Viability profiling for CIL and Local Plans

1 Introduction

1.1 In response to both the current economic climate, and an emphasis in national policy towards consistency and affordability of planning policy, local planning authorities are increasingly required to focus on economic viability.

1.2 The reduction in public sector funding necessitates a clear understanding of how infrastructure required for growth can be funded, which increasingly will be met through funding released by development, such as the Community Infrastructure Levy and Section 106 agreements. In tandem, the National Planning Policy Framework, with the ‘presumption in favour of sustainable development’, requires the holistic cost of all policy ‘burdens’ placed by a planning authority to be affordable.

1.3 This necessitates an understanding of the underlying viability within development, and the additional costs placed by local policy; both to ensure that local plan policies are deliverable and to estimate the amount of infrastructure that could be supplied through development.

1.4 Dover District Council is keen to ensure that it can maximise both the quality of development while enabling sufficient contributions to be made towards infrastructure. In order to ensure this can be achieved, work is underway to scope the underlying viability of development, and how decisions on policy requirements can be achieved. This will also include the basis for setting rates for the Community Infrastructure Levy and Section 106 requirements.

1.5 This report covers the scope of such an exercise, and what existing information would lead the headline conclusions to be. In particular the report will use the emerging Kent Economic Viability for Funding Infrastructure Toolkit to ascertain the scope for the economic ‘headroom’ in development to deliver local ambitions, and how this changes with different assumptions and considerations.

2 Background

2.1 'National Planning Policy Framework' (NPPF) and 'Viability Testing of Local Plans' (VTLP)

2.1.1 The NPPF sets out the Government's planning policies for England and how these are expected to be applied in regards to the preparation of local planning policies. In terms of viability, it directs local authorities to assess:

"....the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions". (Para 173)

and

"the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards" (para 173)

2.1.2 It is up to the Local Planning Authority to consider the balance of these policies, provided that "when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable".

2.1.3 A further non-statutory guidance document produced by the Local Housing Delivery Group – 'Viability Testing of Local Plans' (known as the 'Harman report') provides guidance on how this should be achieved. While the VTLP is not a statutory document, it is clear there will be an expectation that local authorities consider viability within the main principles of the document. In summary, the guidance suggests that:

- Planning Authorities should strike a balance between policy requirements and the realities of economic viability – making an informed choice about risks to delivery.
- Local choice should be supported by a collaborative approach – input of those with knowledge of local markets to help inform assumptions
- 'high level assurance' – a local plan viability assessment is not produced on the basis that every development in the plan period will be viable, only that it is viable for a sufficient number of sites (i.e. 5 – 10 years worth of supply).
- Demonstrate viability across time and local geography – there will be different viability in different market areas; assumptions may change over time
- The role of the viability assessment is not to dictate individual policy decisions, but to inform the decision making of elected local members – the balances and trade-offs that will need to be considered.

2.2 Community Infrastructure Levy (CIL)

2.2.1 CIL is a local levy placed on new development for the purpose of raising funds to deliver infrastructure that is required to enable growth. In most part, CIL is a more consistent and transparent application of funding raised through the Section 106 of the Town and Country Planning Act 1990 (S106), although S106 will remain with a reduced scope.

2.2.2 The regulations require two distinct aspects to be considered. Firstly, a 'charging authority' (the Local Authority) needs to demonstrate that new development necessitates the provision of new, or improved, infrastructure. Secondly, and more notably, that the rate of the proposed levy does not make development proposals unviable, in particular with regards to expected costs that would be associated with the provision of on-site infrastructure. Currently, affordable housing is regarded as an on-site requirement and will continue to be secured through S106 agreements – this may change with future amendments to legislation.

2.2.3 In setting rates of CIL, the regulations state that;

(14[1])…..a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between…. (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

2.2.4 Statutory guidance accompanying the regulations further states that:

"In view of the wide variation in local charging circumstances, it is for charging authorities to decide on the appropriate balance for their area and 'how much' potential development they are willing to put at risk through the imposition of CIL……some charging authorities may place a high premium on funding infrastructure if they see this as important to future economic growth in their area, or if they consider that they have flexibility to identify alternative development sites, or that some sites can be redesigned to make them viable. These charging authorities may be comfortable in putting a higher percentage of potential development at risk, as they anticipate an overall benefit"

2.2.5 In short, for both the purpose of CIL and the NPPF, provided local growth requirements can be met, it is up to the local authority to determine the extent to which funding via development is used. However this must be informed by the scope to raise such contributions, and where necessary the reduction in 'policy costs' such as on-site requirements or affordable housing.

2.3 The Kent Economic Viability for Development Infrastructure Toolkit (KEDFIT)

2.3.1 KEDFIT has been designed to understand the underlying viability across broad development types and market areas. It is not a defined model, but instead is an 'open ended tool' which allows assumptions to be modelled and varied. It can perform the role of developing initial thinking for the preparation of a local plan, or inform appropriate rates of CIL.

2.3.2 The tool has been designed by Andrew Golland Associates (formerly of Three Dragons) using a similar technical basis of successful and widely used modelling tools (in particular the Mayor of London's viability model). Based on average values for sales, build costs, contingency etc, specific to indentified property markets, the tool identifies a 'base' headroom to cater for 'other costs'. The toolkit can then vary policy assumptions, such as density, Code for Sustainable Homes and affordable housing to assess the impact on headroom.

2.3.3 Deducting from this headroom an assumed land cost, and any other costs (such as anticipated on-site S106) the 'residual' headroom highlights an envelope that could sustain a CIL charge or further S106 requirements. Currently the tool kit covers Ashford and Dover districts, and may be rolled out to other interested districts in Kent.

2.3.4 As per the guidance highlighted above, the approach used in this report has been to define a broad basis on which to assess the level of viability that will 'on average' be assumed from development. This will include an assumption for expected S106 costs (excluding those that will migrate to CIL) and a range of assumed land costs. The tests have been set against meeting the current local plan requirements and where necessary how, if circumstances dictate, viability can be shaped by varying these local policies.

3. Scope of Developer Contributions

3.1 The Council's S106 monitoring reports highlight that in 2011-12, the council signed S106 agreements to the value of £13k, not including affordable housing. This is down from £510k in 2010/11, reflecting the reduction in S106 signed; previous to this figures were £950k (2009/10) and £98k (2008/09).

Table 1 The value of signed S106 agreements since 2008

	Total	DDC		KCC		Other	
2011-12	£12,910	£6,000	46.5%	£6,910	53.5%	£0	0%
2010-11	£510,638	£187,058	36.7%	£223,580	43.8%	£100,000	19.5%
2009-10	£953,615	£296,554	31%	£657,061	69%	£0	0%
2008-09	£98,403	£17,056	17.3%	£81,247	£82.6%	£0	0%

3.2 The Council uses the S106 process on a 'by development basis', rather than applying formulae to establish planning obligation 'costs'. However a formula to assess off site contributions for affordable housing where the development is below 15 units, is set out in the Council's Affordable Housing Addendum adopted in July 2011 (See 4.4.1 for details). Overall, this approach has historically resulted in collection of lower S106 receipts than in neighbouring districts.

