Report

Local Plan Viability Assessment

Harborough District Council

DISTRICT OF HARBOROUGH
RURAL SOUTH LEICESTERSHIRE

August 2017

Quality Assurance

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ES 2 The new Local Plan will replace the existing 2011 Core Strategy, and will govern planning across the District up to 2031.

ES 3 The Council has taken an approach to consider viability early in the plan-making process. This has enabled viability to be embedded in the process through-out. In this respect, this is our third report. We initially carried out an interim Viability Assessment of the residential alternative options within a report dated April 2016 (the 'April 2016' report).

ES 4 We carried out stakeholder consultation on a Pre-Consultation Draft report to validate the development appraisal assumptions at a workshop event on 21st September 2016 (with representations accepted up until 7th October 2016).

ES 5 In November 2016 we carried out further research to appraise the viability of the preferred option / Local Plan and to inform the viability of a Community Infrastructure Levy (CIL). This was based on various affordable housing targets (%) and mixes of affordable/social rent and intermediate tenures types to inform Policy H2.

ES 6 However, this has now been superseded by the Housing White Paper which was published in February 2017 by the Secretary of State for Communities and Local Government and the publication (also in February 2017) of the CIL Review, *'A New Approach to Developer Contributions'* submitted to the Communities Secretary and the Minister of Housing and Planning in October 2016. As a consequence of these publications the Council has instructed us to review the affordable housing target and tenure mix again and to suspend activity on the introduction of CIL.

ES 7 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, Statutory Regulations and guidance – including the Housing White Paper (February 2017) (see section 2).

ES 8 We have carried out a comprehensive review of the market for new build residential sales values and land values (see Appendices 1 and 2 respectively).

ES 9 Our general approach is illustrated on the diagram below (ES.1). This is explained in more detail in section 4 – Viability Assessment Method.

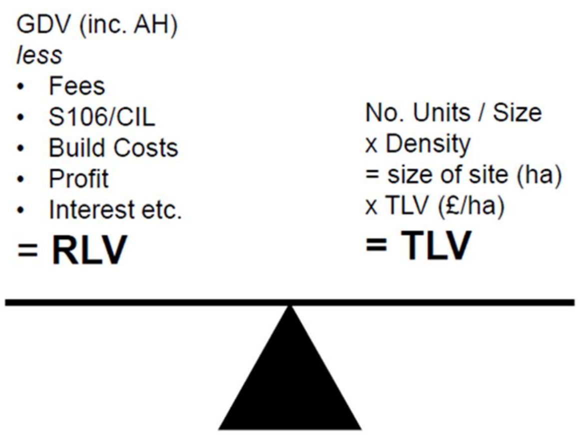

Figure ES.1 – Balance between RLV and TLV

ES 10 We have carried out residual appraisals to establish the Residual Land Value (RLV). This is a traditional model having regard to: the gross development value (GDV) of the scheme; including Affordable Housing; and deducting all costs; to arrive at the RLV. A scheme is viable if the RLV is positive for a given level of profit. This is illustrated on the left hand side of the above diagram.

ES 11 This is then compared to the Threshold Land Value (TLV). The TLV is the price at which a landowner will be willing to sell their land for development and is derived from benchmark Market Values and Existing Use Values (EUV)), the size of the hypothetical scheme and the development density assumption. This is illustrated on the right hand side of the above diagram.

ES 12 The RLV less TLV results in an appraisal 'balance' which should be interpreted as follows:

- If the 'balance' is positive, then the proposal / policy is viable. We describe this as being 'viable for plan making purposes' herein.
- If the 'balance' is negative, then the proposal / policy is 'not viable for plan making purposes' and the Affordable Housing policy (other S106 policy obligations or CIL) should be reviewed.

ES 13 In addition to the RLV appraisals and TLV analysis, we have also prepared a series of sensitivity scenarios for each of the typologies. This is to assist in the analysis of viability and to appreciate the sensitivity of the appraisals to key variables such as: Affordable Housing %; TLV and profit; and, to consider the impact of rising construction costs. This is to de-emphasise the

TLV in each typology and help consider viability 'in-the-round' i.e. in the context of sales values, development costs, contingency, developer's profit which make up the appraisals inputs.

