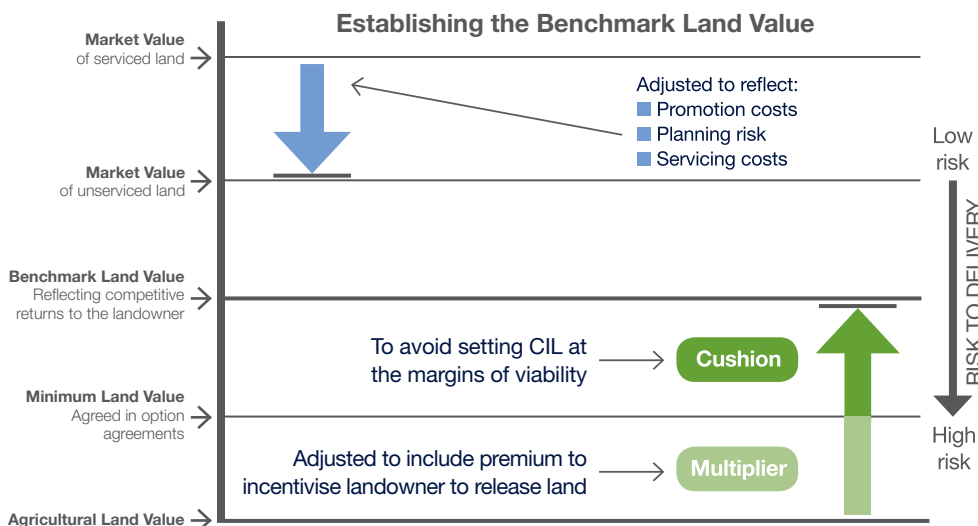
The Local Housing Delivery Group guidance recommends that evidence of minimum land values in option agreements is used as a reference point for setting a benchmark land value, subject to addition of a viability cushion, to include consideration of the costs and risks involved in promoting land through the planning system.

Market land value is, by definition, the value at which land will trade freely in the current system. If benchmark land value is set at the lowest end of the range between minimum and market land values, then high risks of non-delivery will be introduced into the development market.

Accordingly, we set the viability cushion at 50% of the gap between minimum land value and the market value of unserviced land (before considering deductions for CIL and Section 106).

"It is crucial to set a benchmark land value to represent a competitive return to landowners"

GRAPH 3 Land value benchmarks and risks to delivery



Source: Savills Research

### Variation in approach to rate setting at local level

We have compared adopted and emerging CILs with our benchmark, in charging authorities where large greenfield sites form part of the housing land supply.

It can be seen in Graph 4 that many implemented CILs have been set at a level in excess of our benchmark, indicating a threat to delivery of the authority's development plan.

If this is the case, having taken account of local specifics, then the charging authority will have failed to demonstrate that they have struck an appropriate balance between the desirability of funding from CIL and its effects on the economic viability of development across the whole area, as now required by the latest amendments to the regulations.

Some of these early adopters did not appraise affordable housing policy at the full requirement that is shown in the chart. Following current practice at examination, an authority would now have to formally adopt a lower affordable housing requirement in order to set CIL at these levels. Graph 4 shows the increased headroom for CIL and Section 106 that is created by adopting a lower affordable housing requirement of either 10% or 20%.

In the one case where the benchmark sits above CIL in the chart, there is headroom for Section 106 in addition to CIL. In the case of Oxford, there is likely to be headroom for Section 106 to be paid at around £6,000 per plot in addition to CIL, according to the benchmark.

Charging authorities should be explicit about their policy intention on additional Section 106 when setting CIL rates. As noted above, such payments can be substantial on a large greenfield site, to mitigate the impact of development of that site. The need for clarity on this point has been emphasised by the forthcoming changes to the CIL Regulations.

The charging schedules that are at the examination stage (including those examined but not implemented) include fewer authorities where little or no CIL is viable at the adopted affordable housing policy (Graph