3.3 Kent County Council calculates requests for Education, Adult Social Services, libraries, Youth and Community Services contributions using a formulaic approach. In the past the total cost of these contributions, if met in full, would be up to £7,000 per residential unit. KCC has recently consulted upon the use of an Integrated Infrastructure Funding Model to calculate contribution requests, and recent indications suggest that on average the costs might be lower then previously requested. However, except in the case of large strategic sites that must have facilities provided on site, the most appropriate route for funding this type of infrastructure will be via CIL.

Table 2 Indicative tariffs calculated by KCC infrastructure

Contribution Type	Cost		
	Flat	House	Average
Education			
Primary	£590 - £1390	£2360 - £5560	£2,475
Secondary	£590 - £1273	£2360 - £5092	£2,329
Sub-total			£4,804
Community			
Libraries	£227		£227
Adult Education	£180		£180
Youth and Community	£207	£827	£517
Sub-total			£924
Adult Social care	£1,201		£1,201
Total			£6,929

4 The Current Situation in Dover – Residential

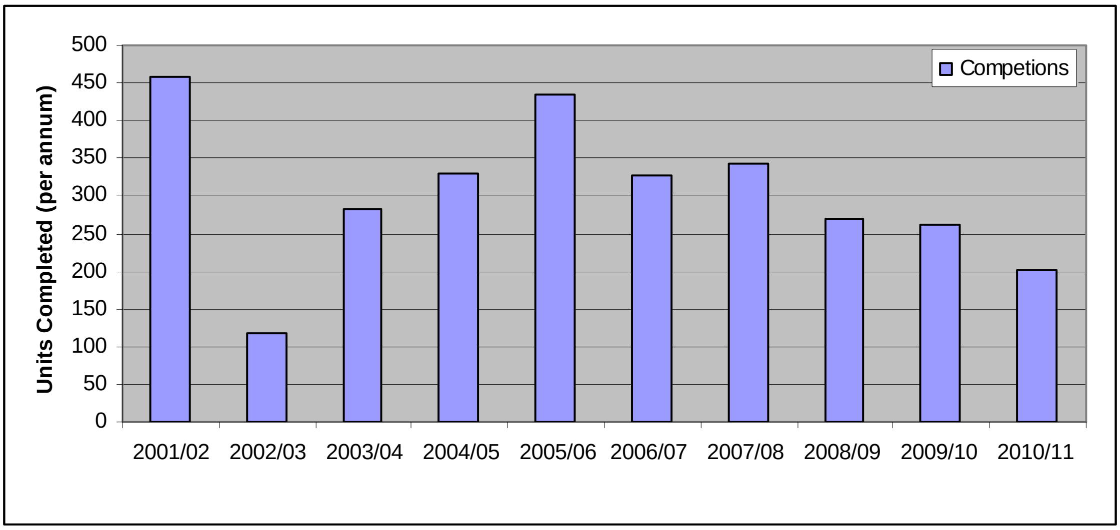
4.1 Local Plan

4.1.1 The current Core Strategy for Dover was adopted in 2010. In conformity with the then Government's 'Sustainable Communities Strategy' (SCS) and the Regional Spatial Strategy for the South East (RSS), it plans for up to 14,000 new homes to be delivered by 2026. Despite the pending abolition of the RSS the aspiration for high growth policy will be retained. This policy was adopted, in part, to address the issue of an aging population in the District and the need to retain even the current level of economically active residents.

4.2 Housing Supply

4.2.1 In terms of development trends, unsurprisingly given the current economy, the level of development in Dover has stalled somewhat over recent years. The Annual Monitoring report for 2010/11 reports that completions have averaged around 300 a year, however this has noticeably dipped in the last year and is expected to continue in the short term as planning consents have also reduced in the last couple of years. At present, most development takes place on small scale infill plots within the existing confines and many of the new residential units are created through conversion of existing buildings. However, the Council will be taking its Land Allocations Local Plan to examination in public next year, and once the Plan has been adopted an increased number of larger scale developments are expected.

Figure 1 Numbers of completed residential units per year



4.2.2 On average around 13,000 sqm of new residential floor space is created each year, as shown in Table 3. The figures were calculated using information from the Housing Information Audit, excluding residential units created through conversion of existing buildings. Estimates of Gross Internal Floorspace (GIF) for each category of dwelling were taken from Scott Wilson's Dwelling Size Survey April 2010 (created for CABE). The ratio of gross to net internal floor space is not recorded in this district, but the predominant type of development is houses rather than flats, so the two figures should be fairly similar.

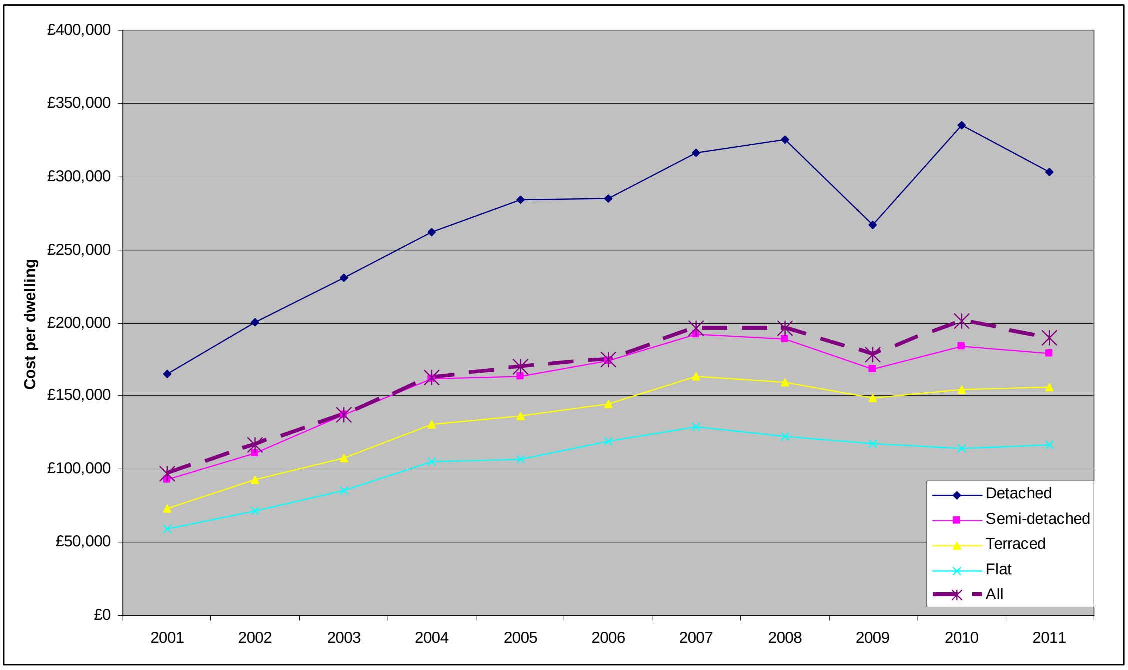
Table 3 Estimated Gross Internal Residential Floor Space Completed Per Year in sq m