ES 14 **It is important to note that the TLV's contained herein are for 'high-level' plan viability purposes and the appraisals should be read in the context of the TLV sensitivity table (contained within the appraisals). It is important to emphasise that the adoption of a particular TLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications. Where sites have obvious abnormal costs (e.g. retaining walls for sloping sites) these costs should be deducted from the value of the land. The land value for site specific viability appraisals should be thoroughly evidenced having regard to the existing use value of the site. I.e. this report is for plan-making purposes and is 'without prejudice' to future site specific planning applications**.

ES 15 Our detailed assumptions and results are set out in sections 5 and 6 of this report together with our detailed appraisals which are appended. In summary we make the following recommendations:

Residential Uses

ES 16 Based on the residential viability results above, we recommend that the affordable housing policy of **40%** is viable generally across the District having regard to the cumulative impact of the Plan policies and the surpluses and sensitivities generated by the appraisals.

ES 17 It is important to note with the SDA sites that these are large schemes. This is particularly the case with the Lutterworth SDA which has a total GDV of c. £600 million (including £50.1 million from the commercial zone). Furthermore, we calculate the RLV of the Lutterworth SDA to be £41 million and the developers profit to be £90 million. This is therefore a substantial scheme which demands significant capital and will be brought forward over many years and via a number of different delivery mechanisms and commercial structures.

ES 18 Similarly the Scraptoft North SDA generates a GDV of c. £222 million, RLV of £21.9 million and profit of £33.7 million.

ES 19 In this respect, we recommend that the Council negotiates the economic viability of each SDA on a phase-by-phase basis having regard to the infrastructure and capital requirements of each phase.

Supported Living

ES 20 We have tested both Sheltered Housing and Extra-Care typologies in the Key Towns (brownfield) and District Wide (greenfield) locations. There are particular viability issues for these typologies including –

- The high net-to-gross ratio compared to C3 apartment typologies which reduces the saleable area;
- The larger unit sizes which reduces the number of units that can be accommodated within a particular sales area;
- The higher build cost based on the gross area and BCIS data;
- The high development density which reduces the quantum of land assumed and therefore the TLV, but not by enough to off-set the above costs.

ES 21 These typologies are therefore less viable. Depending on the assumptions for TLV, the sheltered housing typologies are only viable at between 16 – 40% affordable housing on-site. Similarly, the Extra-Care Housing typologies are only viable at between 2 – 34% affordable housing on-site.

ES 22 Furthermore, the private sector developers' preference is for an off-site commuted sum in this sector and we have calculated this based on the principle of equivalence. In this respect, we make the following recommendations:

- The equivalent commuted sum for Age Restricted / Sheltered Housing is *up to* (say) £230 psm commuted sum on greenfield sites and £90 psm on brownfield sites (previously developed land).
- The equivalent maximum commuted sum for the Assisted Living / Extra Care Homes is *up to* (say) £190 psm commuted sum on greenfield sites, but nothing (£0 psm) on brownfield sites.

ES 23 In addition we recommend that, in accordance with best practice, the plan wide viability is reviewed on a regular basis to ensure that the plan remains relevant as the property market cycle(s) change.

ES 24 Furthermore, to facilitate the process of review, we recommend that the Council monitors the development appraisal parameters herein, but particularly data on land values across the District.

1 Introduction

1.2 AspinallVerdi has been appointed by Harborough District Council (the "Council") to provide economic viability advice in respect of the preparation of a new Local Plan.

1.3 The new Local Plan will replace the existing 2011 Core Strategy, and will govern planning across the District up to 2031[1]. In this respect we understand that in March and April 2013 the Council consulted on the initial scope of the new Local Plan[2]. This led to the Options Consultation stage which included 9 alternative growth options for the distribution of new homes and jobs.[3]

1.4 The Council is currently working on the Preferred Option prior to Members approving the pre-submission Local Plan. National policy and guidance requires that the Plan be viable and hence the requirement for an Economic Viability Assessment. The timetable is to have the pre-submission Local Plan for formal consultation in September – November 2017 with submission to the Secretary of State in January 2018 and an Examination in Public in October 2018. This would enable Adoption of the new Local Plan by (say) November 2017.

1.5 The Council has taken an approach to consider viability early in the plan-making process. This has enabled viability to be embedded in the process through-out.