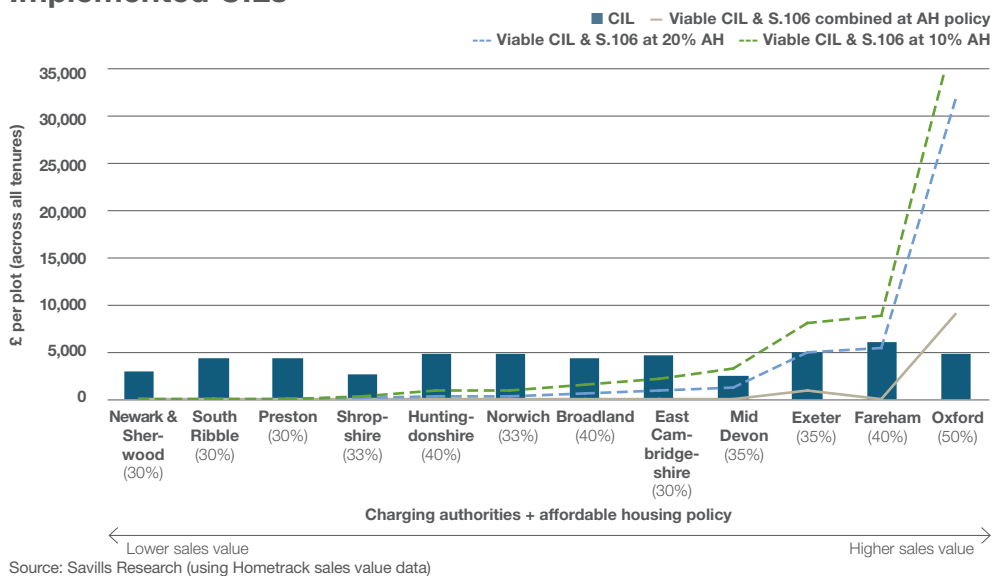
5). This is partly because there are fewer authorities within this group with relatively low sales values, which continue to hold back the viability of larger sites.

However, of these areas with CIL at examination, few have the headroom to pay a substantial amount of Section 106 in addition to CIL. Winchester is the exception, where there is likely to be headroom for Section 106 to be paid at around £10,000 per plot.

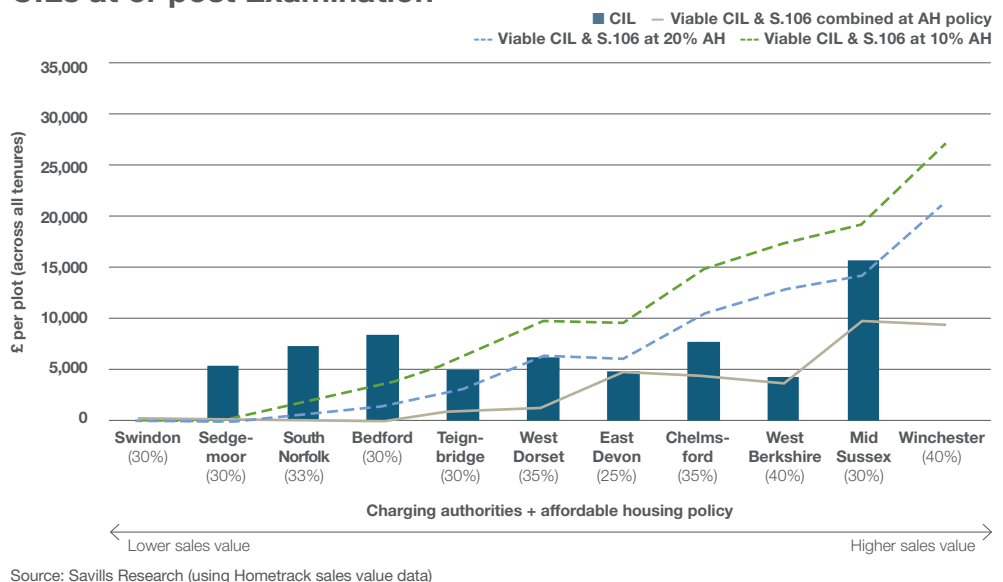
The Winchester headroom is a consequence of a zero rating of large greenfield sites for CIL, mindful of the benefits of creating flexibility for the Section 106 payment.

The contrast with the unviably high level of CIL proposed in Mid Sussex is stark. The same patterns have emerged amongst CILs at the draft (see Graph 6 overleaf) and preliminary draft charging schedule stages. →

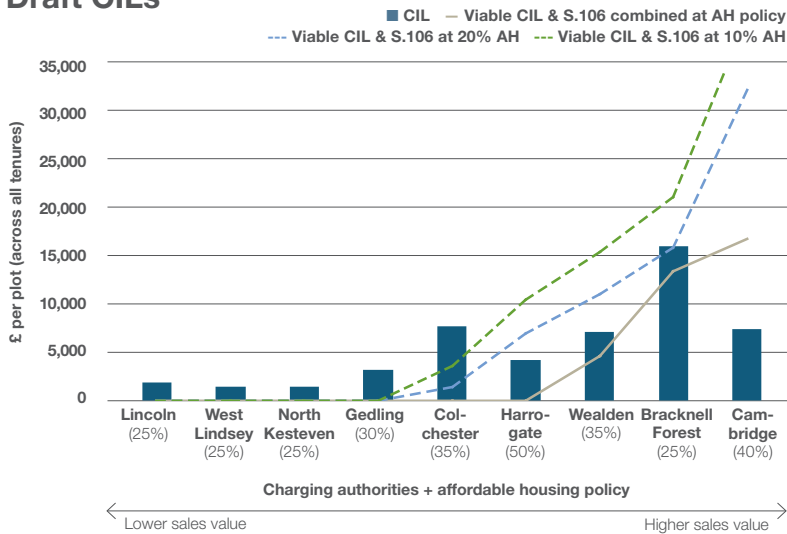
GRAPH 4 CIL and S.106 benchmark for large greenfield sites: Implemented CILs



