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Peak District National Park Authority

Peak District National Park Community Infrastructure Levy (CIL) Viability Study

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1 INTRODUCTION

1.1 Roger Tym & Partners was commissioned by Peak District National Park Authority (hereafter referred to as 'the Authority'), as part of a consortium along with High Peak Borough Council, Derbyshire Dales District Council and Staffordshire Moorlands District Council, to provide specialist services for the development and preparation of an appropriate method for dealing with the Community Infrastructure Levy (CIL).

1.2 This study is structured in the following way.

- In Section 2 we set out the legal requirements that a CIL Charging Schedule must comply with. This work informs the rest of the report.
- Section 3 examines the planning and development context in order to ensure that CIL supports development. This work has important implications for the structure of the Charging Schedule.
- Section 4 sets out our approach to the assessment of infrastructure requirements that will be used to determine the CIL infrastructure funding target.
- Sections 5 to 9 look at the viability of different kinds of development in different parts of the Authority.
- Section 10 sets out our recommendations.

2 LEGAL REQUIREMENTS

Introduction

2.1 The Community Infrastructure Levy (CIL) is a new planning charge that came into force on 6 April 2010. The levy allows local authorities in England and Wales to raise contributions from developers to help pay for infrastructure that is needed as a result of development. Local authorities who wish to charge the levy must produce a draft charging schedule setting out CIL rates for their areas – which are to be expressed as pounds (£) per square metre, as CIL will be levied on the gross internal floorspace of the net additional liable development. Before it is approved by the Council, the draft schedule has to be approved by an independent examiner.

2.2 The requirements which a CIL charging schedule has to meet are set out in:

- The Planning Act 2008 as amended by the Localism Act 2011
- The CIL Regulations 2010[1],as amended in 2011[2]and 2012[3]
- The CIL Guidance issued under S221 of the Planning Act 2008, which is statutory guidance, i.e. it has the force of law and the authority must have regard to the guidance[4].

2.3 To help charging authorities meet these requirements, the government has also produced non-statutory information documents, comprising:

- CIL overview documents; and[5]
- Documents on CIL relief and on collection and enforcement[6].

2.4 Below, we summarise the key points from these various documents.

Finding the balance

2.5 Regulation 14 requires that a charging authority 'aim to strike what appears to the charging authority to be an appropriate balance' between

a) The desirability of funding from CIL (in whole or in part) the… cost of infrastructure required to support the development of its area… and

b) The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

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[1] http://www.legislation.gov.uk/ukdsi/2010/9780111492390/pdfs/ukdsi_9780111492390_en.pdf

[2] http://www.legislation.gov.uk/ukdsi/2011/9780111506301/pdfs/ukdsi_9780111506301_en.pdf

[3] http://www.legislation.gov.uk/uksi/2012/2975/pdfs/uksi_20122975_en.pdf

[4] DCLG (December 2012) *Community Infrastructure Levy Guidance*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/36743/Community_Infrastructure_Levy_guidance_Final.pdf

[5] http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf

[6] http://www.communities.gov.uk/documents/planningandbuilding/pdf/19021101.pdf;
http://www.communities.gov.uk/documents/planningandbuilding/pdf/1995794.pdf

2.6 By itself, this statement is not easy to interpret. The statutory guidance explains its meaning. This explanation is important and worth quoting at length:

'By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened'.

2.7 In other words, the 'appropriate balance' is the level of CIL which maximises the quantum of development in the area. If the CIL charging rate is above this appropriate level, there will be less development than there could be, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be less than it could be, because it will be constrained by insufficient infrastructure.

2.8 The above quote from the statutory Guidance sets the development of the area firmly in the context of delivering the Local Plan. This is linked to the plan viability requirements of the NPPF, particularly paragraphs 173 and 174. This point is given emphasis throughout the Guidance. For example, in guiding examiners, the Guidance makes it clear that the independent examiner should establish that:

'…..evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole.'

2.9 Common sense suggests that an appropriate balance is not easy to find, and must be a matter of judgment as much as rigorous calculation. It is not surprising, therefore, that charging authorities are allowed discretion in this matter. This is set out in the legislation and guidance. For example, Regulation 14 requires that in setting levy rates, the Charging Authority (our underlinings highlight the discretion):

'must <u>aim</u> to strike what <u>appears to the charging authority</u> to be <u>an</u> appropriate balance…'

and the statutory guidance says

'The legislation… requires a charging authority to use appropriate available evidence to '<u>inform</u> the draft charging schedule'. A charging authority's proposed levy rate (or rates) should be reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism.'[7]

[7] DCLG (December 2012) *Community Infrastructure Levy Guidance* (para 28)

2.10 Regulation 14 effectively recognises that the introduction of CIL may put some potential development sites at risk. The focus is on seeking to ensure development envisaged by the Local Plan can be delivered. Accordingly, when considering evidence the guidance requires that charging authorities should '*use an area based approach, which involves a broad test of viability across their area*', supplemented by sampling '*…an appropriate range of sites across its area…*' with the focus '*...in particular on strategic sites on which the relevant Plan relies…..*'[8]

2.11 This reinforces the message that charging rates do not need to be so low that CIL does not make any individual development schemes unviable. The levy may put some schemes at risk in this way, so long as, in aiming strike an appropriate balance overall it avoids threatening the ability to develop viably the sites and scale of development identified in the Local Plan.

Keeping clear of the ceiling

2.12 The guidance advises that CIL rates should not be set at the very margin of viability, partly in order that they may remain robust over time as circumstances change:

> 'Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, using appropriate available evidence, including existing published data, that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle..'[9]

2.13 We would add two further reasons for a cautious approach to rate-setting, which stops short of the margin of viability:

- i Values and costs vary widely between individual sites and over time, in ways that cannot be fully captured by the viability calculations in the CIL evidence base.
- ii A charge that aims to extract the absolute maximum would be strenuously opposed by landowners and developers, which would make CIL difficult to implement and put the overall development of the area at serious risk.

Varying the charge

2.14 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by use of buildings, or both. (It is worth noting that the phrase 'use of buildings' indicates something distinct from 'land use')[10]. As part of this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy boundaries. Nor should differential rates be set by reference to the costs of infrastructure.

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[8] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Paras 23 and 27)

[9] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Para 30)

[10]. The Regulations allow differentiation by "uses of development". "Development" is specially defined for CIL to include only 'buildings', it does not have the wider 'land use' meaning from TCPA 1990, except where the reference is to development of the area, in which case it does have the wider definition. See S 209(1) of PA 2008, Reg 2(2), and Reg 6.

2.15 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid 'undue complexity'.[11]

2.16 Moreover, generally speaking, 'it would not be appropriate to seek to differentiate in ways that 'impact disproportionately on particular sectors, or specialist forms of development'[12], otherwise the CIL may fall foul of State Aid rules.

2.17 It is worth noting, however, that the guidance is clear that 'In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability.'[13]

Supporting evidence

2.18 The legislation requires a charging authority to use 'appropriate available evidence'[14] to inform their charging schedules. The statutory guidance enlarges on this, explaining that the available data 'is unlikely to be fully comprehensive or exhaustive'.[15]

2.19 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate, avoiding excessive detail. One implication of this is that we should not waste time and effort analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area as set out in the Local Plan. This suggests that the viability calculations may leave aside geographical areas and types of development which are expected to see little or no development over the plan period.

Chargeable floorspace

2.20 CIL will be payable on 'most buildings that people normally use'.[16] It will be levied on the net additional floorspace created by any given development scheme.[17]Any new build that replaces existing floorspace that has been in recent use on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old.

What the examiner will be looking for

2.21 According to statutory guidance, 'the independent examiner should check that:

- The charging authority has complied with the requirements set out in legislation
- The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence

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[11] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Para 37)
[12] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Para 37)
[13] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Para 34)
[14] Section 211 (7A) of the Planning Act 2008
[15] Section (December 2012) *Community Infrastructure Levy Guidance* (Para25)
[16] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 37)
[17] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 38)

- 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 shows the proposed rate would not threaten delivery of the relevant Plan as a whole.'[18]

Policy requirements

2.22 Above, we have dealt with legal and statutory guidance requirements which are specific to CIL. More broadly, the CIL Guidance says that charging authorities 'should consider relevant national planning policy (including the NPPF in England) when drawing up their charging schedules'. In addition, where consideration of development viability is concerned, the CIL Guidance draws specific attention to paragraphs 173 to 177 of the NPPF.

2.23 The only policy requirements which relate directly to CIL are set out at paragraph 175 of the NPPF, covering, firstly, working up CIL alongside the plan making where practical; and secondly placing control over a meaningful proportion of funds raised with neighbourhoods where development takes place. Whilst important policy considerations, these two points are outside our immediate remit in this study.

Summary

2.24 To meet legal requirements and satisfy the independent examiner, a CIL charging schedule should:

'Aim to strike what appears to the charging authority to be an appropriate balance' between the need to fund infrastructure and the impact of CIL'; and

'Not threaten delivery of the relevant plan as a whole'.

2.25 As explained in statutory guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making certain schemes which are not plan priorities unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the local authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.

2.26 Legislation and guidance also set out that:

- Authorities should avoid setting charges up to the margin of viability for the bulk of sites;
- CIL charging rates may vary across geographical zones and building uses (and only across these two factors). But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying infrastructure costs; it should not introduce undue complexity; and it should have regard to State Aid rules.

[18] DCLG (December 2012) *Community Infrastructure Levy Guidance* (Para 9)

- Charging rates should be informed by 'appropriate available evidence', which need not be 'fully comprehensive or exhaustive';
- While charging rates should be consistent with the evidence, they are not required to 'mirror' the evidence[19]. In this and other ways, charging authorities have discretion in setting charging rates.

2.27 In our analysis and recommendations below, we aim both to meet these legal and statutory guidance requirements and to maximise achievement of the Council's own priorities, using the discretion that the legislation and guidance allow.

[19] Planning Act 2008 (Section 212 (4) (b))

3 PLANNING AND DEVELOPMENT CONTEXT

Introduction

3.1 To help ensure that the CIL supports the development in Peak District National Park in general and delivery of the Authority's priorities in particular, we need to understand the nature of this development and their objectives. In this section we therefore first review recent patterns of development – which provide a broad indication of what may happen in the future – and then review the objectives and proposals in the Local Plan.

3.2 At the end of this section, we look at the implications of this analysis for the charging schedule.

History

3.3 Patterns of past development provide one guide to the likely patterns of future development. Figure 3.1 below shows the amount of net residential completions in Peak District National Park over the period 2006/07 to 2010/11.

Table 3.1: Peak District National Park Housing Completions 2006- 2010

	Completions (2006-2010)
National Park as a whole	283
Affordable Housing (amount required to fulfil identified need)	141 (129)
Open Market	134
Agricultural, forestry and other key rural worker	8

Source: Peak District National Park Core Strategy Delivery Plan (2010)

3.4 Within Peak District National Park 21,523 sq.m B1 office floorspace and 15,895 sq.m B2/B8 industrial and warehouse floorspace has been developed over the period 2007 to 2011. Over the same time period 22,159 sq.m of mixed employment floorspace has been developed[20]. It is important to note that these figures are gross. In some cases, whilst there has been growth, there has also been a loss of floorspace leading to a net reduction in some years.

Future Development and the Core Strategy

3.5 The Peak District National Park Core Strategy (adopted October 2011) sets the Council's vision and strategy for development over the plan period to 2026. The vision is for "A conserved and enhanced Peak District ….." within which "A viable and thriving Peak District economy….." encompasses "A living, modern and innovative Peak District, that contributes positively to vibrant communities …….'.