		2008/2009		2009/2010		2010/2011	
Typology	GIF per dwelling in m^2	No of Dwellings	Total GIF m^2	No of Dwellings	Total GIF m^2	No of Dwellings	Total GIF m^2
1BF	47	27	1,269	37	1,739	17	799
2BF	59	64	3,776	19	1,121	7	413
3BF	90						
4BF	119					1	119
1BH	69		69	2	138		
2BH	69	28	1,932	27	1,863	12	828
3BH	92	38	3,496	51	4,692	33	3,036
4BH	117	35	4,095	19	2,223	67	7,839
5BH	159	1	159	2	318	1	159
	Total	193	14,796	157	12,094	138	13,193

4.3 Residential Values

4.3.1 Over this same period, house prices have increased on average by a range of 80%-100%; which is in line with the Kent average (approx 100%). More recently, during the housing market collapse in Spring 2008, average values in the district slumped by around 20%, however the market has since recovered by around 10-15%%, and has remained relatively stable at around £150,000 (median) £180,000(mean).

Figure 2 Extracted from the Kent House Price and Transactions Report (KCC 2011)



4.3.2 The average value in Dover District is a reflection of the main area of sales activity– the existing urban areas, principally Dover and Deal centres. The rural areas are able to achieve much higher values. Between March and August 2012 the average value (median) in Central Dover (postcodes CT16 1, CT16 2, CT17 0 and CT17 9) was around £100,000. In contrast, in many rural areas average values were more than twice as high.

Table 4 Summary of House Price Data obtained from the Land Registry

Post code	Area	No of sales	Lowest Price	Highest Price	Average Price	Median Price
CT13 0	Eastry	57	83,000	665,000	184,425	162,250
CT13 9	Sandwich	37	67,500	525,000	238,755	217,000
CT14 6	Deal	90	66,500	524,950	214,532	180,000
CT14 7	Deal & Walmer	121	50,000	685,000	206,660	167,750
CT14 8	Kingsdown	15	45,000	950,000	340,630	205,000
CT14 9	Deal	127	65,000	665,000	164,825	139,500
CT15 4	Eythorne	30	115,000	387,500	181,806	160,000
CT15 5	Langdon	22	99,000	400,000	158,043	130,000
CT15 6	St Margarets	28	127,000	1,500,500	379,674	275,000
CT15 7	Lydden	34	122,500	585,000	253,323	210,000
CT16 1	Dover	31	45,000	240,000	105,153	87,250
CT16 2	Dover	62	45,000	273,000	116,483	109,000
CT16 3	Whitfield	49	95,000	375,000	199,621	170,750
CT17 0	Dover & River	93	42,000	450,000	128,472	95,000
CT17 9	Dover	64	62,000	200,000	116,510	110,750
CT18 7	Capel le Ferne	13	115,000	330,000	193,038	175,500
CT3 1	Wingham	24	42,000	390,000	182,270	146,000
CT3 2	Ash	30	120,000	555,000	257,296	211,690
CT3 3	Aylesham	36	100,000	225,000	136,019	126,000
CT4 6	Denton	1	385,000	385,000	385,000	385,000

This data covers the transactions received at land Registry in the period 1st March to 31st August 2012. © Crown copyright 2012. http://www.landregistry.gov.uk

4.3.3 The type of development is different between urban and rural, with rural areas generally building larger units at less density. A detailed examination of sold house prices from February to August 2012 reveals the variation in house stock across the area. In urban areas, or larger settlements such as Aylesham, it is possible to generalise regarding the size and type of housing. In contrast, rural areas such as postcode sector CT15 7, which covers the settlements of Alkham, Shepherdswell, Lydden and West Hougham together with the expanse of countryside between, contain some 'standard' properties, typically at the lower end of the market, but the majority of transactions are for larger 'one-off' properties. It is difficult to make assumptions regarding the size of these properties, since the premium achieved for a rural location could be attributable to other features such as equestrian facilities, or a separate paddock area. Therefore it is clear that the underlying economic viability to raise developer contributions needs to be addressed differently in urban and rural areas.

4.4 Affordable Housing Supply / Delivery

4.4.1 In terms of planning policy, the adopted Core Strategy requests 30% affordable housing on all developments of 15 or more units, with developments between 4-15 to provide a commuted sum towards such provision – which is established at 5% of GDV. Of the 227 dwellings completed in 2011-12, 67 were affordable, therefore the policy was achieved. However in previous years the figure has fluctuated: 11% in 2010/11, 42% in 2009/10 and 16% in 2008/09[1]. The actual number delivered is significantly below the current estimated need of 1,450 per annum.

4.4.2 The policy to collect off-site contributions for affordable housing at smaller development sites has only been in force since July 2011, but has levied around £260,000 so far. The average amount levied on sites that have been subject to this policy falls between £6,000 to £10,000 per unit.

4.4.3 This reduction in supply of affordable housing directly from development is expected to continue, this is in part due to the reduction in consents subject to S106. In addition the Council is willing to take viability evidence into account when determining an appropriate level of affordable housing provision and in some cases a lower percentage has been agreed. For example the Cannon Street development in Deal is not providing any affordable housing, but it is remediating a heavily contaminated brownfield site and is providing community facilities.

4.5 Section 106 Cost / Policy Requirements

4.5.1 An analysis of the cost of meeting all 'policy' for infrastructure contributions has identified, on average the figure could feasibly reach approximately £8,000 per dwelling in total. Of this amount, it is expected that on average only around £1,000 per dwelling would in future come via S106 for direct mitigation (not including specific contributions necessitated by the development proposed). The remainder of the obligations would migrate to delivery via CIL receipts.

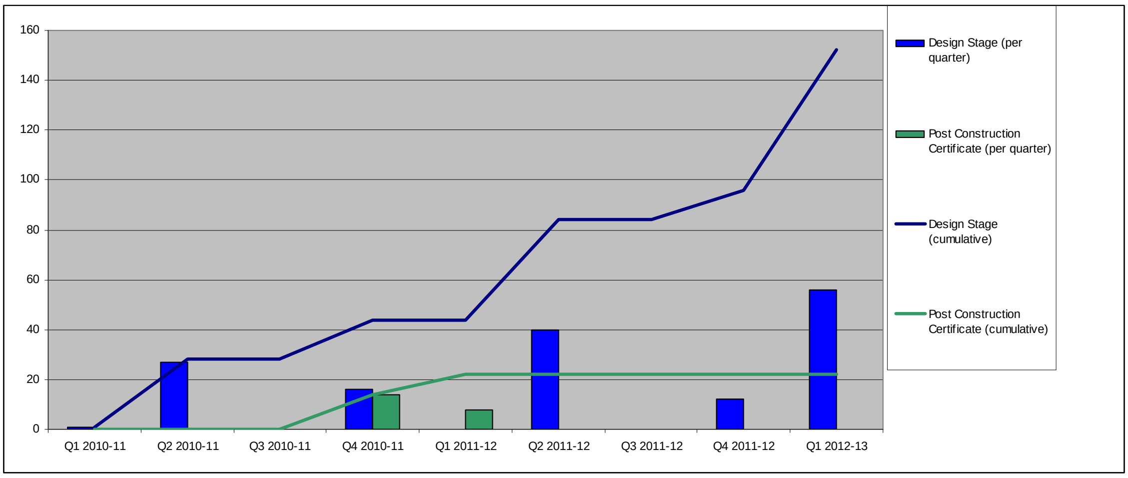
4.5.2 For example the development at 94 Crabble Hill, Dover provided £29,315 via a S106 agreement towards adult social services, libraries and youth facilities at a rate of £2,255 per dwelling. These categories of infrastructure will be more suited to funding via CIL once it has been introduced