GRAPH 5 CIL and S.106 benchmark for large greenfield sites: CILs at or post Examination

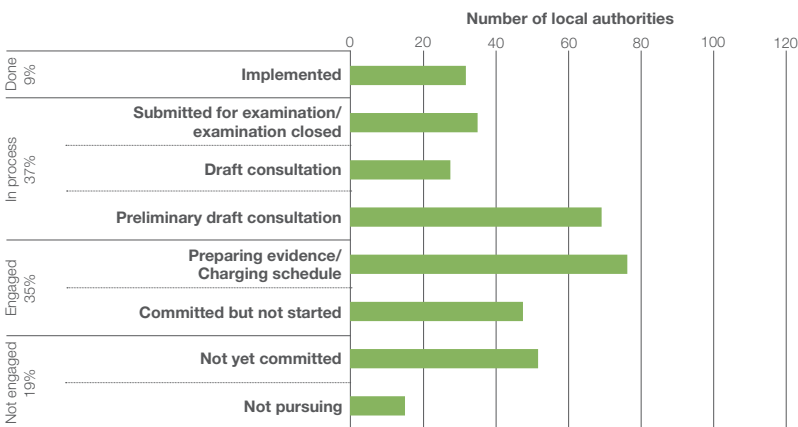


**GRAPH 6**  
**CIL and S.106 benchmark for large greenfield sites: Draft CILs**



Source: Savills Research (using Hometrack sales value data)

**GRAPH 7**  
**Progress on CIL implementation (England & Wales)**



Source: Savills Research (as at 20 January 2014)

"This exercise has revealed inconsistencies in the way in which setting of CIL viability is being approached across the country"

In these areas, affordable housing policy has been set at too high a level in mid-to lower-value markets for there to be any headroom for either CIL or Section 106. Whilst some authorities with draft schedules, such as Cambridge, have headroom for Section 106, others have proposed unviably high level of CIL. In the case of Bracknell Forest, the 25% affordable housing policy gives some room for CIL, compared with other authorities at 40% affordable housing. However, the proposed rate is unviably high, given the substantial items of infrastructure that will be funded by Section 106, in addition to CIL.

**More consistency needed**

This benchmarking exercise has revealed inconsistencies in the way in which setting of CIL viability is being approached across the country. So far, only 31 CILs have been implemented, with a further 34 at examination (Graph 7). A large proportion (27%) of authorities are either at draft or preliminary draft consultation and a further 35% are engaged in the process at an earlier stage, so there remains scope for greater consistency in rate setting. Our intention is to seek such consistency in the rate setting process, as the majority of authorities move towards implementation of CIL charging schedules. ■

**Please contact us for further information**

Savills Research & Consultancy



[Redacted contact information]



[Redacted contact information]



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## Appendix 3 – Developer Profit Margin, Savills

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# Developer Profit

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Competitive Return to a Willing Developer

## Introduction

- 1.2 Savills is representing HBF members and other house builders and landowners nationwide on emerging CIL Charging Schedules, to scrutinise the available evidence, notably in respect of infrastructure provision and the testing of viability against both the emerging planning policy requirements and the identified housing land supply. We are therefore well placed to observe trends in the emerging viability work and subsequent CIL examinations.
  
- 1.3 The purpose of this Briefing Note is to present the evidence of what represents a competitive return to a willing developer.

### Developer's Profit

- 2.1 The NPPF states that to ensure viability developments should provide competitive returns to a willing land owner and willing developer<sup>1</sup>. A competitive return to a developer is one that provides a sufficient return for the developer to continue a successful business through the economic cycle, taking account of the risk profile of the business. The most readily available market evidence of a competitive return is the return required by the shareholders of the quoted Plc housebuilders, noting that the Top 10 House Builders accounted for 45% of completions in England 2012/13<sup>2</sup>.
- 2.2 Shareholders are principally institutional investors - pension funds, insurance companies and private equity funds. They have a wide range of companies and sectors to choose from, including retail, housebuilding, mining, transport, energy and telecommunications, all with different risk and return profiles. If shareholders' hurdle rates are not achieved then they will invest in other sectors, reducing the development capacity of the housebuilding sector.
- 2.3 The key measures are Operating Margin and Return on Capital Employed (ROCE). For a development to be viable, both measures need to meet acceptable target levels. ROCE and Internal Rate of Return (IRR) are closely related; IRR is the projected compound annual rate of return on capital employed across the life of the scheme, compared with ROCE which is the return on capital employed in any one year.
- 2.4 The operating margins (based on Earnings or Profit before Interest and Tax) of the Plc housebuilders are shown in Figure 1. The average margin has recovered from a low of 4.3% in 2009 to 14.6% in 2013. Within this, Berkeley has maintained a margin of between 15% and 20% throughout the cycle, as has Crest Nicholson since 2010. All other housebuilders are rebuilding margins towards that level. As examples:
- in August 2013 Persimmon stated that it had reached its target margin of 15-17% of revenue, 18 months ahead of plan; and
  - in July 2014 Taylor Wimpey announced targets for the 2015-17 period of an average 20% operating margin and a return on net operating assets of 20% per annum.
- 2.5 **It is important to distinguish between gross (site level) margin and the net operating margin reported in house builder accounts.** This is discussed in the Harman Report, which suggests that *“Overheads for house-building typically lie in the range of 5% - 10% of gross development value, with only the very largest developers operating near the lower end of the scale”*<sup>3</sup>.