3.6 In order for the National Park to deliver this vision, a number of key outcomes have been outlined.

[20] Peak District National Park Annual Monitoring Reports (2007-2011)

- **Landscape and Conservation** – The valued characteristics and landscape character of the National Park will be conserved and enhanced.
- **Recreation and Tourism** – A network of high quality, sustainable sites and facilities will have encouraged and promoted increased enjoyment and understanding of the National Park by everybody including its and surrounding urban communities.
- **Climate Change and Sustainable Building** – The National Park will have responded and adapted to climate change in ways that have led to reduced energy consumption, reduced CO_2 emissions, increased proportion of overall energy use provided by renewable energy infrastructure, and conserved resources of soil, air, and water.
- **Home, Shops and Community Facilities** – The National Park's communities will be more sustainable and resilient with a reduced unmet level of eligible affordable housing need and improved access to services.
- **Supporting Economic Development** – The rural economy will be stronger and more sustainable, with more businesses contributing positively to conservation and enhancement of the valued characteristics of the National Park whilst providing high quality jobs for local people.
- **Minerals** – The adverse impact of mineral operations will have been reduced.
- **Accessibility, Travel and Traffic** – Residents, visitors and businesses will access their needs in ways that conserve and enhance the valued characteristics of the National Park.

Development Central to the Delivery of the Local Plan

3.7 A review of the adopted Core Strategy (2011) suggests that a number of development types are going to be critical to its delivery. These types of development will deliver the overwhelming majority of growth in Peak District National Park over the plan period. Below, we show what these uses are.

3.8 It is important not to focus on floorspace alone in this review. Some developments sought in the Core Strategy might not represent a very large slice of floorspace delivery, but might be very important local aspirations that deliver Peak District National Parks' wider aspirations for its community and economy. We have therefore included these uses in our review.

Residential development

3.9 The Core Strategy does not set a specific target for the provision for new dwellings within the National Park boundary. It does, however, state that policies will support the provision of a maximum of between 805 and 1,285 new dwellings in the National park over the Plan period (2011-2026). In doing so, however, the plan is clear in its approach that:

'…it is not appropriate to permit new housing simply in response to the significant open market demand.' and that *'The limited number of opportunities for new residential development emphasises the importance of concentrating on the eligible need within the National Park for affordable (including intermediate) homes, rather than catering for a wider catchment area.'*

3.10 It also states that:

'Occasionally, new housing (whether newly built or from re-use of an existing building) may be the best way to achieve conservation and enhancement (for example of a valued building) or the treatment of a despoiled site. Sometimes this requires the impetus provided by open market values, but wherever possible and financially viable such developments should add to the stock of affordable housing, either on the site itself or elsewhere in the National Park.' And that *'…unless open-market values are demonstrably required for conservation and enhancement purposes, all other schemes of this type that provide new housing should be controlled by agreements to keep them affordable and available for eligible local needs in-perpetuity.'*

3.11 In summary, therefore, new open market housing will only be permitted where it is required in viability terms to conserve and enhance the National Park. Where open market values are not demonstrably required for conservation and enhancement, it is assumed that schemes will only provide for affordable, local needs housing.

Office and industrial development

3.12 The Core Strategy provides for new employment land within the National Park. Development is directed primarily to Bakewell and the named settlements within policy DS1 of the Core Strategy.

Retail development

3.13 The Core Strategy does not seek to create a significant amount of retail development, and significant out of centre retail developments are opposed. Policies seek to retain existing retail units and allow occasional, small scale, retail developments to support communities and diversify the rural economy. All development that does take place is focussed towards Bakewell and the places listed within policy DS1.

Education, health and community facilities

3.14 The Core Strategy recognises that there is a need for better and more accessible services across the National Park. Policy supports the provision and improvement of community facilities within the settlements listed in policy DS1. Provision is to be focussed with the re-use of existing buildings although some new-build allocation may be accepted. There is no large scale school building requirement within the National Park.

Uses less likely to come forward

3.15 Through previous experience, RTP suggests that some uses are currently considered unlikely to come forward to a substantial degree over the plan period. These do not currently merit special treatment but will be kept under review. They are as follows:

- Hostels
- Scrapyards
- Petrol filling stations
- Selling and/or displaying motor vehicles
- Nightclubs
- Launderettes
- Taxi businesses

- Amusement centres
- Casinos

Implications

3.16 We have shown above that the great majority of development is expected to fall within a limited number of development types. These development types will create the greatest amount of new floorspace in Peak District National Park over the plan period, or be strategically important to the broader objectives of the emerging Local Plan.

3.17 The most important development types are:

- Residential
- Town centre office
- Industrial and warehousing
- Convenience retail
- Education, health and community facilities
- Tourism

3.18 The above analysis suggests that we should focus the CIL evidence base on these types of developments, aiming to ensure that they remain broadly viable after the CIL charge is levied. As long as our viability evidence shows that these main components are deliverable, then we will pass this (central) element of the examination. However, we do *not* need to prove that *each and every* development in these categories will be deliverable: instead, we need to show that the main elements of these types of development are viable, when seen at a district-wide level.

4 INFRASTRUCTURE

4.1 The National Park is designated for the purposes of conserving and enhancing its valued characteristics and promoting opportunities for the understanding and enjoyment of the National Park. Within this context only a handful of larger scale schemes may require significant preparation for infrastructure provision, and most development anticipated by the strategy will be realised on a relatively piecemeal site-by-site basis, incorporating any required infrastructure as part of each approved scheme. Nevertheless, it is necessary to work with the relevant agencies to ensure that there is sufficient confidence regarding finance, project management, build-rates and longer term management to ensure that the Core Strategy is deliverable.

4.2 Green infrastructure requirements for National Park will have associated costs. To meet these costs, irrespective of the decision about implementing CIL within the National Park, there is scope for neighbouring local authorities to include sub-regional infrastructure requirements within their Regulation 123 list. This sub-regional 'pot' could then be used to deliver green infrastructure improvements (amongst other projects) in the National Park that are primarily to serve users from a wide geographic area.

5 RESIDENTIAL VIABILITY ASSESSMENT

Introduction

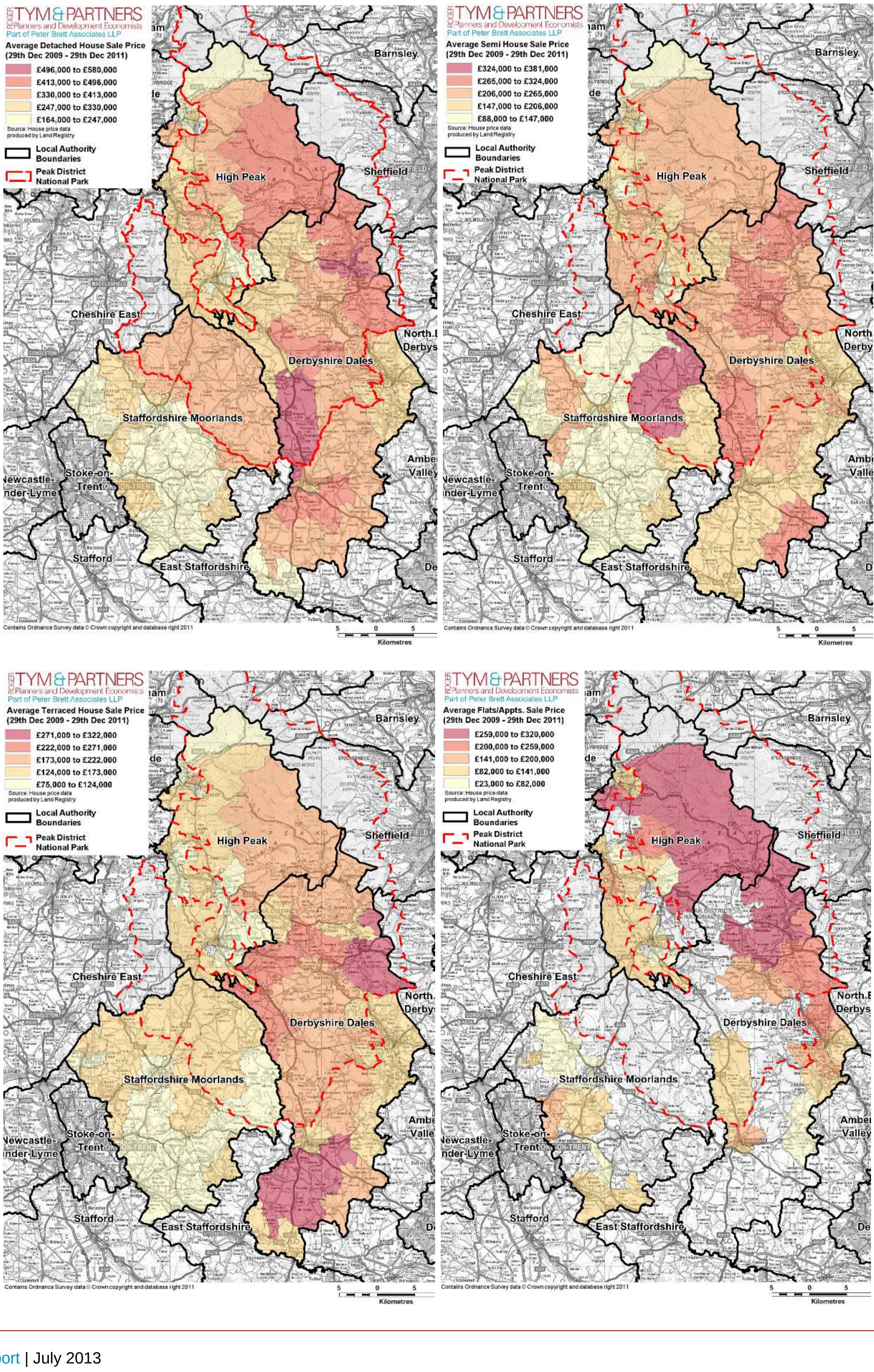
5.1 This section sets out the findings of the viability assessment for both residential and non-residential developments and considers the implications of this on the variable CIL charge options. In the case of both residential and non-residential development, we have classified the likely viability using a traffic light system. Green represents viable development, amber represents development at the margins of viability and red represents development that is unlikely to be viable[21].

Market Context

5.2 Figure 5.1 below shows 'heat mapping' of average sales prices (by ward) of residential properties across the vast majority of the National Park area over a two-year period from 2010 - 2012. This time scale provides an adequate sample size from which to draw conclusions on the current characteristics in the residential property market. It was not practicable to gather data in respect of the relatively small slivers of other authorities that also lie within the National Park. There are very few houses in these areas in any case and the small sample size may skew averages. In general terms it is most likely that values will be broadly similar to adjoining areas that are covered by the heat mapping, given the similarity of location and environment.

[21] This traffic light assessment must be treated with caution, as explained in the previous section; the appraisals are based on a strategic approach and in no way prejudice any site specific valuations.

Figure 5.1 Average sales prices (2010-12)



Source: RTP/Land Registry

Scope for Charge Variation by Zone

5.3 It is clear from the heat mapping that sales values are generally higher within the National Park than the areas immediately around it, which is unsurprising given the environmental quality which is part of the rationale for park's designated.