4.5.3 The current Core Strategy also sets out the requirement to meet Code for Sustainable Homes (CSH) standards – currently level 3 is required but from April 2013 at least level 4 should be achieved and this will rise to level 5 from April 2016. The local policy was designed to mirror the then Government's proposal of gradually amending the building regulations to incorporate CSH standards. An independent panel appointed by the new government to consider the way in which building regulations and housing standards work together is expected to report to ministers in the spring of 2013. A requirement for CSH level 3 has been presumed in this report, and the resulting cost implications are taken from Department for Community and Local Government estimates calculated in 2010.

[1]The percentage of affordable housing was calculated using figures supplied to DCLG on the Housing Strategy Statistical Appendix form for the appropriate years.

Any update to this report would take into account new information received, including data received from developers during consultation upon the Preliminary Draft Community Infrastructure Levy.

Figure 3: Code for Sustainable Homes certificate award in Dover district (data from the Department for Communities and Local Government)



4.3.4 The District Council has a monitoring process in place to ensure the housing completions are accurately recorded. For the year ending March 2012, of the 227 units completed 53 of these were required to achieve Code for Sustainable Homes Level 3. This process examines planning permissions granted but does not sign off the build, which may in part explain the difference between the District Council's figures and CLGs. Taking just CLG's published figures the rate at which development in Dover is achieving the appropriate code for sustainable homes standard has stalled in the last year and is well below target. However, the latest CLG cost review highlighted that in 2006 the cost of achieving CSH level 3 was on average a 5% increase on standard build costs, with CSH level 4 at 10%, while in 2010 this was reported to have dropped to 2% and 6% respectively. Falling costs of achieving code standards and the current review of these standards may facilitate improved compliance with the policy in the future.

5. The Current Situation in Dover – Non-Residential Development

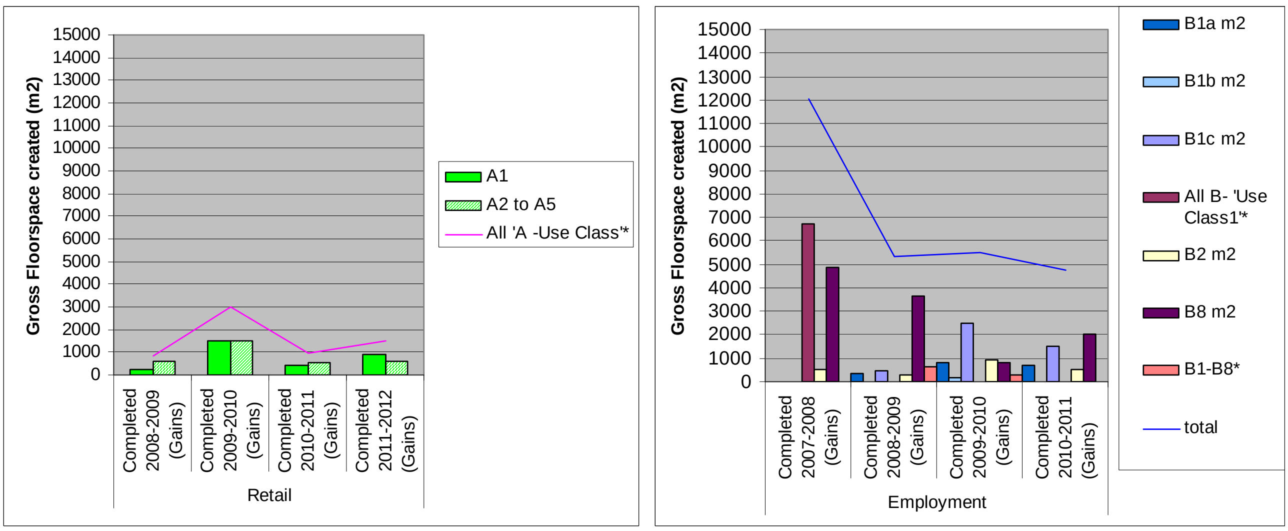
5.1 Local Plan

5.1.1 The Core Strategy includes a growth outlook of +6,500 jobs for the period 2006-26 and states that some 200,000 sq m of additional employment floorspace would be needed to support this growth. However, the economic downturn since 2008/9, the government's public expenditure deficit reduction programme and local job losses have meant that the Core Strategy's envisaged growth since 2006 has not occurred. It is now estimated that there will be some 4,000 to 5,000 job losses in Dover District by 2018 resulting from continuing recessionary factors and the consolidation of the Pfizer operations at Sandwich, and employment in the District is not expect to return to 2006 levels until 2026 (A review of economic and property market assumptions by Ramidus Consulting, July 2012).

5.2 Non-residential development supply

5.2.1 The Dover District Retail and Employment Update (September 2012, Scott Brownrigg) predicted that between 200,000 and 220,000 sqm of floorspace or 65 to 70ha of employment land will be required until 2026, despite lower than predicted employment growth over the past couple of years. This requirement arises from the need to maintain a good match between the distribution of housing growth with employment opportunities across the District. New employment land is identified in the Land Allocations Pre-submission Local Plan for high tech uses at the former Pfizer site, B1, B2, B8 at Whitecliffs Business Park and other more localised sites in places such Aylesham. The Council would strongly resist main town centre uses on these sites and any proposals would be subject to the sequential test as set out in the NPPF.

Figure 4: non-residential floor space completions



5.2.2 Traditionally a significant proportion of new retail floor space has been the redevelopment or re-use of existing floor space, for example Asda moved into the former Netto building in July 2011 and the previous year Morrisons opened in the former B & Q building. These are both located at the edge of Dover town centre. Development of retail floor space has been low in recent years, but may pick up soon; permission was granted in June 2012 for a major town centre development at St James Dover, that will create 10,500 sqm new retail space. These local findings reflect national trends in the retail sector of low new-build activity and increased re-use of existing space.

5.2.3 The Dover District Retail Update Study (August 2012) indicates that no additional retail space is required in Dover Town beyond the St James proposal, strategic allocations and extant permissions at the White Cliffs business park. However, in the Deal/Sandwich Trade Area a requirement is identified for both convenience goods and comparison goods provision during the plan period. These needs are recognised in the Land Allocations Pre-Submission Local Plan, including the need for new convenience goods floor space in Sandwich.