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<sup>1</sup> [REDACTED]

<sup>2</sup> [REDACTED]

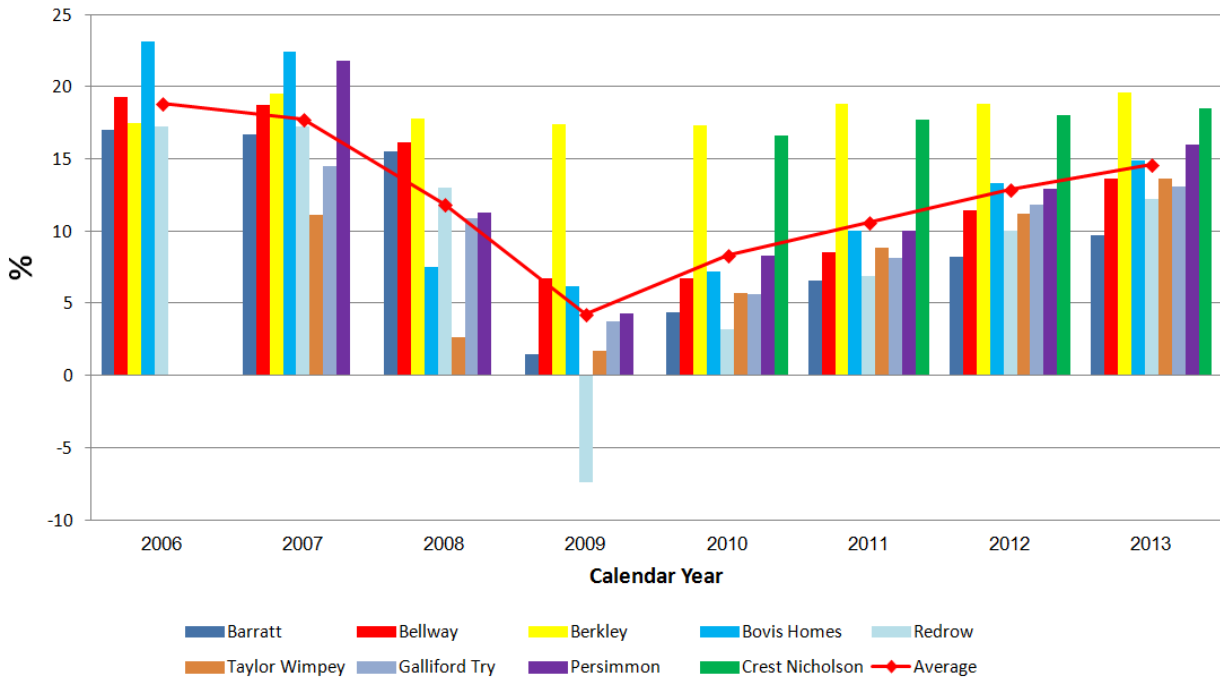
<sup>3</sup> [REDACTED]

# Developer Profit

## Competitive Return to a Willing Developer



Figure 1 - Net Operating Margins 2006 - 2013



Source: Savills

- 2.6 JP Morgan analysis<sup>4</sup> of Plc housebuilder performance for the financial years 2012 and 2013 indicates that the average overheads of housebuilders (the difference between Gross Margin and Earnings Before Interest and Tax) were 6.4% and 6.0% of revenue respectively, averaging 6.2%.
- 2.7 Therefore a target operating margin of 15% to 20% of revenue equates to a target gross margin of 21% to 26% of gross development value. Barratt stated in its 2012 annual report (and in its July 2014 trading update) that its minimum hurdle rates for land acquisition are 20% gross margin and 25% ROCE.
- 2.8 Both operating margin and gross margin are quoted before deduction of the cost of paying interest on debt, which has averaged 1.2% of GDV over the 2013 and 2013 financial years. Therefore the hurdle rate of gross margin after deduction of the cost of debt is 20-25% of gross development value.