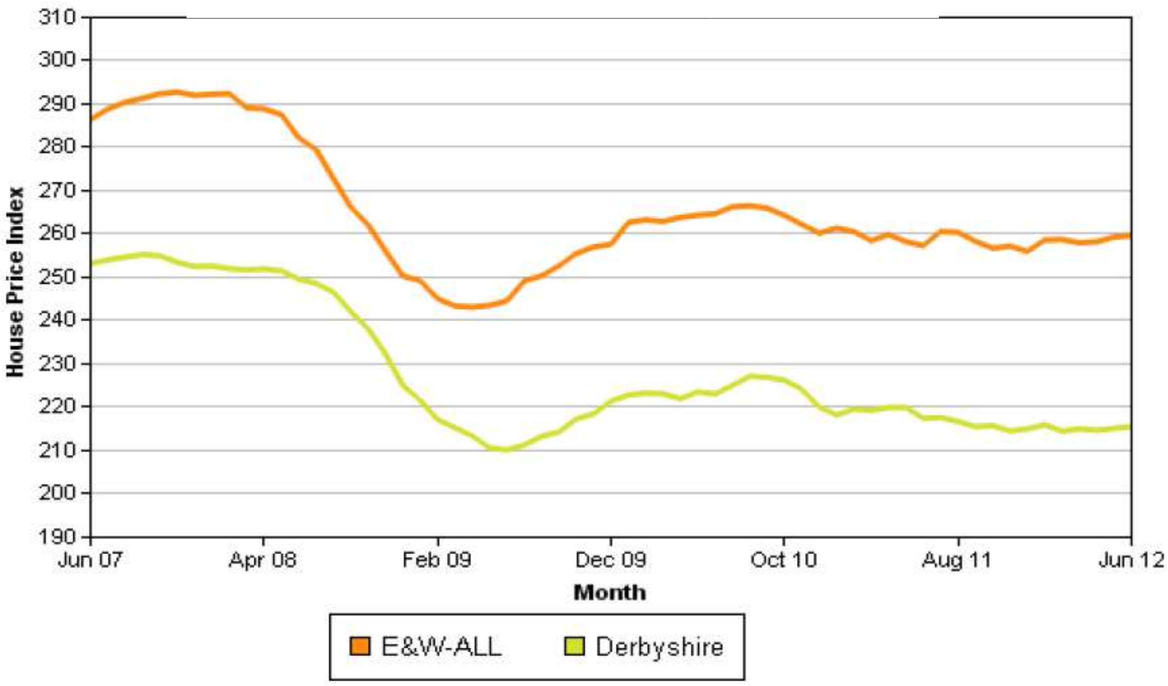
5.4 As discussed in Section 2, CIL Regulations (Regulation 13) allow the CA to introduce charge variations by geographical zone within its area, by the use of buildings, or both. There is no requirement on CAs to set differential rates, but statutory guidance notes that 'some charging authorities may prefer to set uniform rates, because they are simpler'.[22] This latter point on simplicity is an important one. All differences in rates need to be justified by reference to the economic viability of development. Setting up a CIL which levies different amounts on development in different places increases the complexity of evidence required at examination, and could be a point of contention.

5.5 Within the National Park area, values appear to be relatively consistent, with no clear pattern of marked geographic variations

Trends & Trajectory

5.6 Figure 5.2 below shows price performance across Derbyshire[23], as the principal constituent county of the Peak District (for which this time series data is not available). It shows that house price growth in Derbyshire has generally tracked national house price changes.

Figure 5.2 Local House Price Index – Derbyshire



[22] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (11)

[23] Land Registry

5.7 As a result of the recent economic downturn, there has been significant turbulence in the housing market in Derbyshire, as elsewhere in the country. Land Registry data for Derbyshire shows that average values peaked in November 2007 at £182,442 before falling some 17% to £151,505 by April 2009. Although average values increased back to £166,090 by August 2010, they subsequently declined to £159,520 by December 2011 before recovering slightly to £161,777 by June 2012.

5.8 To provide additional foresight into likely future residential development market conditions, we also undertook a review of published research and market commentaries of agents focussing on residential development markets. Most notably, Savills (considered to be amongst the market leaders in residential development market research and projections) 'Residential Property Focus' of Q2 2012 was given consideration. Its summary projections, Figure 5.3, show that residential values in the East Midlands are forecast to rise in the next five years; furthermore we note that some areas of Peak District National Park are amongst the best performing in the region.

Figure 5.3 Regional House Price Growth Projection

	Change from peak to 2011	2012	2013	2014	2015	2016	5 years to 2016
UK	-10.5%	-2.0%	0.5%	1.0%	2.0%	4.5%	6.0%
London	-1.8%	-0.5%	1.0%	5.0%	6.0%	6.5%	19.1%
South East	-6.3%	-1.0%	1.0%	4.0%	5.0%	6.0%	15.7%
South West	-9.8%	-1.5%	0.5%	2.5%	3.5%	5.0%	10.3%
East	-8.7%	-1.0%	1.0%	3.5%	4.5%	5.5%	14.1%
East Midlands	-11.0%	-1.5%	0.5%	2.0%	3.0%	5.0%	9.2%
West Midlands	-11.5%	-2.0%	-1.0%	0.0%	0.0%	3.5%	0.4%
North East	-14.0%	-2.5%	-1.5%	-1.5%	-0.5%	3.0%	-3.1%
North West	-14.0%	-2.0%	-1.0%	-1.0%	0.0%	3.5%	-0.6%
Yorks & Humber	-14.0%	-2.0%	-1.5%	-1.0%	-1.0%	3.0%	-2.6%
Wales	-12.7%	-2.0%	0.5%	0.5%	1.5%	4.5%	5.0%
Scotland	-10.6%	-4.0%	0.0%	0.0%	0.5%	2.0%	-1.6%

Source: Savills Residential Property Focus, Q2 2012

Approach to Assessing Viability

5.9 Viability assessment is at the core of the charge-setting process. The purpose of the assessment is to identify charging rates at which the bulk of the development proposed in the Development Plan is financially viable, in order to ensure that the CIL does not put at risk the overall development planned for the area.

5.10 RTP has a bespoke excel-based model for assessing the viability of residential development as part of CIL studies. The model takes as its basis a hypothetical hectare of land and allows us to assess the value of a development by reference to the density of development, the proportion and type of affordable housing; the size of houses and typical sales values being achieved.

5.11 The model can be used in two ways, namely:

- As a 'Profit Residual' model, where land acquisition costs are an input to the model and the level of developer's profit/margin is the output measure that can be compared against known benchmark profit levels; or
- As a 'Residual Land Value' assessment, where a fixed level of developer's profit is assumed and the output measure is a residual land value that can be compared against 'benchmark' land values.

5.12 In most cases, for the purposes of CIL viability assessments, we have applied a Profit Residual approach, modelling various land/sales value scenario. However, given the dearth of information on land transactions in the National Park and the unquantifiable impacts on residential land values of the policy approach to new housing in the National Park (which only permits market housing where it is required to conserve or enhance the park), the Residual Land Value approach is applied in this case.

5.13 No standard assumptions are made by the model, so that each appraisal is entirely bespoke. Assumptions are inputted with respect to:

- The proportion of the site that is developable for housing (i.e. not required, for example, for open space, infrastructure or other non-housing requirements);
- The density of development and the mix between houses and apartments;
- The level of affordable housing and the mix of shared ownership, affordable rented and social rented;
- The average size of houses and apartments;
- Build cost per sq.m;
- Sales value per sq.m;
- Sales rates
- Land price per gross hectare (including associated purchase costs);
- Typical S106 costs;
- Costs for secondary infrastructure;
- Professional fees;
- Costs of sales and marketing; and
- Finances costs.

5.14 At this stage, any potential CIL charge has been excluded from our assessment, however we do make an allowance for residual s.106/278 which will still apply after the adoption of the CIL charging schedule. The potential level of contributions is discussed separately below.

Key Assumptions

5.15 Common to both residential and non-residential assessments is the need to gather robust market data – any assessment of viability can only be as good as the assumptions (and the information they are based on) that go into it. This section of the report also, therefore, sets out the sources of information that have informed the assumptions that underpin the viability assessments, along with the assumptions themselves.

5.16 Our calculations use 'readily available evidence', which has been informed and adjusted by an assessment of local transactions and market demand. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not, than might be expected on the basis of anecdotal information on the price paid for development sites in the past and Land Registry reports. This is an important point to bear in mind later when it comes to debating what is considered an 'appropriate balance'.

Sales values

5.17 Our approach to establishing the value of residential development ordinarily looks into asking prices of new build houses currently on the market, and the achieved prices of new-build houses over the last two years. However, there is no new-build housing within the national park area that is currently on the market, and there were only 5 transactions of new-build houses in the last two years.

5.18 In this case, we therefore rely on more general data on the prevailing values of new and existing homes in the National Park, and supplemented this through extrapolations from our analysis of other neighbouring locations where values are shown to be at a similar level, through our 'heat mapping', as set out above.

5.19 It is clear from the heat mapping that sales values within the National Park are generally somewhat higher than the higher value wards in High Peak, Derbyshire Dales and Staffordshire Moorlands. The scenarios modelled for those districts assumed upper sales values at £2,150 per sq. m. It is therefore reasonable to assume that values within the National Park would be some way above this mark. On this basis, we have therefore assumed a sales value of open market housing in the National Park of £2,300 per sq. m.

Affordable Housing & Developer Contributions

5.20 The proportion of affordable housing has a significant impact on development viability. Typically, developers will realise between 40% (for social rented properties) up to 70% (for shared ownership properties) of the full market value for the affordable units they build, which is usually less than they cost to build. This means that they have a negative impact on the viability of development, coming off the 'bottom line' in the same way that Developer Contributions would. In addition, any land that is used to provide affordable housing is land that has been paid for but cannot be used for market housing to generate value.

5.21 As mentioned above, open market housing in the Peak District is only permitted where the value it generates is required to conserve or enhance the National Park. All other residential development is expected to be for affordable housing only. As such a fixed percentage target for affordable housing provision as part of residential developments is not set. Therefore, in order to test viability, we have assessed scenarios of affordable housing provision at integers of 10% from 90% affordable to 10% affordable and assessed the residual land value in each case. This information can then be used by officers in considering the level of market housing that may be required to generate the necessary value to achieve conservation and enhancement objectives, as well as to bring the site to the market for development.

5.22 The Peak District Core Strategy and the Affordable Housing SPD do not set a defined percentage for the split by type of affordable housing provision between social rented and shared ownership. This is determined on a case by case basis according to local needs at the time of application. In the absence of policy in this respect, we have assumed at 50%; 50% split between the two types.

5.23 Given the high value of open market property in the Peak District, and low average income levels locally, in order for properties to be properly considered affordable, we estimate that the value of affordable housing relative to open market housing will be slightly lower than is typical elsewhere. As such, we have assumed that social rented properties will realise 35% of open market value (OMV) and shared ownership properties 65% of OMV. These transfer values are not to be confused with the level of rent that can be charged by registered providers, which are set up to 80% of market rents.

5.24 Any potential CIL charge is excluded from these initial appraisals for ease of analysis, although an allowance of £1,000 per unit is made for residual s.106/278 contributions. This figure is increased to £4,000 per unit in respect of larger 10 ha sites where additional on-site provision will be required.

Build costs and other cost assumptions

5.25 We have assumed base build costs £1,070 per sq.m for houses in Peak District National Park. This is based on BCIS data for High Peak (specific data for the National Park is not available), taking the ‘upper quartile’ average on the basis that the National Park’s design standards will mean high build costs than is typical outside of the National Park. This figure includes allowance for external works at 10% and a contingency at 5%.

5.26 In addition, we have included an allowance for on-site secondary infrastructure (e.g. utilities extensions, spine roads, strategic landscaping and drainage systems and the like, which are part of ordinary development costs and which would not be part of any s.106/278 contribution) of £100,000 per ha.

5.27 We have assumed a development density for housing of 30 dwellings per ha. Our assumed average unit sizes for houses are 130 sq.m for market housing and 80 sq.m for affordable housing.

5.28 Other costs, such as professional fees and the cost of sales and marketing are inputted at industry standard rates and provision is made for Stamp Duty Land Tax at prevailing rates.

5.29 Finance costs are calculated using a cashflow assessment that forms part of the model and takes account of prevailing interest rates and likely sales rates.

Land Values

5.30 As mentioned above, information on residential land values within the Peak District is not readily available and even where such information is available, the values would be significantly skewed on a case by case basis, according to the level of open market housing permitted.

5.31 Policy in the National Park only permits market housing where it is required to conserve and enhance the National Park and market housing is only permitted to the extent that it is required to achieve this end. Any additional housing over and above this level must be affordable.

5.32 In order to reflect this policy approach, we have tested the viability of residential development in a different way to that for the other districts. Rather than assuming a typical land value and assessing the extent of any surplus margin, we have assumed a fixed level of margin and calculate the residual land value of scenarios of between 10% affordable and 90% affordable. The resultant residual land values can then be considered against whether such values are likely to motivate a reasonable land owner to dispose.