5.2.4 Development of 'employment' floor space has decreased, and is largely limited to industrial (inc light industrial) and logistic / warehousing. However, a significant proportion of floor space created for warehousing involves the use of an existing building, with only 50-75% of the floor space created actually resulting from additional built space. Similarly, industrial development tends to be as a result of the re-use of existing floor space; however this factor is much less prevalent for light industry.

5.2.5 Development of new office space has been low, generally developments have tended to re-use existing floor space and this is not expected to change in the short term. However, there are some examples of high quality new office developments in the District such as Beechwood Business Park adjacent to the White Cliffs Business Park. Most of the site was developed speculatively and includes a sustainable 465 sqm development of 'Passivhaus' standard, which was let in 2011.

5.3 Non-residential Values

5.3.1 Evidence from the Kent Property Market Study highlights that average rent and yields for employment and retail have remained relatively stable over the last three years, having significantly dropped in the market downturn in 2008; however this is some way off achieving 2006 levels. While the report outlines the average rent, on further inspection of the transactions a more observable range is apparent;

Table 5: observed range of non-residential values

		yield	lower	upper
Office	£100 per m2	8-9%	75	125
Retail	£500 per m2	6-7%	150	400
Industrial	£60 per m2	8-9%	25	50

5.3.2 In terms of office and industrial development, further analysis of asking prices by agents appears to match those used in the KPMR. However, In terms of retail, the KCC property market average is based predominantly on the transaction of prime retail space, which is not reflective of much town centre retail. Further analysis of recent asking prices within Dover town centre, particularly smaller units, are more in the range of £100-£175, however other settlements report a slightly higher range of around £125 - £200. Similarly there is a slight tendency for slightly higher 'town centre' office rents in settlements outside of Dover, although not significantly.

5.4 Section 106 Cost / Policy Requirements

5.4.1 A standard formulaic approach is not used in Dover district to calculate a standard assumed sum to cover policy requirements due to concerns that a tariff approach would not meet the three tests set out in paragraph 122 of the Community Infrastructure Levy Regulations 2010. Commercial development contributions tend to solely come from on-site impact.

5.4.2 However, past commercial developments have levied contributions towards transport measures such as sustainable transport, traffic calming and signage strategies. For example substantial S106 contributions were secured from two developments at Whitfield, including £275,000 towards public transport from B & Q and £100,000 towards highway improvements from the extension to Tesco. The total S106 monies received divided by the gross development area has reached £130 per sqm for commercial developments. These sums were secured from out of centre developments to mitigate impacts on Dover town centre; it would be unlikely that brownfield sites within an urban area would be required to pay similar costs.

6. Base testing through the Kent Economic Development for Funding Infrastructure Toolkit.

6.1 Overview

6.1.1 Using the KEDFIT, the previously mentioned assumptions were tested to identify the average levels of viability that could be assumed from new development. The test also looked at how changing some of the policy requirements could alter the 'effective headroom' available to fund additional infrastructure – such as facilitate a CIL charge. In broad terms, ranges of average build costs and sales / rent values were tested against a range of assumed land costs – identifying the base viability required to ensure land could be released for development - and how this would change with the implications of policy. A overview of the approach adopted in the testing is outlined in Appendix A.

6.1.2 There was no consistent basis to analyse the assumption of headroom available for leisure and other community use developments (such as schools and hospitals), this in itself indicates a lack of market activity, and by implication, viability.

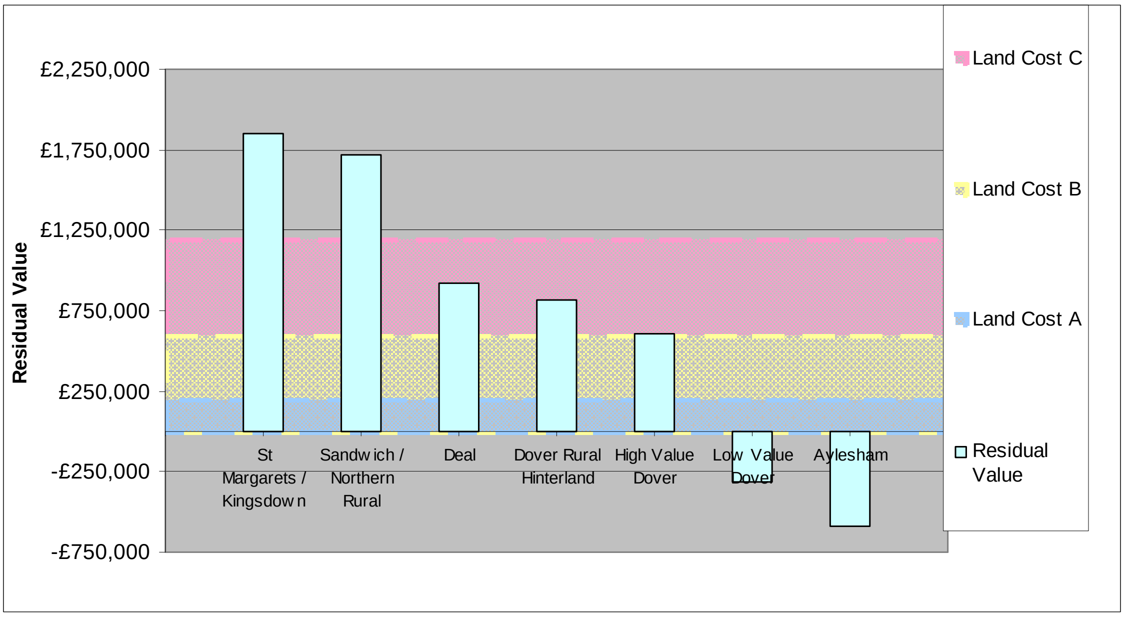
6.2 Housing

6.2.2 The initial design of the KEDFIT identified seven 'submarkets' in Dover with regards to residential values (listed in Figure 5). While there is divergence in the values between these areas, a strategic overview of the analysis suggests that focus should be directed on the different viability between urban Dover and the rural areas.

6.2.3 The analysis suggests that the northern part of Dover town including the planned strategic development at Whitfield ('High Value Dover'), could justify a higher rate than 'Low Value Dover'. However it is not possible to draw a logical and operable boundary between the two areas. Since development in the northern part is likely to incur more bespoke S106 requirements, it is suggested that the Dover town is treated as one CIL area.