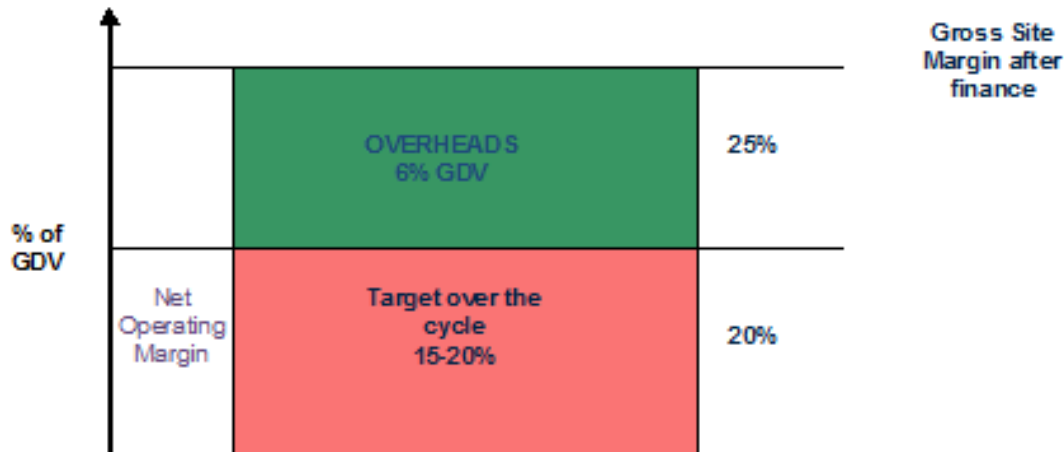
# Developer Profit

## Competitive Return to a Willing Developer



- 2.9 This is the basis of the developer margin hurdle rate that is applicable to site level development appraisals of Residual Land Value, in which the cost of debt is included separately as a cost. More specifically, this is the average hurdle rate across all sites developed by the housebuilder during any one year. Around this average, there will be a range of site specific development risk and therefore a range of site level hurdle rates for developer margin. Smaller lower density sites are inherently less capital intensive and less risky than costlier larger sites and higher density sites, so for smaller lower density sites the hurdle rate will be below the corporate average and for larger complex sites and higher density sites it will be above the corporate level average.
- 2.10 This is particularly relevant for large Greenfield sites and regeneration areas, where large up-front costs have an impact on a developer's required Return on Capital Employed (ROCE), as a higher margin is required to reflect the higher risk. In these instances, the profit margin and ROCE become much more important as highlighted by the Harman Report – *“Developments of large flatted blocks on previously used land in urban areas with high cash requirements will demand significantly higher levels of profit to achieve an acceptable ROCE than developments of a more standard, less cash intensive nature on virgin ground. Likewise, projects with significant up-front infrastructure may also require higher levels of profit to generate an acceptable ROCE.”*<sup>5</sup>

Figure 2 - Developer's Profit Breakdown



Source: Savills

- 2.11 A minimum developer margin of 20% of Gross Development Value was supported by the appeal decisions relating to The Manor, Shinfield<sup>6</sup> and Lydney<sup>7</sup>. It has also been included in Maldon District Council's supporting viability work produced by HDH Planning & Development who are currently preparing supporting viability evidence for 24 Local Authorities<sup>8</sup>.

<sup>5</sup> [Redacted text]

- 2.12 The evidence in this paper indicates that the **minimum profit level** used within viability testing should be a blended rate of **20% on Gross Development Value plus 25% ROCE across all tenures, subject to consideration of the risk profile of the scheme**. The reference to ROCE is particularly important on large capital intensive schemes. In these cases the relevant hurdle rate for site specific appraisal is an **Internal Rate of Return of at least 25%**.
- 2.13 A number of viability consultants argue that a different profit level should be applied to private and affordable housing. If this is the case, then the blended margin across all tenure should equate to the hurdle rate referred to above. As an indication, a developer's blended profit margin on site of 20% of Gross Development Value could be a combination of Affordable Housing at an 8% margin on cost and Market Housing at a 23% margin on Gross Development Value.
- 2.14 It is increasingly common for developers to purchase land prior to securing an offer from Registered Providers who are subject to more market risk from the current affordable housing regime than in previous systems of funding. There is subsequently a risk associated with the affordable housing, in addition to increased holding and finance costs.



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## Appendix 4 – Letter from Haslams re: Bracknell Forest CIL, and minimum land values

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22 July 2013

Direct Dial: [REDACTED]

Email: [REDACTED]  
Mobile: [REDACTED]

Your Ref:

Our Ref: CN/jz

By Email &amp; Post

Dear Charlie

**Re: Bracknell Forest CIL Draft Charging Schedule**

I refer to the report prepared by BNP on behalf of Bracknell Forest Council in relation to the above matter and, in particular, BNP's assumption that £400,000 per hectare is considered sufficient as a minimum land value for a development to remain viable.