5.33 Nonetheless, we attempt to set out below some means of benchmarking land values such that comparison with the residual land values shown by the assessments can be made, along with a determination as to the scope for CIL in the context of the affordable housing policy.

5.34 Clearly, the value of a piece of land to a developer will vary significantly from one site to the next as a result of its specific characteristics, including:

- Size and shape;
- Topography and ground conditions;
- Location and potential sales values;
- Capacity of and ease of connection with surrounding infrastructure e.g. local utility networks;
- Whether the site is allocated and/or benefits from a suitable planning permission; and
- The nature of the planning permission and Developer Contributions that can reasonably be expected.

5.35 One source of information on residential land values is published by the Valuation Office Agency (VOA) in its Property Market Reports; this data is only available for the larger conurbations. The 2011 VOA Property Market Report published data for Stoke-on-Trent. In January 2011, the VOA's assessment of residential land value in Stoke-on-Trent was £775,000 per ha. The equivalent figures for Sheffield and Manchester are £1.33 and £1.35m respectively. However, it is not clear what level policy requirements are assumed in coming to these values.

5.36 As a further layer of analysis, we have considered existing and alternative use values and the uplift factors/multipliers that can be applied to them to inform conclusions on residential land values. Of course, it is difficult to generalise about existing or alternative use values across a whole local authority, but we have sought to consider the principal uses that may be relevant.

5.37 Some of the land on which new residential development will take place is likely to be agricultural. The VOA's 2011 Property Market Report provides data specifically the bordering counties of Shropshire and Derbyshire, where agricultural land is valued at up to £19,760 per ha. In order to inform residential land values, a multiplier of between 15 and 25 times is often applied. This would give residential land values in the region of £300,000 - £500,000 per ha.

5.38 An alternative use for some sites being considered for residential development is for employment development. The 2011 VOA Property Market Report states that employment land in Stoke (the nearest comparable location covered by the report) typically has a value of £300,000 per ha. An uplift of c30% over industrial land values is often used as a proxy for considering residential land values. This suggests residential land values in the region of £400,000 per ha.

5.39 In addition to this, we have also discussed land values with developers and agents active in the local market, both through one-to-one telephone discussions and as part of the developer workshop which formed part of the study. These consultations suggested gross residential land values slightly higher than those in the neighbouring districts of Staffordshire Moorlands and Derbyshire Dales at £600,000 - £800,000 per ha for typical 1 ha sites. At the developer workshop, a range of land value scenarios (as set out below) were put forward for discussion and in broad terms there was general agreement that they reflected prevailing net returns to land-owners disposing of sites for residential development.

5.40 LPAs cannot dictate or predict land sales costs, so reasonable assumptions must be made. However, there is a general expectation across the market that land values will ultimately have to go through a period of rebalancing to reflect current market pressures. Some sites, particularly those purchased without planning permission and where there is a risk it will not be achieved could be acquired relatively cheaply. Where this is the case, higher contributions could be achieved than if a more typical land cost is applied. Conversely, other sites may well command a higher land price, in which case Developer Contributions based on more typical land costs could potentially cause some hardship and delay in delivery, in respect of sites where the land deal is already concluded.

5.41 A summary of the assumptions used is included in Appendix 1. These assumptions were discussed with local agents and developers at a developer workshop. A note of the workshop is provided at Appendix 2 of this report.

Appraisal Findings

5.42 Applying these assumptions, a number of viability assessments were undertaken, the findings of which are set out in Table 5.1 below. The scenarios consider small sites of 0.25ha and larger sites of 1ha. These scenarios broadly reflect the type of sites likely to come forward in Peak District National Park over the plan period. In the case of both sizes of site, we apply a broad range of affordable housing levels between 90% and 10%.

Table 5.1 Appraisal summary findings

0.25 Ha Sites			
Sales Values (£ per sq.m)	Build Cost (£ per sq.m)	Affordable Housing (%)	Residual Land Value (per ha)
£2,300	£1,070	90%	-£421,784.00
£2,300	£1,070	80%	-£93,264.00
£2,300	£1,070	70%	£235,260.00
£2,300	£1,070	60%	£563,780.00
£2,300	£1,070	50%	£881,996.00
£2,300	£1,070	40%	£1,205,400.00
£2,300	£1,070	30%	£1,528,804.00
£2,300	£1,070	20%	£1,852,208.00
£2,300	£1,070	10%	£2,175,612.00
1 Ha Sites			
Sales Values (£ per sq.m)	Build Cost (£ per sq.m)	Affordable Housing (%)	Residual Land Value (per ha)
£2,300	£1,070	90%	-£359,833.00
£2,300	£1,070	80%	-£44,017.00
£2,300	£1,070	70%	£267,124.00
£2,300	£1,070	60%	£577,508.00
£2,300	£1,070	50%	£887,892.00
£2,300	£1,070	40%	£1,198,277.00
£2,300	£1,070	30%	£1,507,160.00
£2,300	£1,070	20%	£1,814,342.00
£2,300	£1,070	10%	£2,121,524.00

5.43 The shading of each of the cells in the table reflects our views of the likely viability of development by reference to the residual value it is likely to generate. If the residual value is negative, it is extremely unlikely that development will take place unless significant grant funding is available to deliver it. Given that funding for affordable housing is significantly constrained as a result of central government fiscal constraints, we do not assume that funding will be attracted and by implication, that schemes returning a negative land value will not be delivered.

Similarly, schemes where a positive land value is shown, but is so minimal as to be unlikely to incentivise a reasonable landowner to develop the site are shaded amber. Scenarios shaded green are considered to be likely to be viable in broad terms, subject to other site-specific requirements, and development characteristics.

6 OFFICE AND INDUSTRIAL VIABILITY ASSESSMENT

Introduction

6.1 In this section, we provide an overview of recent market developments, perform a viability analysis of office and industrial development, and use this analysis to make recommendations about a sensible level of CIL charge for this use.

6.2 Office development in town centres can be substantially different in viability terms to that in business park locations, particularly as a result of differences in land assembly costs on development and design standards. As such is assessed separately as part of this study. The town centre boundaries as set out in the Proposals Map is proposed to distinguish between the two types of office development.

6.3 The viability assessment model for non-residential development assesses a single square metre of development, in order to directly demonstrate any potential charge rate on a per sq. m basis. In identifying appropriate assumptions in terms of rental values, yields and so on, some consideration has to be given to the likely nature of development to come forward. Typically, for town centre office development this is likely to be two/three storey developments at say 80% site coverage. At business park locations, office development is more likely to be 2 or 3 storeys and site coverage more like 40%. Typical industrial development is, of course, single storey and with site coverage also in the region of 40%. These figures do not feed directly in to the model, but rather inform the assumptions made in other respects.

Market context

Offices

6.4 Peak District National Park is not an area that attracts office occupiers and primarily draws on demand from a very localised catchment. Within the wider area there are the large cities of Sheffield and Derby and the better connected town centre of Chesterfield.

6.5 The main locations for office premises in Peak District National Park are a small number of relatively small business park developments such as Deepdale Business Park and Hathersage Hall Business Park. Demand is understood to be primarily for small units of under 200 sq. m.

6.6 Occupier demand for new office floorspace is currently weak owing to a combination of the economic downturn and the relative weakness of Peak District National Park as a location for office uses. Our analysis of recent market trends and consultations with commercial agents suggest that the general opinion is that current office rents and yields are not at a level to sustain speculative office development unless it is part of a mixed use scheme (in the case of the latter, office space would have to be cross subsidised by other more valuable uses).

6.7 The Core Strategy (adopted October 2011) only envisages very limited new office/non industrial development within Peak District National Park. Policies GSP3 and E1 encourage the provision of office development within the market towns and the provision of innovation centres and managed workspace for small and start-up businesses.

Industrial and warehouse

6.8 We have appraised industrial and warehouse space as a single use. In addition to individual businesses the main locations of industrial units are Bakewell, Tideswel and the Hope Valley, with several small industrial estates elsewhere in the National Park such as in Great Longstone, Calver, Warslow and Longnor. The current industrial floorspace is generally smaller workshop type premises. Our analysis suggests that rental levels for industrial premises have remained relatively stable despite the economic downturn.

6.9 The Core Strategy identifies there to be no significant need for additional industrial land in Peak District National Park over the plan period. This does not mean that small scale developments will not be permitted together with one or two redevelopment opportunities on redundant sites such as in Bakewell and Bradwell.

Assumptions

6.10 As previously stated, central to the assessments is the need to gather robust market data. This section of the report also, therefore, sets out the sources of information that have informed the assumptions that underpin the viability assessments in relation to office and industrial uses, along with the assumptions themselves.

Information Sources

6.11 The approach taken to establishing the likely values of new development was to review recent rental and investment transactions in Peak District National Park. The transactional data was derived from the Focus/CoStar database, which provides details of the vast majority of transactions, broken down by use. The information includes some or all of the following:

- The address of the property;
- Names of the lessor and lessee and their respective agents;
- The size of the property;
- The length of the lease and other key terms;
- Quoting and/or the achieved rental value on leases;
- The price paid/capital value and yield on investment purchases.

6.12 The analysis of transactional data from Focus/CoStar focussed specifically on more modern accommodation in similar locations to where future growth is envisaged, wherever possible, so that the information gleaned from the transactions was most relevant and comparable to the types and locations of development likely to occur. Where adequate volumes of transactional data for directly comparable property was not readily available, assumptions were based on informed judgement as to the likely values that new development (of the type envisaged and in the locations proposed) would attract, combined with findings of consultations with agents and developers.

6.13 Cost data for office and industrial development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for Peak District National Park.

6.14 In addition to transactional data that provided intelligence on prevailing yields for different property types in Peak District National Park we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE's 'Prime Rent and Yield Monitor Q1 2012'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of the district and its prime locations.

6.15 Once we had drawn initial conclusions as to the likely rental values and yields of each development type, a series of consultations with local agents and developers who are active in the local market were undertaken in order to test the assumptions, with revisions made to reflect comments received where it was justified by evidence to do so.

6.16 The assumptions on land and purchase costs have been derived from the Valuation Office Agency's Property Market Reports, specifically the January 2011 version (the latest report, which provides figures for Sheffield). These reports provide information on the value of a cleared development site situated in an established industrial location with a site area of 0.5 to 1.0 ha. In addition, it has been assumed that development will be restricted to industry or warehousing and other provisions based on market expectations for the locality. This information was supplemented by consultations with local agents and developers.

6.17 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prima facie evidence that achieving viability is a challenge.

Value assumptions

6.18 In the calculations we have used 'readily available evidence', which has been informed and adjusted by an assessment of local transactions and market demand. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not.

Table 6.1 Office and Industrial Assumptions

Business Park Office		
	Rent per sq. m	*£110*
	Yield	*8.50%*
	Build cost per sq. m	*£950*
Industrial/Workshop		
	Rent per sq. m	*£55*
	Yield	*8.75%*
	Build cost per sq. m	*£540*

6.19 Further assumptions are as follows:

- External works at 10% of build cost
- Professional fees at 10-12% of build costs, depending on use;
- Likely residual Section 106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Peak District National Park;
- Marketing and cost of sales at 5% of development value
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and
- Developer's margin at 20% of cost.

Appraisal Findings

6.20 The findings of the non-residential viability appraisals are set out in Table 6.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely S106/278 costs is included, based on our experience of developments across the district.