6.2.4 The analysis also suggests that Deal is considered a separate zone, likewise the regeneration area of Aylesham. The following section provides a summary of the findings:

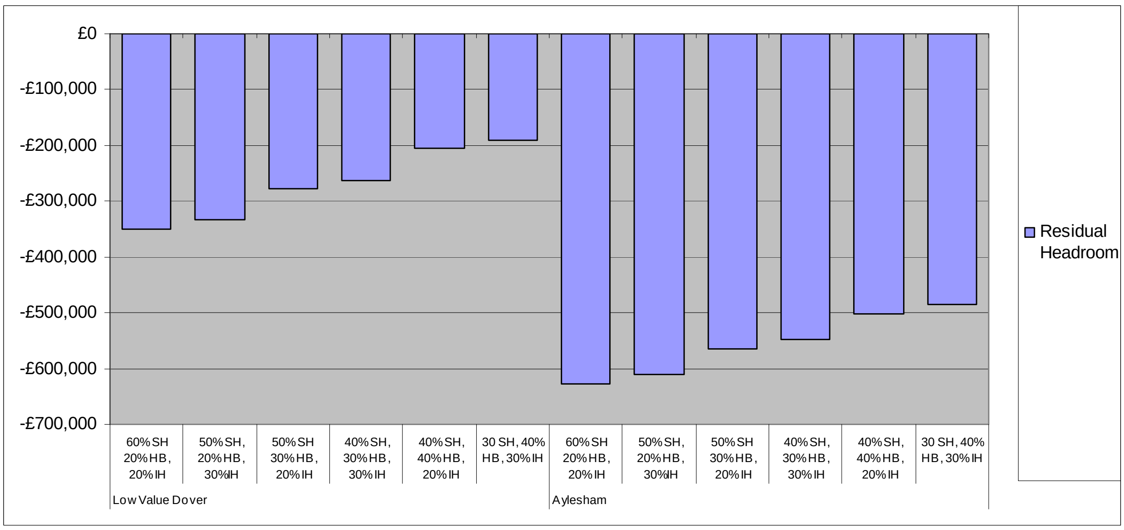
Figure 5: 'Residual' Headroom (less assumed on site S106, not including land cost) against assumed land cost (per hectare) across market areas



6.2.5 Using the basic policy assumptions outlined in the adopted Core Strategy, and observed levels of 'base' on-site S106, the analysis found that residual headroom in the rural areas should be able to afford all of the policy assumptions, and in many cases cater for higher than expected land costs and/or additional policy and infrastructure costs. However it is clear that in urban Dover, all policy requirements cannot currently be achieved. The lower value areas of Dover reporting that in many cases development would not be viable even if land was provided at no cost.

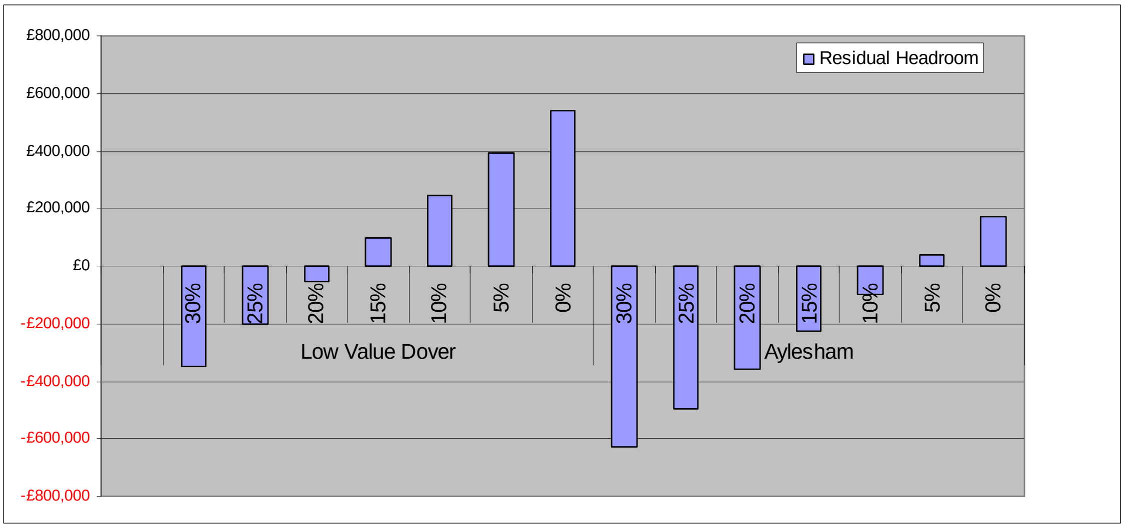
6.2.6 Focusing on the lower value areas of Dover and Aylesham, it is clear that a balance between the policy assumptions needs to be made to ensure that development can be released. Firstly, if the tenure of affordable housing requested directly from development was changed (without reducing the overall amount) the residual headroom will change. While this does have some impact, it alone is not currently likely to make a significant proportion of sites viable.

Figure 6: Impact of varying affordable housing types



6.2.7 By reducing the amount of affordable housing required from development, sites can be brought back into viability. The 'low value' area of Dover can support a modest CIL charge, but on most occasions this would necessitate a reduction in the application of 'policy costs'.

Figure 7: Impact of varying affordable housing levels (excluding CIL)



6.2.8 Overall, the analysis shows that there is plenty of scope to deliver infrastructure and adopt CIL in the areas surrounding the high value parts of St Margaret's and Sandwich/Northern Rural area, even in the case of inflated land values. Deal also reported a potential to attract a reasonable CIL charge.

6.2.9 While the southern rural part of the district ('Dover Rural Hinterland') reports noticeably less headroom than the 'Northern Rural' areas, land cost should be significantly lower since little planned development is expected.

6.2.10 The higher value areas of Dover town reported an ability to charge CIL, although perhaps an element of flexibility is required with regards to the level of affordable housing for developments that will be subject to bespoke on-site infrastructure through S106.

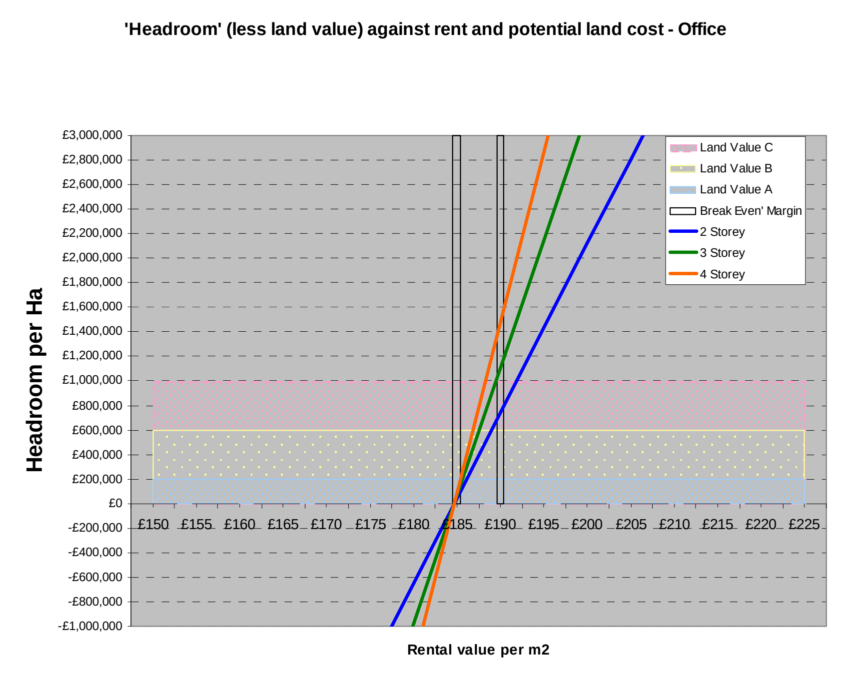
6.2.11 It would however be fair to say that Aylesham is not suitable for a CIL charge until there is an uplift in sales values. Figures 5, 6 and 7 indicate that although the median value of property in Aylesham is higher than 'Low Value Dover' there are likely to be viability issues at a significant proportion of sites. While there are also viability issues in at many lower value areas of Dover town, it should be possible to alleviate the problem through pragmatic application of affordable housing policy.