From our experience at Haslams, the figure of £400,000 per hectare is significantly too low. We believe that if the CIL charging level is based upon that figure, landowners will simply not release their land for development and the required housing numbers in Bracknell Forest will not be delivered.

Our view is supported by some very relevant and recent comparable evidence relating to two separate, arms length option sales of land within the South of M4 Strategic Development Location which lies within the neighbouring Wokingham Borough.

This evidence relates to one parcel of land at Ryeish Lane, Spencers Wood, and another parcel of land at Church Lane, Three Mile Cross. Here, minimum land values of £741,300 and £790,720 per hectare were agreed respectively. Our clients were simply not prepared to sell below those value levels.

Based on this evidence and our experience generally, we believe that BNP should revise their assumption that the minimum land values produced by developments on land within Bracknell Forest should be at least £750,000 per hectare to ensure that the developments are viable, landowners are incentivized to sell, and development is delivered.

I trust that the above is clear but do not hesitate to contact me if you require any further information.

Yours sincerely

  
Chris Newman  
Haslams



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## Appendix 5 – Savills Alternative Viability Appraisals (Argus Developer)

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Savills (UK) Ltd

Development Appraisal

Southern Gillingham Extension

35% Affordable Scenario

Report Date: 14 September 2015

**Southern Gillingham Extension  
35% Affordable Scenario****Timescale (Duration in months)**

Project commences Sep 2015

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Sep 2015				
Pre-Construction	6	Sep 2015	Feb 2016	Purchase	End	0
Construction	108	Mar 2016	Feb 2025	Pre-Construction	End	0
Sale	108	Sep 2016	Aug 2025	Income Flow	End	-102
Phase End		Aug 2025				
<b>Phase Length</b>	<b>120</b>					

**Project Length**      **120**      **(Includes Exit Period)**

**APPRAISAL SUMMARY****SAVILLS (UK) LTD****Southern Gillingham Extension  
35% Affordable Scenario****Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Unit Price</b>
Affordable Housing	630	548,533	107.39	93,502
Open Market	<u>1170</u>	<u>1,182,870</u>	221.00	223,431
<b>Totals</b>	<b>1,800</b>	<b>1,731,403</b>		

**NET REALISATION****320,320,769****OUTLAY****ACQUISITION COSTS**

Residualised Price (Negative land)		(7,444,916)		(7,444,916)
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**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Cost</b>	
Affordable Housing	563,455 ft <sup>2</sup>	89.00 pf <sup>2</sup>	50,147,495	
Open Market	<u>1,182,870 ft<sup>2</sup></u>	89.00 pf <sup>2</sup>	<u>105,275,430</u>	
<b>Totals</b>	<b>1,746,325 ft<sup>2</sup></b>		<b>155,422,925</b>	<b>155,422,925</b>

Contingency	5.00%	7,771,146		
Opening Up Works		36,000,000		
Statutory/LA		27,000,000		
				70,771,146

**Other Construction**

External Works	10.00%	5,014,749		5,014,749
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**PROFESSIONAL FEES**

Professional Fees	10.00%	16,043,767		16,043,767
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**DISPOSAL FEES**

Sales and Marketing Fees	3.00%	9,609,623		9,609,623
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**FINANCE**

Debit Rate 6.00% Credit Rate 0.00% (Nominal)				
Land		(3,116,285)		
Construction		9,955,604		
Total Finance Cost				6,839,319

**TOTAL COSTS****256,256,615****PROFIT****64,064,154****Performance Measures**

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%

IRR 22.07%

Profit Erosion (finance rate 6.000%) 3 yrs 9 mths



**Southern Gillingham Extension  
35% Affordable Scenario**

**Gross Sales**  
58,906,499  
261,414,270  
**320,320,769**



Savills (UK) Ltd

Development Appraisal

Southern Gillingham Extension

25% Affordable Scenario

Report Date: 14 September 2015

**Southern Gillingham Extension  
25% Affordable Scenario****Timescale (Duration in months)**

Project commences Sep 2015

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Sep 2015				
Pre-Construction	6	Sep 2015	Feb 2016	Purchase	End	0
Construction	108	Mar 2016	Feb 2025	Pre-Construction	End	0
Sale	108	Sep 2016	Aug 2025	Income Flow	End	-102
Phase End		Aug 2025				
<b>Phase Length</b>	<b>120</b>					

**Project Length**      **120**      **(Includes Exit Period)**

**APPRAISAL SUMMARY****SAVILLS (UK) LTD****Southern Gillingham Extension  
25% Affordable Scenario****Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Unit Price</b>
Affordable Housing	450	392,293	107.49	93,708
Open Market	<u>1350</u>	<u>1,364,850</u>	221.00	223,431
<b>Totals</b>	<b>1,800</b>	<b>1,757,143</b>		