Table 6.2 Viability Assessment, Office and Industrial

		Business Park Office	Industrial
Rent		£120	£55
Yield %		8.50	8.75
Minus inducements	1	141	63
VALUES	2	**1,271**	**566**
COSTS	2		
Land + Purchase Costs	3	60	60
Basic Build Cost		1,000	570
External Works	4	100	57
Fees	5	110	63
Section 106/m²	6	20	20
CIL @ £0		0	0
Marketing & Sales		64	28
Contingencies	7	61	34
Interest	8	129	77
Margin	9	305	178
Total Cost Benchmark		**1,848**	**1,087**
Values - Costs		**-577**	**-522**
Residual margin (% cost)		**-31%**	**-48%**

Notes:	1	A reduction of 10% of development value is made to reflect current market norms for rent free perioods and other tenant inducements
	2	All values and costs per m² unless stated
	3	The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
	4	Works outside built structure. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
	5	Fees are higher for smaller and/or more complex structures.
	6	Site/development specific mitigation such as on-site and access or public relam works close to it.
	7	Contingencies at 5% of costs
	8	Interest costs vary with the nature and length of a typical project.
	9	Profit normally allowed at 20% on all costs and effectively assumed development is speculative.
		Costs exceed values
		Values exceed costs by less than 10%
		Values exceed costs by more than 10%

Offices

6.21 As can be seen from Table 6.2 that 'pure' office development is not currently viable on the basis of the assumptions made. That is not to say that no office development will take place. The development economics for owner occupiers are quite different to that for speculative development. The driver for new development of office premises by owner occupiers is often to achieve business efficiencies, rather than to generate development profit; as such development by owner occupiers remains a distinct possibility. Furthermore, office floorspace could be delivered as part of a mixed use development which could be cross-subsidised by more viable uses.

Industrial and warehouse

6.22 We have concluded that, based on our research and the assumptions made, speculative industrial and warehouse development in Peak District National Park is not currently viable. However, as we note with regards to offices, development by owner occupiers remains a possibility even in current market conditions.

7 RETAIL VIABILITY ASSESSMENT

Introduction

7.1 In this section, we provide an overview of recent market developments, perform a viability analysis of retail development, and use this analysis to make recommendations about a sensible level of CIL charge for this use. Our assessment takes as its basis the different types of retail development likely[24] to take place in Peak District National Park, each of which have materially different key viability assessment assumptions, in particular rental values, yields, build cost and land acquisition costs. The types of development assessed are:

- Town Centre Comparison Retail – Defined as development for comparison retail use within the principal centres of the National Park, most notably Bakewell. Development within the centres will have to overcome high land acquisition costs, compared to other locations. Typically development will be 1 or 2 storeys within or as extension to the core shopping area, that often set new headline rental levels in the market. Site coverage is usually high, with only 10-20% of site area undeveloped for public realm and service access.
- Retail warehouse – Defined as comparison retail development of large floorplate single storey units (sometimes with mezzanines) outside of a defined centres, where the costs of land assembly are lower than within the centre. This most often extensive dedicated surface car parking is provided, resulting in a lower density of development of 30-40% of site area;
- Supermarkets – Defined as new, large scale convenience retail development which, like retail warehousing, require large car parks, service yards and so on, with the store typically comprising c30-40% of total site area. The rental values of supermarkets are typically significantly higher than smaller convenience stores, whilst yields are substantially lower as a function of the strong covenants provided by their operators.

7.2 There are certain types of retail development that are contrary to policy, most notably retail warehousing. It is therefore extremely unlikely that these forms of development will come forward, and even if they did, would not be permitted. However, whilst unlikely to come forward, it is important to include them in the study. Firstly it provides a point of comparison in the wider context and secondly, there is always a chance that a scheme could come forward and be taken through the appeal process. In the worst case scenario it will be beneficial to retain it through the study. Ultimately it will be up to the Council whether to include it in the charging schedule.

7.3 Some development of smaller scale convenience and comparison retail space in out of centre locations may take place, although it is unlikely to be significant in scale, nor is it critical to the delivery of the emerging Local Plan objectives. Often, such uses occupy

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[24] See para. 7.4-7.11 for detailed information on retail types covered in the study.

buildings being converted to retail use, rather the new development providing net additional floorspace. As such, these developments would not attract a CIL charge if one was put in place.

Market context

High Street Comparison Retail

7.4 High street comparison retailing nationwide is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. Developers in the sector have therefore being going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.

7.5 Bakewell is the largest town centre within Peak District National Park. The Peak Sub-Region Retail & Town Centre Study (February 2009) identified that Bakewell has above average provision of both convenience and comparison floorspace within the centre and is relatively health, partly as a function of its role as a tourist destination. It does not identify a need to make provision for additional comparison retail development.

Retail Warehousing/Retail Parks

7.6 We have also considered retail warehouse development. Whilst developments of this nature are not anticipated to be brought forward during the plan period; and would be refused by Policy HC5 of the Core Strategy, it is still useful to include them in the study as a point of comparison and for completeness of the study. This is commonly located out of centre, often on or close to major transport interchanges. It has been less prevalent in recent years as planning policy has adopted a town centre first approach which still applies. However, there is still the potential for such development. Retail warehousing traditionally offered bulky comparison goods. They are large stores specialising in the sale of household goods (such as DIY items and other ranges of goods catering mainly for car-borne customers. As a property class it has continued to perform relatively well with new operators entering the sector which has had a beneficial impact on values and viability.

7.7 There is limited comparable evidence for retail warehouse development within Peak District National Park. We have looked at data for adjoining authorities and discussed the potential rental values for any retail warehouse scheme in Peak District National Park with local agents. The retail study does not establish a need for additional ‘bulky goods’ comparison retail development.

Convenience Retail

7.8 Convenience retailing is the provision of everyday essential items including food, drinks, newspapers/ magazines and confectionary. The sector is dominated by superstores and supermarkets which offer a wide range of these types of goods with supporting car parking.

7.9 The convenience retail sector is one of the best performing investment assets in the UK with the main operators seeking to expand and seek a greater degree of market share by the development of new store formats and the securing of prime locations both in town and out of town.

7.10 Development is likely to primarily comprise new supermarkets. As such, these are the basis of the viability assessments in terms of key assumptions. Smaller stores, particularly those of less than 280sq. m net floor are (the threshold for a small store defined in the Sunday Trading Act), will attract lower rental values and will have high yields, and will therefore be substantially less valuable. Small convenience stores as defined here are therefore excluded from this assessment.

7.11 The retail study for the sub-region identifies an amount of capacity, in retail expenditure terms, that may support the provision of additional convenience retail floorspace in Bakewell, but recognises that the delivery of any such development may not be necessary or feasible in the context of the centre's location within the National Park.

Assumptions

7.12 This section of the report sets out the sources of information that have informed the assumptions that underpin the viability assessments in relation to retail uses, along with the assumptions themselves.

Information Sources

7.13 The approach taken to establishing the likely values of new retail development was to review recent rental and investment transactions in Peak District National Park. This reflected the process used for office and industrial development as described in Section 6.

7.14 Cost data for retail development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for Peak District National Park.

7.15 In addition to transactional data that provided intelligence on prevailing yields, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE's 'Prime Rent and Yield Monitor Q1 2012'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Peak District National Park and their prime locations.

7.16 Once we had drawn initial conclusions as to the likely rental values and yields of each development type, a series of consultations with local agents and developers who are active in the local market were undertaken in order to test the assumptions, with revisions made to reflect comments received where it was justified by evidence to do so.

7.17 The assumptions on land and purchase costs have been derived principally from our experience of such schemes elsewhere and consultations with local agents and developers. The Valuation Office Agency's Property Market Reports do not provide specific information on retail development land.

7.18 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prima facie evidence that achieving viability is a challenge.

Value assumptions

7.19 In the calculations for the viability of retail development we have used 'readily available evidence', which has been informed and adjusted by an assessment of local transactions and market demand. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not.

Table 7.1 Key Retail Assumptions

High Street Comparison Retail		
	Rent per sq. m	*£250*
	Yield	*8.50%*
	Build cost per sq. m	*£880*
Retail Warehouse		
	Rent per sq. m	*£120*
	Yield	*8.00%*
	Build cost per sq. m	*£580*
Convenience Retail		
	Rent per sq. m	*£180*
	Yield	*5.50%*
	Build cost per sq. m	*£1,120*

7.20 Further assumptions are as follows:

- External works at 10% of build cost
- Professional fees at 10-12% of build costs, depending on use;
- Likely residual Section 106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Peak District National Park;
- Marketing and cost of sales at 5% of development value
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and
- Developer's margin at 20% of cost.

Appraisal Findings

7.21 The findings of the retail viability appraisals are set out in Table 7.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely S106/278 costs is included, based on our experience of developments across the district.

Table 7.2 Viability Assessment, Retail

		High Street Comp. Retail	Convenience Retail	Retail Park/ Warehouse
Rent		£250	£180	£120
Yield %		8.50	5.50	8.00
Minus inducements	1	294	327	150
VALUES	2	**2,647**	**2,945**	**1,350**
COSTS	2			
Land + Purchase Costs	3	750	300	200
Basic Build Cost		880	1,120	580
External Works	4	88	134	70
Fees	5	116	125	65
Section 106/m²	6	0	100	20
CIL @ £0		0	0	0
Marketing & Sales		132	147	68
Contingencies	7	54	69	36
Interest	8	183	178	93
Margin	9	441	415	222
Total Cost Benchmark		**2,645**	**2,589**	**1,353**
Values - Costs		**2**	**357**	**-3**
Residual margin (% cost)		**0%**	**14%**	**0%**
Notes:	1	A reduction of 10% of development value is made to reflect current market norms for rent free perioods and		
	2	All values and costs per m² unless stated		
	3	The total cost of purchasing land, including related		
	4	Works outside built structure. Higher where extensive servicing and landscaping is required. Usually		
	5	Fees are higher for smaller and/or more complex		
	6	Site/development specific mitigation such as on-site		
	7	Contingencies at 5% of costs		
	8	Interest costs vary with the nature and length of a		
	9	Profit normally allowed at 20% on all costs and		
		Costs exceeed values		
		Values exceed costs by less than 10%		
		Values exceed costs by more than 10%		

High Street Comparison retailing

7.22 The Peak District National Park's town and village centres are experiencing the same pressures as other retail destinations following the economic downturn and the difficulties facing a number of national retailers. Viability for new build comparison retailing is therefore marginal across many centres.[25]

7.23 It is difficult to model the viability of town centre retail development as values are usually more sensitive to location and size of unit than office or residential development. Operators are very sensitive to footfall patterns which can lead to large variations in values – even on the same street. Our response is therefore to adopt 'overall' rental values to understand the broad potential range of comparison retail viability in the districts' town centres and also an examination of development outside of the main shopping area using a broad average.

7.24 It is also very difficult to accurately estimate likely land acquisition costs, which are a major factor in redevelopment projects, given the fact that a large number of titles often have to be assembled.

7.25 Our analysis suggests that high street comparison retail development within Bakewell is currently at the margins of viability.

Out of centre comparison retail warehousing

7.26 Our assessment of out of centre comparison retail is based on retail warehouses type developments. It assumes a typical scheme away from the defined town centres. Construction costs and rental values for retail warehousing are generally lower than for superstores, whilst yields are higher, reflecting the fact that some operators in the out of town retailing sector have struggled and failed during the recent recession. That said, other operators continue to perform strongly and are continuing to invest in additional retail warehouse space.

7.27 The assessment shows that retail warehouses generate a surplus that could support a potential CIL charge, were such development to take place within the National Park, however unlikely that may be. .

Convenience retailing

7.28 Convenience retail continues to be one of the best performing sectors in the UK. Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions.

7.29 Although there are some small regional variations on yields, they remain strong across the board with investors focussing primarily on the strength of the operator covenant and security of income. We would therefore suggest the evidence base for convenience retail can be approached on a wider regional or even national basis when justifying CIL charging.

7.30 Our testing of convenience retailing has focussed on larger out of town grocery stores. Nevertheless our evidence base would suggest rents and yields are broadly similar to those achieved for convenience retailing by major operators in smaller format stores in city/town centres. Whilst development costs are relatively high, the strength of covenant provided by their operators and the rents that they achieve outweighs these costs.

[25] Financial Times December 29 2011 *UK retail insolvencies expected to soar*

7.31 We have concluded that convenience retailing is viable in Peak District National Park and would generate a significant surplus from which a CIL charge could be drawn.