6.2.12 This bespoke analysis for the purposes of CIL provides similar results to the 'Affordable Housing Economic Viability Assessment' (CBRE, June 2009), which found that high value areas of the district can support 30% affordable housing. However it suggested that flexibility should be retained in the Council's policy to accommodate changes in the property market and to allow for economic viability to be examined on a case-by-case basis.

6.3 'Employment'

6.3.1 Analysis of town centre office development indicates that the value generated from much new build office space could be lower than an average assumption of development cost. This is backed up by current observations in the market, with an existing stock of vacant offices in Dover town centre.

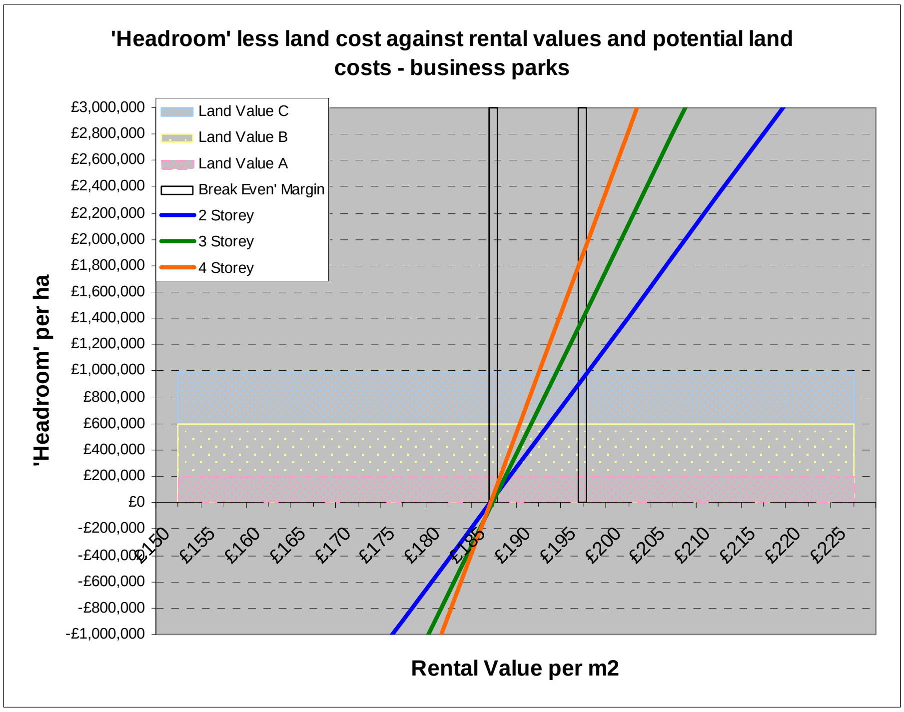
Figure 8: Headroom for town centre office development



6.3.2 There is however potential to charge in areas outside of Dover, albeit at a minimal rate. Even if there was to be an upturn in the market, it is unlikely that sufficient headroom will be generated for some time to justify a CIL charge for office development in Dover town centre; such development should not be burdened with CIL, and instead use the S106 mechanism when any headroom occurs.

6.3.3 Across Kent business park offices can achieve higher rents (Kent Property Market Report); however values have stagnated over the last few years. In consequence it is not possible to say with certainty that there will be enough headroom to facilitate a CIL charge on most sites. There will however be occasions where such development does raise significant headroom, for example those sites able to generate rents at the upper end of the scale, or where land purchase can be met at a low cost. Overall, this would suggest that a low rate of CIL is adopted, with any headroom from individual developments captured through S106. This should be reviewed as rental values increase.

Figure 9: Headroom for business park / out of centre office development



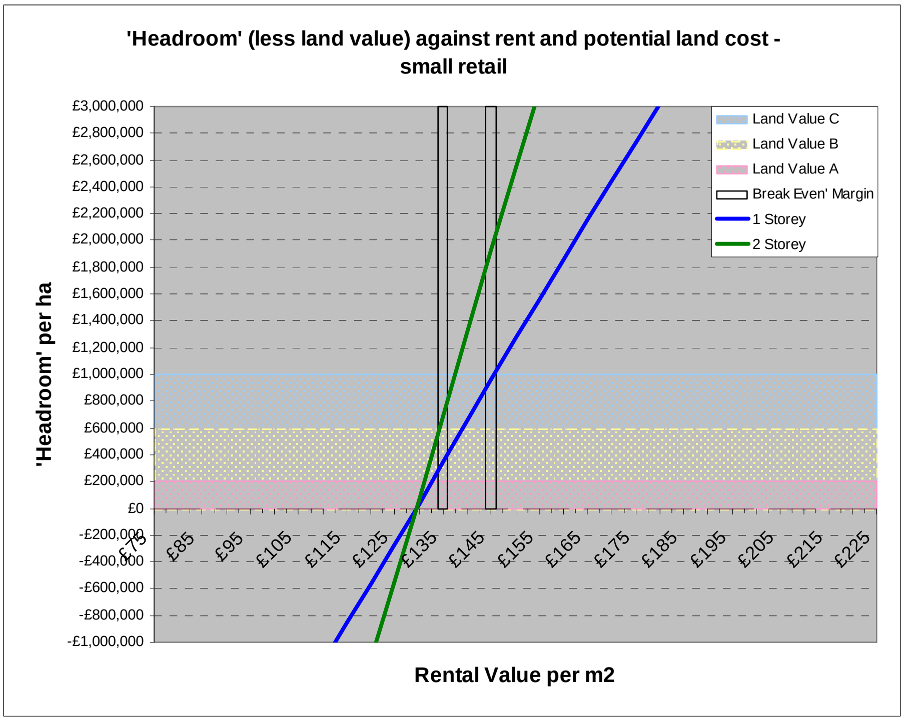
6.3.4 Analysis of industrial development and warehousing did not report any ability to generate 'headroom'. Such developments may be developed at profit, however this is often dependent on the operations - say of an existing business – which can not be factored into a generic assessment. As such it is highly unlikely such development could, on average, justify a CIL charge.

6.4 Retail

6.4.1 Analysis shows that small town centre retail is also not able to consistently achieve a rental range where CIL would be justifiable. However larger stores or those in prime retail frontages of town centres may possibly generate such rents.