**NET REALISATION****343,800,520****OUTLAY****ACQUISITION COSTS**

Residualised Price (119.00 Acres 49,941.47 pAcre)			5,943,035	
Stamp Duty		4.00%	237,721	
Agent Fee		1.00%	59,430	
Legal Fee		0.75%	44,573	
				6,284,760

**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Cost</b>	
Affordable Housing	402,956 ft <sup>2</sup>	89.00 pf <sup>2</sup>	35,863,084	
Open Market	<u>1,364,850 ft<sup>2</sup></u>	89.00 pf <sup>2</sup>	<u>121,471,650</u>	
<b>Totals</b>	<b>1,767,806 ft<sup>2</sup></b>		<b>157,334,734</b>	<b>157,334,734</b>

Contingency		5.00%	7,866,737	
Opening Up Works			36,000,000	
Statutory/LA			27,000,000	
				70,866,737

**Other Construction**

External Works		10.00%	3,586,308	
				3,586,308

**PROFESSIONAL FEES**

Professional Fees		10.00%	16,092,104	
				16,092,104

**DISPOSAL FEES**

Sales and Marketing Fees		3.00%	10,314,016	
				10,314,016

**FINANCE**

Debit Rate 6.00% Credit Rate 0.00% (Nominal)				
Land			2,609,434	
Construction			7,952,314	
Total Finance Cost				10,561,749

**TOTAL COSTS****275,040,408****PROFIT****68,760,112****Performance Measures**

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%

**Southern Gillingham Extension  
25% Affordable Scenario**

IRR 18.81%

Profit Erosion (finance rate 6.000%) 3 yrs 9 mths



**Southern Gillingham Extension  
25% Affordable Scenario**

**Gross Sales**  
42,168,670  
301,631,850  
**343,800,520**



Savills (UK) Ltd

Development Appraisal

Southern Gillingham Extension

15% Affordable Scenario

Report Date: 14 September 2015

**Southern Gillingham Extension  
15% Affordable Scenario****Timescale (Duration in months)**

Project commences Sep 2015

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Sep 2015				
Pre-Construction	6	Sep 2015	Feb 2016	Purchase	End	0
Construction	108	Mar 2016	Feb 2025	Pre-Construction	End	0
Sale	108	Sep 2016	Aug 2025	Income Flow	End	-102
Phase End		Aug 2025				
<b>Phase Length</b>	<b>120</b>					

**Project Length**      **120**      **(Includes Exit Period)**



**APPRAISAL SUMMARY****SAVILLS (UK) LTD****Southern Gillingham Extension  
15% Affordable Scenario****Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Unit Price</b>
Affordable Housing	270	235,199	107.52	93,662
Open Market	<u>1530</u>	<u>1,546,830</u>	221.00	223,431
<b>Totals</b>	<b>1,800</b>	<b>1,782,029</b>		

**NET REALISATION****367,138,077****OUTLAY****ACQUISITION COSTS**

Residualised Price (119.00 Acres 156,122.72 pAcre)			18,578,604	
Stamp Duty		4.00%	743,144	
Agent Fee		1.00%	185,786	
Legal Fee		0.75%	139,340	
				19,646,873

**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Cost</b>	
Affordable Housing	241,604 ft <sup>2</sup>	89.00 pf <sup>2</sup>	21,502,756	
Open Market	<u>1,546,830 ft<sup>2</sup></u>	89.00 pf <sup>2</sup>	<u>137,667,870</u>	
<b>Totals</b>	<b>1,788,434 ft<sup>2</sup></b>		<b>159,170,626</b>	<b>159,170,626</b>

Contingency		5.00%	7,958,531	
Opening Up Works			36,000,000	
Statutory/LA			27,000,000	
				70,958,531

**Other Construction**

External Works		10.00%	2,150,276	
				2,150,276

**PROFESSIONAL FEES**

Professional Fees		10.00%	16,132,090	
				16,132,090

**DISPOSAL FEES**

Sales and Marketing Fees		3.00%	11,014,142	
				11,014,142

**FINANCE**

Debit Rate 6.00% Credit Rate 0.00% (Nominal)				
Land			7,666,476	
Construction			6,971,408	
Total Finance Cost				14,637,884

**TOTAL COSTS****293,710,423****PROFIT****73,427,654****Performance Measures**

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%

**Southern Gillingham Extension  
15% Affordable Scenario**

IRR 17.03%

Profit Erosion (finance rate 6.000%) 3 yrs 9 mths



**Southern Gillingham Extension  
15% Affordable Scenario**

**Gross Sales**  
25,288,647  
341,849,430  
**367,138,077**



Savills (UK) Ltd

Development Appraisal

Southern Gillingham Extension

5% Affordable Scenario

Report Date: 14 September 2015

**Southern Gillingham Extension  
5% Affordable Scenario****Timescale (Duration in months)**

Project commences Sep 2015

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Sep 2015				
Pre-Construction	6	Sep 2015	Feb 2016	Purchase	End	0
Construction	108	Mar 2016	Feb 2025	Pre-Construction	End	0
Sale	108	Sep 2016	Aug 2025	Income Flow	End	-102
Phase End		Aug 2025				
<b>Phase Length</b>	<b>120</b>					