7.32 In separately defining convenience and comparison retailing, there is an issue as to the split of retail floorspace by type that will be developed, and therefore the CIL charge that should be paid. This should be noted when developing administrative processes for CIL.

7.33 CIL charges are set on grant of planning permission (either outline or full permission). Whilst open retail consents are common for small developments, proposed schemes of any significant size would be expected to state the split between comparison and convenience floorspace that the development would deliver. Certainly, in the case of supermarket developments, this is expected because conditions are then commonly placed upon the planning permission stipulating the maximum proportion of comparison retailing floorspace which will be allowed.

7.34 In the small number of instances where an open A1-class permission is granted (as stated, usually on smaller schemes), we suggest that CIL be levied at the rate applied to comparison retail. The principal reason for this is that the evidence has shown viability on comparison retail development to be less viable than convenience retail and therefore the application of a lower rate, based on then comparison retail charge would mean that development for which open A1 consent is granted is less likely to be rendered unviable. . Conversely, applying the high CIL charge, based on the convenience retail rate, may hinder the viability of some schemes. It is therefore prudent to charge the comparison CIL charge on an open A1 consent and, if convenience uses are brought forward, then any CIL underpaid should be recouped subsequently. This approach will need to be made clear in the conditions to any open A1 planning permissions. It may also be necessary to define the range of goods that would constitute a convenience retail store. This should be by the predominant type of goods sold.

8 HOTELS AND TOURIST ACCOMMODATION

Introduction

8.1 This section of the report considers the viability and potential for a CIL charge on hotel development, as well as for other forms of tourist accommodation such as chalets. We have looked at this markets in the context of development in and around the National Park, summarising firstly our overview of market conditions and secondly our assumptions and viability assessment findings.

Market overview

8.2 With the exception of Central London (which has shown remarkable resilience to the recession), hotel development is being driven by the budget operators delivering new projects through traditional leasehold arrangements with institutional investors. Room demand for budget operators is also driven by business occupiers as opposed to tourists. Therefore high occupancy in this sector is more of a characteristic of major regional centres rather than smaller towns and cities.

8.3 The market for higher standard hotels remains difficult outside of the capital with the lack of access to finance curtailing development opportunities. Therefore we expect that demand for future hotel development within the Peak District in the short to medium term to be limited

8.4 It is noted that the National Park and surrounding area has been subject to several planning applications for holiday chalet developments. Clearly, this is not a mainstream element of the commercial property market and robust data is somewhat difficult to come by. The increase in 'staycations' through the recessions may well have led to increased demand and values for such development, although it is unclear whether this demand has led to additional development pressure or simply increased levels of occupancy at facilities where there was capacity resulting from declining custom over the previous years (perhaps decades) prior to the recession.

Appraisal findings

Hotels

8.5 The rapid expansion in the hotel sector at the end of the last decade was in part fuelled by a preference for management contracts or franchise operations over traditional lease contracts. The recession has curtailed the appetite from investors in management contract operations who prefer the security of lease-related income even if this reduces the potential additional income from a performance-related counterpart.

8.6 In the most part, the local authority want to bring hotel accommodation forward through the conversion of existing buildings or through minor extensions of existing facilities, in line with Policy RT2 of the Core Strategy. Whilst there is a desire to restrict the level of new build hotel accommodation, Policy RT2C of the Core Strategy highlights the desire to bring forward a hotel within Bakewell to contribute towards the local recreation and tourism economy. For this reason it has been included in the study.

8.7 The value of hotel accommodation can vary significantly depending on locations, quality and likely levels of occupancy. For example, a B&B in Blackpool is likely to have a value in the region of £25,000 per room, whereas the 4* Midland hotel in Manchester City Centre was recently valued at c£130,000 per room.

8.8 Our viability model is based on a 3 or 4 star hotel scheme of 40 -60 rooms with a value per room of c£60,000 and an average room size of 24 sq. m. We have also assumed a build cost of £1,430 per sq.m, which is the upper quartile BCIS average cost for High Peak (in the absence of Peak District data) a mid-point between the mean average and lower quartile average of BCIS costs. Typically, hotels are developed with specific operators signed up in advance and as such, developers are often prepared to undertake such developments on lower margins. The profit assumption in this assessment is therefore set at 10% on cost. There are few land value comparable for hotels, so we have assumed a land value with an uplift from employment land values.

Table 8.1 Viability Assessment, Hotel

		Hotel
Rent		
Yield %		
Minus inducements	1	
VALUES	2	**2,500**
COSTS	2	
Land + Purchase Costs	3	50
Basic Build Cost		1,428
External Works	4	143
Fees	5	157
Section 106/278	6	20
Marketing & Sales		125
Contingencies	7	86
Interest	8	180
Margin	9	217
Total Cost Benchmark		**2,406**
Values - Costs		**94**
Residual margin (% cost)		**4%**

8.9 On the basis of the assessment above, we believe the viability of hotel development in the National Park under current market conditions to be marginal at best and unlikely to be able to support a significant CIL charge. A base charge of £10 per sq. m would represent just over half of 1% of cost and as such would not deter hotel from coming forward.

Chalet Developments

8.10 It is clearly set out in Policy RT3 of the Core Strategy that any proposals for new static caravan, chalet and lodge developments will not be permitted. However it does make allowances for the improvement of existing facilities within the National Park. In certain cases the improvement of facilities could lead to an increase in the floorspace on site, either through the refurbishment of existing units or replacement by newer facilities. It has therefore been taken into consideration in this study.

8.11 Our research into chalet developments has revealed asking price values for chalets around the National park area in a range between £80,000 and £160,000, although more commonly between £90,000 and £140,000. The average asking price is c£118,000.

8.12 On a per sq. m basis, the examples analysed range from £1,500 per sq. m and £2,150 per sq. m, with the majority between £1,600 - £1,900 per sq. m. The average asking price per sq. m of those currently being marketed is £1,716 per sq. m and, making an allowance for discounts of 5%, an average achieved price could be c£1,630 per sq. m. The average size of chalets appears to range between 50 sq. m and 90 sq. m, with an average of 69 sq. m

8.13 BCIS does not provide build costs for chalet development, although our own research and consultations with operators and suppliers suggests the chalet units can be purchased 'wholesale' for £80,000 - £100,000, depending on size and quality. Clearly, there is some site preparation works, utilities connections and landscaping that is also required and should be allowed for in deriving a cost for the development. Again, consultations suggest that these usually range between £10,000 - £20,000 per plot. Taking the centre point of these two ranges and adding them together suggests a total cost of physical aspects of the development to c£105,000.

8.14 If other costs, such as professional fees, cost of sales and marketing are assumed to be marginally lower than for residential development (say 8% for professional fees instead of 10% and 2% for sales and marking instead of 3%), then a total build cost could be assumed to be c£115,500, against an average value per unit of £118,000. This leaves just £3,000 per unit to purchase the land and provide a return to the developer.

8.15 In terms of the costs of acquiring the land, these developments often take place on agricultural land, although some uplift over and above agricultural values would be required in order to motivate the sale of the land. In Section 5 above, we identify agricultural land values in the area at £19,760 per ha. a 30% uplift would mean land acquisition costs of over £25,000. For other forms of development we have assumed profit at 20% on cost. Either of these two costs alone would appear to render such development unviable under these assumptions.

8.16 Even if the lowest costs of £80,000 for the unit and £10,000 for the site preparations and external works, plus a 10% allowance for fees and cost of sales would leave a margin of less than 20% before land cost is taken into account.

8.17 On the basis of the above, we do not consider that chalet accommodation is viable in current market conditions. Where an operator already owns the land on which it is proposed to develop chalets, it is possible that something close to a commercial rate of return could be made, but the evidence set out above does not justify a significant CIL charge to be levied. We therefore recommend that chalet developments are covered by the proposed base charge

9 EDUCATION, HEALTH, COMMUNITY AND EMERGENCY SERVICES FACILITIES

Introduction

9.1 This section considers the potential for CIL charging on a range of traditionally non-commercial forms of development. We see this category as including, but not necessarily being limited to:

- Schools, including free schools;
- Community facilities, including community halls, community arts centres, and libraries;
- Medical facilities; and
- Emergency services facilities.

Market overview

9.2 Both the state-funded health and education sectors face the pressure of on-going severely constrained public resources and this is likely to have an effect on the viability of development of such uses.

Viability analysis

9.3 A number of these facilities may be delivered in Peak District National Park over the plan period and would potentially occupy net additional floorspace (thereby creating development which is liable for CIL).

9.4 We do not recommend that the Authority proposes to levy a CIL charge on these uses, for the following reasons:

- Ordinarily it is not possible to deliver new capital build state-led community, health, emergency services or education projects (including free schools, which are state provided) without funding support of the type that CIL is hoping to create. Raising a CIL against these uses would simply result in a circular funding stream that would require a return of the CIL funds raised to these uses. This would, amongst other things, incur management costs and so be inefficient.
- Completed developments of these types are not commercial in nature. They do not have a commercial value in themselves. They therefore do not create a residual site value. In other words, considered from a commercial perspective, such developments are not viable.
- Non-state education projects such as private schools generally have charitable status. They will therefore be exempt from CIL. There is therefore no point identifying a separate charge in the schedule.

9.5 Primary care facilities that are predominantly occupied by GPs; there is a commercial market for properties of this sort. We have analysed the price paid for completed investments across the country by specialist investors in the field and concluded that, again, the sites used are usually sourced on a preferential basis and the land values generated are not significant in most cases. It is possible that privately-funded BUPA-type health provision might be developed, but this is likely to be *de minimis*.

Scope for a CIL Charge

9.6 Given that these facilities are commonly and predominantly not commercially-driven developments, it is considered that there can be no evidence to justify a CIL charge for such uses. Indeed, there is simply no evidence to suggest that ‘value capture’ could be achieved from such uses which usually require public funding to be delivered.

9.7 We recommend that the proposed level of charge for these types of infrastructure development is zero.

10 SUI GENERIS USES

Introduction

10.1 By their very nature, sui generis uses cover a very wide range of development types. Our approach to this issue has been to consider the types of premises and locations that may be used for sui generis uses and assess whether the costs and value implications have any similarities with other uses.

Types of Development and Likely Viability

10.2 The other types of development we have considered are:

- **Hostels** (providing no significant element of care) – these are likely to be either charitable or public sector uses such as probation hostels, half-way houses, refuges etc., or low cost visitor accommodation such as youth hostels. Our view is that the charitable uses are dependent upon public subsidy for development and operation, and therefore not viable in any commercial sense. Youth Hostels are operated on a social enterprise basis with small financial returns. Neither of these scenarios offers significant commercial viability.
- **Scrapyards** – it is unlikely that there would be new scrapyard/recycling uses in the district in the future, even given the potential for the price of metals and other materials to rise. They are unlikely because of the comparatively low value compared to existing uses in Peak District National Park. A further consideration is that these uses are likely to occupy the same sorts of premises as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Petrol filling stations** – we are aware that recent new filling stations have generally come forward as part of larger supermarket developments, with independent filling stations closing. It seems unlikely that there will be significant new stand-alone filling station development in Peak District National Park.
- **Selling and/or displaying motor vehicles** – sales of vehicles are likely to occupy the same sorts of premises and locations as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Nightclubs** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Launderettes** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Taxi businesses** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.

- **Amusement centres** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Casinos** – under the current law casinos can only be built in 53 permitted areas or one of the 16 local authorities allocated one of eight large and eight small casinos under the provisions of the Gambling Act 2005. For a casino to be built in Peak District National Park the Authority would have to apply for a special licence and undertake a public consultation. We are not aware of any such proposals at the present time.

Scope for a CIL Charge

10.3 Given the minimal scale of development likely to occur for these uses, the likelihood that they will be changes of use rather than new development and their relatively marginal viability, we propose either a nominal base charge or a zero charge.