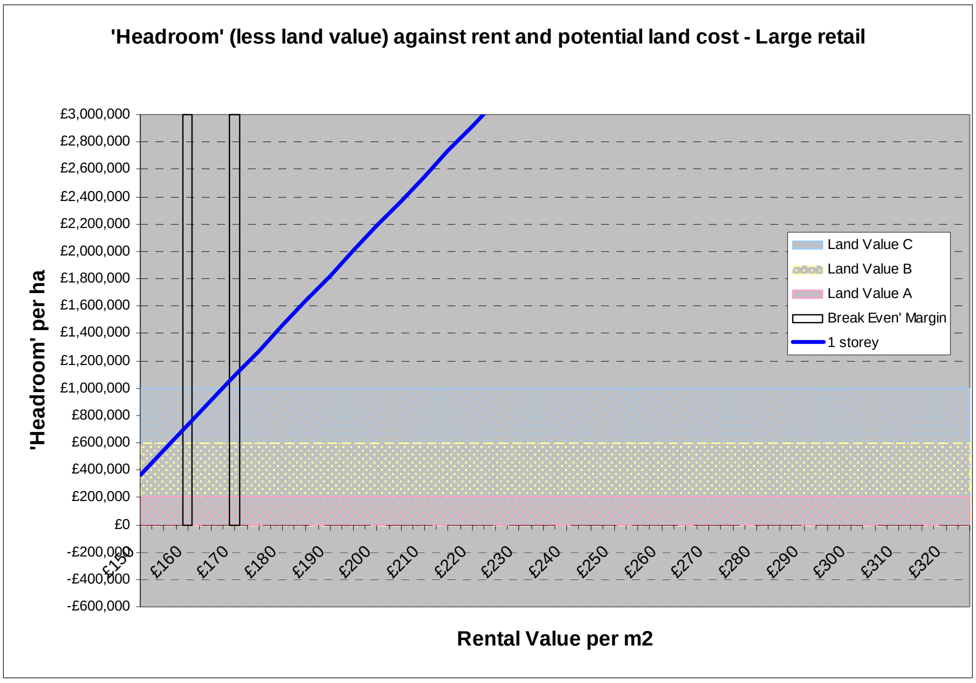
6.4.2 Given the Council's ambition to regenerate Dover centre there may in future be additional costs placed on such development, for example higher design costs or on-site contributions to public realm. In consequence the analysis suggests that levying CIL on town centre retail is possible, but must be considered alongside any additional policy costs, whether design or via on-site S106. Small town centre retail in the areas outside of Dover should be able to support a small charge

Figure 10: Headroom for small / town centre retail development



6.4.3 Out of centre retail could generate significant headroom, despite a lower % of build costs going directly towards the provision of 'rentable' sales space. However this may not be the case with regards to very low density retail warehousing on higher value land, however such circumstance would be rare.

Figure 11: Headroom for large / out of centre retail development



7. Implications for setting a CIL charge

7.1 From the previous analysis, it is suggested that a CIL regime in Dover District would need to operate with regards to the difference in viability between commercial development in town centres against more viable development outside the urban core. Town centre developments tend to be smaller than those located out of town.

7.2 In terms of residential, there are clearly areas in the district more profitable then others, however for the simplicity of operating a CIL tariff it is suggested that a simple urban to rural split is adopted, but with specific treatment identified for Deal and Aylesham. It is also felt that a distinction between larger retail, particularly out of centre is justified.

7.3 The low viability in Aylesham justifies a 'nil' CIL rate; any viable development will incur bespoke S106 on-site requirements to assist with the regeneration of the area.

7.4 While higher value parts of Dover town (including Whitfield) could hold a greater CIL charge than the south of Dover centre, defining this as a separate zone would be difficult given the nature of the geography. It is therefore suggested that a single zone is adopted, with any uplift in viability from the higher value areas catering for the significant on-site infrastructure that will be requested via S106

7.5 The following rates are therefore proposed;

	Rate A: £125 per m2	Rate B £100 per m2	Rate C: £75 per m2	Rate D: £50 per m2	Rate E: £25 per m2	Rate F: Nil
Aylesham	-	-	-		-	All development
Dover		-	-	Residential Retail Units over 500m2*	Retail Units under 500m2	All other
Deal			Residential	Retail Units over 500m2	Office Retail Units under 500m2	All other
Rest of District	Residential	Retail Units over 500m2*	Retail Units under 500m2	Office	-	All other

*Retail floor space is to be classified as over 500m2 where a single unit would reach this threshold. Collections of separate units which themselves are below 500m2, but in total would be more than 500m2 will be classified as 'under 500m2'.

7.6 The above banding of rates is considered affordable without unduly affecting the Districts growth requirements. The rate of CIL levied on the average residential development is estimated to equate to around 4% of Gross Development Value in the rural areas and 3% in urban areas. A split between small and large retail is based on the assumption that just over 50% of the floor space being available for sales, and therefore triggering the established definition of 'large retail' established under schedule 1 of the Sunday Trading Act 1994 (over 280m2).

Appendix A Technical annex

Further details on the operation of the tool kit are available by contacting Regeneration Delivery (regenerationdelivery@dover.gov.uk or 01304 872120).

Residential

The base costs used in the toolkit to form the model;

Build cost:

Bungalows - £1,000 per m^2
Flats - £1,180 - £1,630 per m^2
Houses - £1,020 - £1,035 per m^2

Other development fees:

Professional fees – 12%
Overheads – 5%
Interest rates - 7%
Marketing 3%
Developer's return – 15%
Contractors return – 6%

Assumed Land Cost:

Value Band A - £200,000 per ha (reflective of green field / low development expectation / large sites)
Value Band B - £600,000 per ha (reflective of average values achieved)
Value Band C - £1,200,000 per ha (reflective of aggregate cost of some smaller, high development expectation sites)

The viability testing used, as the initial basis, the Core Strategy requirements of;

- Average density of 40 dph
- Code for Sustainable Homes Level 3 – assuming an average cost of £1000 per unit over base build costs
- Affordable housing at 30%, of which 60% Social Housing, 20% Home buy, 20% intermediate housing
- An assumption of £1,000 per dwelling for basic on-site S106.

These assumptions were varied during testing on a +/- 25% basis. Affordable housing types and amounts were varied in areas reporting low viability regardless of CIL.

Sales Values - Based on market areas - See Kent Toolkit Guidance

Office

Build cost - £1,300-1,400 per m^2
Professional and other fees 20%
Return – 15%
Rental value test against range - £100 - £200 per m^2
Yield – 8-9%

Assumption of 50% – 70% site area to gross floor space, 75% gross to net

Assumed Land Cost:

Value Band A - £200,000 per ha - current Industrial / low value
Value Band B - £600,000 per ha – Average assumption
Value Band C - £1,000,000 per ha – high cost

Retail

Build cost - £700 – £850 per m^2
Professional and other fees 20%
Return – 15%
Rental value test against range - £150 -£400 per m^2
Yield - 6 -7%

Assumption of 50 – 70% site area to gross floor space, 75% gross to net

Assumed Land Cost:

Value Band A - £200,000 per ha - current industrial / low value
Value Band B - £600,000 per ha – average assumption
Value Band C - £1,000,000 per ha – high cost

Industrial

Industrial rents observed to be achieving less then £50 per m^2 –unable to establish any ability to adopt headroom.

Other development

Lack of activity –unable to establish any ability to adopt headroom.