**Project Length**      **120**      **(Includes Exit Period)**

**APPRAISAL SUMMARY****SAVILLS (UK) LTD****Southern Gillingham Extension  
5% Affordable Scenario****Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Unit Price</b>
Affordable Housing	90	78,550	107.52	93,841
Open Market	<u>1710</u>	<u>1,728,810</u>	221.00	223,431
<b>Totals</b>	<b>1,800</b>	<b>1,807,360</b>		

**NET REALISATION****390,512,723****OUTLAY****ACQUISITION COSTS**

Residualised Price (119.00 Acres 261,840.96 pAcre)			31,159,074	
Stamp Duty		4.00%	1,246,363	
Agent Fee		1.00%	311,591	
Legal Fee		0.75%	233,693	
				32,950,721

**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Cost</b>	
Affordable Housing	80,697 ft <sup>2</sup>	89.00 pf <sup>2</sup>	7,182,033	
Open Market	<u>1,728,810 ft<sup>2</sup></u>	89.00 pf <sup>2</sup>	<u>153,864,090</u>	
<b>Totals</b>	<b>1,809,507 ft<sup>2</sup></b>		<b>161,046,123</b>	<b>161,046,123</b>

Contingency		5.00%	8,052,306	
Opening Up Works			36,000,000	
Statutory/LA			27,000,000	
				71,052,306

**Other Construction**

External Works		10.00%	718,203	
				718,203

**PROFESSIONAL FEES**

Professional Fees		10.00%	16,176,433	
				16,176,433

**DISPOSAL FEES**

Sales and Marketing Fees		3.00%	11,715,382	
				11,715,382

**FINANCE**

Debit Rate 6.00% Credit Rate 0.00% (Nominal)				
Land			12,370,718	
Construction			6,380,294	
Total Finance Cost				18,751,013

**TOTAL COSTS****312,410,181****PROFIT****78,102,542****Performance Measures**

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%

**Southern Gillingham Extension  
5% Affordable Scenario**

IRR 15.85%

Profit Erosion (finance rate 6.000%) 3 yrs 9 mths



**Southern Gillingham Extension  
5% Affordable Scenario**

**Gross Sales**  
8,445,713  
382,067,010  
**390,512,723**





Savills (UK) Ltd

Development Appraisal

Southern Gillingham Extension

0% Affordable Scenario

Report Date: 14 September 2015

**Southern Gillingham Extension  
0% Affordable Scenario****Timescale (Duration in months)**

Project commences Sep 2015

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Sep 2015				
Pre-Construction	6	Sep 2015	Feb 2016	Purchase	End	0
Construction	108	Mar 2016	Feb 2025	Pre-Construction	End	0
Sale	108	Sep 2016	Aug 2025	Income Flow	End	-102
Phase End		Aug 2025				
<b>Phase Length</b>	<b>120</b>					

**Project Length**      **120**      **(Includes Exit Period)**

**APPRAISAL SUMMARY****SAVILLS (UK) LTD****Southern Gillingham Extension  
0% Affordable Scenario****Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Unit Price</b>
Open Market	1800	1,819,800	221.00	223,431

**NET REALISATION****402,175,800****OUTLAY****ACQUISITION COSTS**

Residualised Price (119.00 Acres 314,684.98 pAcre)			37,447,513	
Stamp Duty		4.00%	1,497,901	
Agent Fee		1.00%	374,475	
Legal Fee		0.75%	280,856	
				39,600,745

**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft<sup>2</sup></b>	<b>Rate ft<sup>2</sup></b>	<b>Cost</b>	
Open Market	1,819,800 ft <sup>2</sup>	89.00 pf <sup>2</sup>	161,962,200	<b>161,962,200</b>
Contingency		5.00%	8,098,110	
Opening Up Works			36,000,000	
Statutory/LA			27,000,000	
				71,098,110

**PROFESSIONAL FEES**

Professional Fees		10.00%	16,196,220	16,196,220
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**DISPOSAL FEES**

Sales and Marketing Fees		3.00%	12,065,274	12,065,274
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**FINANCE**

Debit Rate 6.00% Credit Rate 0.00% (Nominal)				
Land			14,662,728	
Construction			6,155,377	
Total Finance Cost				20,818,105

**TOTAL COSTS****321,740,654****PROFIT****80,435,146****Performance Measures**

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%
IRR	15.40%
Profit Erosion (finance rate 6.000%)	3 yrs 9 mths

**Southern Gillingham Extension  
0% Affordable Scenario**

**Gross Sales**  
402,175,800