11 CHARGE RATE OPTIONS

Introduction

11.1 This section of the report sets out how we approach identifying potential CIL charging rates, based on the viability evidence presented above. This is achieved by first establishing the maximum potential rates that are consistent with maintaining the viability of the bulk of development planned in the emerging Local Plan, and then drawing away from that theoretical maximum to determine an appropriate level of charge.

11.2 We present this exercise separately for residential and non-residential uses and bring the conclusions together into a summary table that can form the basis for the preliminary draft charging schedule.

Residential Development

11.3 As mentioned previously, it is difficult to benchmark residential land values in the National Park, given that policy only permits market housing where it is required to conserve and enhance the National Park. Ordinarily, a sensitivity test of the potential CIL charge rate to a minimum level of return/residual land value would show the maximum possible charge rate, but in this case, such an exercise would simply show a commensurate reduction in the ability to deliver affordable housing.

11.4 The principal test for CIL Charging Schedules at Examination is whether the Charging Authority has struck a balance between the need to fund the infrastructure required to enable growth with the need to maintain viability. On this basis, and in the context of the above, we believe that the most appropriate approach to CIL on open market residential development in the National Park would be to apply a small 'base charge' so as not to materially impact upon the ability to deliver affordable housing. An appropriate level of charge, in line with other uses, could be £10 per sq. m.

Non-Residential Development Viability

11.5 The findings of the non-residential viability appraisals are set out in Table 10.3. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely S106/278 costs is included, based on our experience of developments across Derbyshire Dales.

11.6 The shaded row at the bottom of each table shows the viability[26] of development based on the following traffic light assessment:

[26] This traffic light assessment must be treated with caution, as explained earlier; the appraisals are based on a strategic approach and in no way represent site specific valuations.

- Red shaded cells show those uses for which there is a negative residual value after all costs (including developer's margin) are taken into account (i.e. development costs are higher than development value by greater than 10%);
- Amber cells show those uses which are viable, but where values exceed costs (including developer's margin), by less than 10% and could be considered marginal;
- Green cells show those use types where the residual value is greater than 10% of cost and can be considered viable.

11.7 As can be seen from Table 11.1 below, on viability evidence alone, only supermarket and retail warehouse development are comfortably viable as speculative developments on the basis of the assumptions made. We consider charge rate options for these uses further below. For uses that the assessment shows to be typically unviable or marginal on a speculative basis, that does not mean that no development will take place. Development either by owner occupiers for whom the development economics are different or on sites where the land was acquired for a low value remains plausible.

Table 11.1 Non-residential viability assessment

		Town Centre Office	Business Park Office	Industrial	Town Centre Comp. Retail	Convenience Retail	Retail Park/ Warehouse	Hotel
Rent		£110	£120	£55	£250	£180	£120	
Yield %		9.50	8.50	8.75	8.50	5.50	8.00	
Minus inducements	1	116	141	63	294	327	150	
VALUES	2	**1,042**	**1,271**	**566**	**2,647**	**2,945**	**1,350**	**2,500**
COSTS	2							
Land + Purchase Costs	3	60	60	60	750	300	200	50
Basic Build Cost		1,150	1,000	570	880	1,120	580	1,430
External Works	4	115	100	57	88	134	70	143
Fees	5	152	110	63	116	125	65	157
Section 106/m²	6	0	20	20	0	100	20	20
CIL @ £0		0	0	0	0	0	0	0
Marketing & Sales		52	64	28	132	147	68	125
Contingencies	7	71	61	34	54	69	36	87
Interest	8	148	129	77	183	178	93	180
Margin	9	349	305	178	441	415	222	214
Total Cost Benchmark		**2,097**	**1,848**	**1,087**	**2,645**	**2,589**	**1,353**	**2,406**
Values - Costs		**-1,055**	**-577**	**-522**	**2**	**357**	**-3**	**94**
Residual margin (% cost)		**-50%**	**-31%**	**-48%**	**0%**	**14%**	**0%**	**4%**

Notes:

1 A reduction of 10% of development value is made to reflect current market norms for rent free perioods and other tenant inducements
2 All values and costs per m² unless stated
3 The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
4 Works outside built structure. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
5 Fees are higher for smaller and/or more complex structures.
6 Site/development specific mitigation such as on-site and access or public relam works close to it.
7 Contingencies at 5% of costs
8 Interest costs vary with the nature and length of a typical project.
9 Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

Costs exceed values
Values exceed costs by less than 10%
Values exceed costs by more than 10%

Maximum Potential Charge Rates

11.8 Table 11.2 below, shows the maximum possible charge rates, consistent with the bulk of development remaining viable, for convenience retail. We have tested the maximum extent of CIL charge that could be accommodated whilst still retaining a surplus of 10% of costs (after developer's margin at 20%, which is built in to the assessment) to act as a 'buffer' from the ceiling of viability.

Table 11.2 Maximum Charge Rate Assessment

		Convenience Retail
Rent		£180
Yield %		5.50
Minus inducements	1	327
VALUES	2	**2,945**
COSTS	2	
Land + Purchase Costs	3	300
Basic Build Cost		1,120
External Works	4	134
Fees	5	125
Section 106/278	6	100
CIL at Maximum		101
Marketing & Sales		147
Contingencies	7	69
Interest	8	178
Margin	9	415
Total Cost Benchmark		**2,690**
Values - Costs		**256**
Residual margin (% cost)		**10%**

11.9 The assessment in Table 10.4 shows that the maximum possible charge for convenience retail development, that is consistent with keeping the residual margin at over 10% of cost, is £101 per sq.m.

Base Charge Consideration

11.10 The CIL regulations state that Charging Authorities must balance the viability of development with the need to fund infrastructure investment. Therefore, it is within the discretion of the Charging Authority to decide whether a base charge should be applied to all development, recognising that some development may take place and if it does, it will have infrastructure implications. Obviously, such a charge would have to be at a level where it is unlikely to be the determining factor as to whether a development takes place or not. Such a 'de minimis' base charge could be pegged at a ceiling of 1% of the cost of development of the lowest cost development – industrial – which equates to c£10 per sq.m.

Whether the proposed base charge is taken forward by the Council is, in our opinion, at their discretion.

Recommended Non-Residential CIL Charge Options

11.11 We set out below our recommended range for potential CIL charges on these core commercial forms of non-residential development.

11.12 In the case of each use, we propose a range for any CIL charge that takes account of the need to withdraw from the ceiling of viability. The extent to which the charge draws away from this theoretical maximum is informed by the authority's attitude to development risk. The councils will need to consider how the quantum and pace of development would be affected by the level at which CIL is set. If imposing a higher CIL charge could result in less development coming forward and at a slower rate than anticipated, the councils will need to assess whether this is acceptable given their Local Plan aspirations. If it is felt that delivery would be put at significant risk, the councils should give careful consideration to setting a CIL charge which is further lowered from the theoretical maximum charge.

11.13 These findings are summarised in the Tables 11.3 below.

Table 11.3 Non residential maximum and recommended range of CIL charges

Use	Maximum CIL charge (per sq.m)	Recommended range (per sq.m)	Proposed Charge (per sq.m)
Supermarkets	£101	£50-£75	£65
Retail warehousing	n/a	£0-10	£10
Town centre office	n/a	£0-10	£10
Business park office	n/a	£0-10	£10
Industrial and warehousing	n/a	£0-10	£10
High street comparison retail	n/a	£0-10	£10
Education, health & community facilities	n/a	£0	£0

12 PRELIMINARY CHARGING SCHEDULE

Introduction

12.1 In this Section, we make recommendations on the content of a Preliminary Draft Charging Schedule, bringing together the conclusions of the preceding sections.

Proposed Preliminary Draft Charging Schedule

12.2 Table 12.1 below summarises the findings and recommendations of the previous sections of this report into a clear and simple proposed charging schedule. The charges set out below reflect the viability evidence and comply with the CIL regulations in every respect, as we understand them. We believe that it is exactly this kind of clarity and simplicity that is being and will be sought by inspectors.

Table 12.1 Proposed Charging Schedule

Use	Proposed CIL charge (per sq.m)
Private market dwellings	£10
Supermarkets	£65
Public/Institutional Facilities as follows: education, health, community and emergency services	£0
All other chargeable development	£10

12.3 As identified in Section 2, in the words of the statutory guidance:

> *'There is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism'*[27]*.*

12.4 As such, there remains scope for the Charging Schedule to be amended at the discretion of the council.

Revenue Projection

12.5 The scale of new residential development is set out in the Core Strategy, the level of market and affordable housing provision that is anticipated has been set out in the Housing Delivery Plan. Using this data as well as assumptions for construction of non-residential development, a revenue projection has been created.

[27] DCLG CIL *Charge Setting and charging schedule Procedures* March 2010 (10)

12.6 A small figure is suggested for market housing; this takes into consideration a range of factors covering the types of dwellings expected to be brought forward, how they are brought forward (i.e. new builds or conversions (which are not necessarily subject to CIL)) as well as the number of dwellings already completed. The projection is shown below.

Table 12.2 CIL Revenue Projections

	CIL Charge per sq.m	No. units in plan period (note 1a)	Market units (note 1b)	Unit floorspace (note 2)	Gross floorspace (note 3)	Estimated net additional proportion	Estimated net additional floorspace	Estimated CIL revenue in plan period	Estimated annual CIL revenue
Residential									
Houses	10	414	115	130	14950	95%	14202.5	142025	11835
Non-Residential									
Supermarkets	65				2000 (note 3a)	90	1800	117000	9750
Public Institutions etc.	0				0	90	0	0	0
Other Chargeable	10				2000 (note 3a)	90	1800	18000	1500
Total								**277025**	**23085**

Note 1a: taken from submitted delivery plan appendix E and illustrating a mid- point for the period 2006 – 2026. Adjusted to take into account completion data supplied to April 2013 by PDNPA

Note 1b: The number of anticipated units is constrained by capacity, restraint of individual newly built homes (a generous allowance has been made) and, in the few large schemes that are anticipated, reduction in overall developed area floorspace. This figure includes agricultural and other essential rural business dwellings.

Note 2: the average unit size is based on our assumptions applied in the viability assessments

Note 3: office and industrial floorspace assumes a 40% site coverage for both uses, with industrial assumed to be a single storey and offices three storey on average.

Note 3a: a small supermarket and other speculative developments may come forward over the plan period, the figures shown represent the likely size of speculative developments that may come forward.

13 IMPLEMENTATION

Introduction

13.1 This section of our report sets out some of the issues involved in adopting and implementing the CIL should it be adopted at a future date.

Exceptional Circumstances & Discretionary Relief

13.2 Affordable housing is automatically exempt from paying CIL. In addition, the authority has the option to offer discretionary relief from CIL charges where the landowner is a charitable body and if the development is in line with its charitable purpose. This is a decision taken locally, although there are detailed rules governing entitlement to such relief and its amount. The CA must publish its policy for giving relief in such circumstances.

13.3 A CA can also give relief from the levy in exceptional circumstances, for example where a specific scheme would not be viable if it were required to pay the levy and a signed S106 agreement that was greater than the value of the CIL charge applicable. Where a CA wishes to offer exceptional circumstances relief it must first give notice publicly of its intention to do so. Claims for relief on chargeable developments from landowners should then be considered on a case by case basis. In each case, an independent person with suitable qualifications and experience must be appointed by the claimant with the agreement of the CA to assess whether:

- the cost of complying with the signed Section 106 Agreement is greater than the levy's charge on the development; and
- paying the full CIL charge would have an unacceptable impact on the development's economic viability.

Instalment Policy

13.4 Regulation 69B set out the simplified criteria for enabling a charging authority to instigate an instalments policy for CIL payments. The policy should only contain the following information:

- the effective date of the policy, and number of instalment payments;
- the amount or proportion of CIL payable in any instalment;
- when the instalments are to be paid based on time from commencement; and
- any minimum amount of CIL below which CIL may not be paid in instalments.

13.5 It will be useful to assess the general timeframes for the delivery of development schemes and then consider the phasing of the payments. A possible starting point could be a phased schedule of payments spread over two to three years with two or three payments over this timeframe. This will reduce the financial burden on developers who need to invest up front in infrastructure and construction before they can recoup any development costs through disposals. The council may wish to consider a minimum amount below which CIL may not be paid in instalments. Any such decision will need to be informed by an assessment of the level of 'smaller' developments that are anticipated.

13.6 Developments which are likely to have a more significant cash flow implication are likely to be those which have a construction period which extends beyond a year or where the scale of the charge exceeds say £250,000.

Administration charges

13.7 There is provision within the CIL regulations (Regulation 61) to use up to 5 per cent of the CIL receipts towards the administration and set up expenses related to the operation and management of the levy. This will provide the Charging Authority with a useful source of funding to take a proactive approach towards infrastructure delivery and explore opportunities for generating revenue as well as charging.

13.8 The viability assessments undertaken as part of this study have not taken account of any additional administration charges that may be levied on developers; rather, they have assumed that the administration charge will be drawn from the levy as proposed.

Use of CIL Receipts for Revenue Purposes

13.9 The CIL Regulations do allow for CIL receipts to be used for revenue purposes, (maintenance, management etc). However, the clear primary intent of the CIL is to deliver a pot of funding for capital investment in essential infrastructure, rather than to plug shortfalls in revenue budgets. In order to maximise the social and economic benefits of CIL, it is important that capital infrastructure spending is prioritised over revenue spending on maintenance and the like.

13.10 Therefore, it is proposed the CIL receipts in Peak District National Park will only be used for revenue spending in highly exceptional circumstances. It is important that other approaches to resolving any revenue budget problems, particularly approaches to negotiating and securing Commuted Sums, is fully exhausted before any calls on CIL receipts are made for revenue purposes.

Monitoring and Review

13.11 There are no prescribed review periods for a CIL charging schedule; it is a decision for the CA. We would expect this period to be between three to five years, although much will depend on market conditions and their impacts on development viability, as well as additional lessons learnt from the implementation of the CIL.

13.12 Clearly, the viability of most forms of development has been negatively affected by the recent recession and could be considered to be at or close to the trough in the market cycle at this time. We suggested that the council implements a programme of monitoring market conditions in relation to a series of trigger points for a review. We suggest this monitoring takes place on a 6-monthly basis.

13.13 It is known that development viability is most sensitive to changes in development value. Typically a 10% change in the value of development can increase or decrease viability by c30%. Similarly, a 10% change in build costs can affect development viability by c20%. Other factors which have a significant impact on viability include the density of development and policy requirements, both of which are likely to stay broadly the same over the time period being considered.

13.14 We therefore propose the following guidelines: If three or more of the following criteria are met, then a full review of the Charging Schedule should be considered:

- a 5% change in residential sales values since the date of adoption;
- a 10% change in residential build cost since the date of adoption;
- a 10% change in office rental values since the date of adoption;
- a 10% change in office yields since the date of adoption;
- a 10% change in office build costs since the date of adoption;
- a 10% change in industrial rental values since the date of adoption;
- a 10% change in industrial yields since the date of adoption;
- a 10% change in industrial build costs since the date of adoption;
- a 10% change in town centre comparison retail rental values since the date of adoption;
- a 10% change in town centre comparison retail yields since the date of adoption;
- a 10% change in town centre comparison retail build costs since the date of adoption;
- a 10% change in supermarket rental values since the date of adoption;
- a 10% change in supermarket yields since the date of adoption;
- a 10% change in supermarket build costs since the date of adoption;
- a 10% change in retail warehouse rental values since the date of adoption;
- a 10% change in retail warehouse yields since the date of adoption;
- a 10% change in retail warehouse build costs since the date of adoption;

13.15 A review of the Charging Schedule should automatically occur if:

- The rate of residential development falls below 50% of the long term average for two consecutive years; or
- There is a significant revision to or departure from the Development Plan or a major windfall development is permitted.

13.16 It should be noted that there is a requirement for the Charging Authority to publish a report on its website at the end of each year showing the level of CIL receipts collected and how these have been utilised.

14 CONCLUSIONS AND RECOMMENDATIONS

14.1 The revenue projections are based upon the CIL Charge levels proposed in this report and as indicated by the viability evidence, alongside anticipated levels of development over the plan period. Housing figures are based on housing delivery data provided by the National Park Authority. These anticipate 414 units to be constructed of which 115 will be market homes. Retail floorspace shown in the projection is based on the assumption that a small supermarket is developed in Bakewell. The scale of 'Other chargeable development' is a very broad estimate of the scale of floorspace that could be delivered over the plan period.

14.2 Our analysis of the infrastructure requirements for the National Park shows that there is minimal strategic infrastructure need, and that there does not appear to be evidence of a significant funding gap, which is required for the introduction of CIL to be justified.

14.3 Further, the costs involved in the collection and administration of CIL within the National Park could outweigh the benefits of the revenues from CIL, given the limited scale of development likely to take place.

14.4 That said, given the limited infrastructure requirements, there is still scope to utilise s106 agreements to fund local infrastructure needs. The levels of funding required are relatively small and infrastructure investment needs could, therefore, be delivered using pooled S106 revenues (from less than 5 schemes, in line with regulations).

14.5 In addition, a proportion of the infrastructure needs in the National Park could be delivered by the districts that cover the National Park. It is suggested that their Regulation 123 lists could include an allocation to sub-regional strategic infrastructure funding to be used, for example, to meet the cost green infrastructure requirements in the National Park. The National Park Authority could press this case.

14.6 In light of these findings, it is suggested that whilst there may be potential to introduce CIL in the National Park, our recommendation is that implementing CIL should not be the preferred means for funding strategic infrastructure investment within the National Park.

Appendix One: Assumptions Explanation Sheet

	Value	Justification
Residential		
Unit size	120 sq. m (market) 80 sq. m (affordable)	The unit sizes have been arrived at through market analysis undertaken as part of the study, including current/recent developments in the Derbyshire Dales District Council area. Affordable housing unit sizes are based on feedback from registered providers.
Development density	35 dph	This figure has been used as it is a policy requirement as set in the Derbyshire Dales and High Peak Draft Core Strategy document.
Net developable area	70% for 1ha scenarios; 60% for 10ha scenarios; and 85% for 0.25ha scenarios	Not all of any given development site will be developable, given site characteristics and constraints, the needs for spine roads and strategic landscaping and so on. As such an allowance for undevelopable areas is provided for in the assessments. This figure fluctuates with site sizes, a large strategic site, for example, will have less developable area as more on-site provision of items such as play areas and other facilities will be required.
Sales Values		A range of value scenarios modelled to reflect current market conditions in Derbyshire Dales, based on market analysis and data from new build houses on the market (taking account of discounting from asking price) and recently sold new house price data (Land Registry.)
Build costs		Derived from the industry standard BCIS database (indexed for Derbyshrie Dales), with allowances for external works and contingency of 15% on top (10% external works, 5% contingency)
On-site secondary infrastructure	£100,000 - 1ha site £300,000 - 10ha site	Secondary infrastructure includes, but not limited to, items such as spine roads, utilities extensions and connections, SUDS and so on. These items all come at a cost that will not be included in s.106/278 agreements with the Council, nor within the core build costs. The uplift for larger sites takes into account the likelihood that there will be greater levels of secondary infrastructure requirements in order to deliver the project.
Stamp duty & purchase fees	4% and 2% of land purchase price	Industry standard levels.
Professional Fees	10% of costs	Industry standard levels
Cost of Sales	3% of value	Industry standard levels
Developer’s margin	20% on cost	Whilst different developers will measure performance differently, we apply a benchmark level of return of 20% of costs. If margins fall below this level, it will be less likely that the

		development will take place. Margins over and above this benchmark can be considered a 'super-profit' from which a levy can be drawn.
Interest Rate	7% per annum	Typical prevailing finance rates factored in to the cashflow modelling.
Non-Residential		
Rental values		Based on analysis of comparable transactional evidence and consultations with locally active agents.
Yields		Based on published research and consultations with locally active agents.
Build costs		Derived from the industry standard BCIS database, indexed for Derbyshire Dales.
External works	10% of cost	Industry standard figure covering development costs outside of the building envelope.
Professional Fees	10-12% of cost	Industry standard assumption covering professional fees of architects, engineers and the like.
Marketing and Cost of Sales	5% of value	An industry standard assumption covering the costs of marketing as well as sales agent and legal fees.
Contingency	5% of cost	Industry standard allowance.
Interest	10%	Interest on the money borrowed for the scheme, broadly equating to 7% p.a. over and 18 month development period.
Developer Margin	20%	Benchmark level of developer return. Any additional margins over and above this figure is the 'super profit' from which a levy could be drawn.

Appendix Two: Note of Developer Workshop

Peaks, Dales and Moors Community Infrastructure Levy Study
Developer Workshop

17 July 2012

Presentation

Introduction

1 Matt Whiteley presented an introduction to CIL explaining what CIL is, why it is being introduced, what happens to S.106, how it will work and what is needed to establish a CIL Charging Schedule.
2 The approach taken to assessing viability was explained including the different models for residential and non-residential development and the output measure of % surplus margin on cost. It was emphasised that any potetential CIL rates would be set by drawing away from the margins and there would be additional sensitivity testing on key variables
3 The evidence sources for sales values, rents, yields, build costs and land costs were then introduced.
4 Following general queries it was explained that the life of any CIL Charging Schedule is a matter for the individual authority and should be reviewed if there is a material change in market conditions. It was also stated that the charge is usually index-linked to the BCIS build cost index.

Assumptions and Initial Findings: Residential

5 Matt Whiteley then explained the assessment of residential development and presented some initial findings.
6 The sales values and site sizes tested were then presented. There were some queries over apparent anomalies in the Land Registry heat mapping. It was explained that this was most likely caused by some small samples in rural areas and that in any case any CIL Charging Schedule does not need to mirror such evidence exactly but rather reflect it.
7 There was some concern that sales rates were too optimistic with 25 sales per annum on sites up to 50 dwellings more typical. Furthermore it is anticipated that presently sites above 50 dwellings won't be delivered with smaller sites of between 15 and 25 units being the best sites to deliver.
8 Although some concern was expressed around the assumptions on build costs it was explained that other elements such as professional fees, external works and contingencies were dealt with separately.
9 There was a wide ranging discussion on land costs. Although some concern was expressed that assumed land values were too high when it was explained that these took into account the impact of current policy requirements on value they were generally viewed as more realistic. Whist some views were expressed that post CIL land values would have to reduce to take CIL into account others believed this to be unrealistic.
10 There were concerns over deliverability, specifically on brownfield sites, if CIL were to be introduced. It was explained that there would be difficult decisions necessary in striking the balance. It was also stressed that the deliverability of the development plan and specific sites would be tested through the plan preparation process.
11 In respect of affordable housing it was suggested that the size of affordable dwellings was decreasing with a range between 80-70 sq.m, however with dwellings of 70 sq.m the number of Registered Providers interested will decrease as quality becomes an issue.
12 It was suggested that in the present market a margin of 20% on value may be more appropriate than 20% on cost.

Assumptions and Initial Findings: Non-Residential

13 Matt Whiteley then explained the assessment of non-residential development and presented some initial findings.
14 It was agreed that the assumed figures for offices and industrial development were in the right region and that such development was not currently viable. Similarly, town centre comparison retail development was likely to be unviable, given the costs of land acquisition, constraints of the physical fabric of the centres in these areas and relatively low rental values.

15 The rent and yield figures for convenience retail were considered reasonable, although it was noted that yield is driven by covenant strength and therefore is largely dependent on the operator.

16 There was some concern expressed over the treatment of agricultural buildings and how a distinction would be drawn between different types.

How CIL Money Can Be Spent

17 The presentation concluded with an explanation of how CIL monies can be spent and the requirements for a Regulation 123 list. Decisions will have to be made on the prioritisation of infrastructure projects for investment.

18 A ‘meaningful proportion’ must be given to local communities. There was some concern over how un-parished areas, such as Buxton, would be treated and who would have control of this money.