1.6 This is our third report. We initially carried out an interim Viability Assessment of the residential alternative options within a report dated April 2016 (the 'April 2016' report).

1.7 We carried out stakeholder consultation on a Pre-Consultation Draft report to validate the development appraisal assumptions at a workshop event on 21st September (with representations accepted up until 7th October 2016).

1.8 In November 2016 we carried out further research to appraise the viability of the preferred option / Local Plan and to inform the viability of a Community Infrastructure Levy (CIL). This was based on various affordable housing targets (%) and mixes of affordable/social rent and intermediate tenures types to inform Policy H2.

1.9 However, this has now been superseded by the Housing White Paper which was published in February 2017 by the Secretary of State for Communities and Local Government and the publication (also in February 2017) of the CIL Review, *'A New Approach to Developer Contributions'* submitted to the Communities Secretary and the Minister of Housing and Planning in October 2016. As a consequence of these publications the Council has instructed

[1] A New Local Plan for Harborough Options Consultation Paper September 2015, Forward
[2] A New Local Plan for Harborough Options Consultation Paper September 2015, para 6
[3] A New Local Plan for Harborough Options Consultation Paper September 2015, para 7

us to review the affordable housing target and tenure mix again and to suspend activity on the introduction of CIL.

1.10 The remainder of this report is structured as follows –

Section 2 – Statutory Requirements	This section sets out the statutory requirements for the Local Plan and CIL viability including the NPPF, CIL Regulations and PPG website.
Section 3 – Local Plan Context	This section sets out the details of the current adopted Local Plan, the existing evidence base, and the emerging Local Plan policies which will have a direct impact on viability.
Section 4 – Viability Assessment Method	This section describes our generic methodology for appraising the viability of development which is based on the residual approach as required by guidance and best practice.
Section 5 – Residential	This section sets out our analysis of the residential development market and typologies across the District and our appraisal assumptions and viability results.
Section 6 – Supported Living	This section sets out our analysis of the supported living residential development market and typologies and our appraisal assumptions and viability results.
Section 7 – Conclusions and Recommendation	This section draws together the results of the Viability Assessment and our conclusions and results. See also the Executive Summary.

2 Statutory Requirements

2.1 Our economic viability appraisal has been carried out having regard to the various statutory requirements comprising primary legislation, Statutory Regulations and guidance.

NPPF

2.2 The National Planning Policy Framework sets out the Government's planning policies for England and how these are expected to be applied[4]. It was first published on 27 March 2012 and is now online (see below).

Paragraph 173

2.3 The National Planning Policy Framework (NPPF) places viability and deliverability at the fore. Paragraph 173 deals explicitly with ensuring viability and deliverability. Paragraph 173 states that –

> *Pursuing sustainable development requires* ***careful attention to viability and costs in plan-making and decision-taking.*** *Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide* ***competitive returns to a willing land owner and willing developer to enable the development to be deliverable****.*[5] (our emphasis)

Affordable Housing

2.4 In terms of affordable housing, the NPPF specifically requires that local planning authorities should –

> *use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies set out in this Framework, including identifying key sites which are critical to the delivery of the housing strategy over the plan period;*[6]

[4] http://planningguidance.communities.gov.uk/blog/policy/introduction/ (accessed 11/1/16)
[5] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 173
[6] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 47

Planning Obligations

2.5 Finally the NPPF sets the context for planning obligations (S106 Agreements) following the introduction of CIL. The NPPF sets out the following tests –

> *Planning obligations should only be sought where they meet all of the following tests*[7] *-*
>
> - *necessary to make the development acceptable in planning terms;*
> - *directly related to the development; and*
> - *fairly and reasonably related in scale and kind to the development.*

2.6 It is important to note that the CIL Regulations limit the use of planning obligations to a maximum of five S106 agreements in order to limit the use of pooled S106's to fund infrastructure and (therefore) encourage the uptake of CIL[8].

PPG Website

2.7 On 6 March 2014 the Department for Communities and Local Government (DCLG) launched this planning practice guidance web-based resource[9]. This enables all planning practice guidance to be available entirely on-line. This contains the following important sections for this report –

- Viability
- Local Plans
- Planning Obligations
- Starter Homes (in the context of the Housing White Paper), and
- Community Infrastructure Levy (albeit this is only in the context of the CIL Review for the current purposes).

2.8 In addition the PPG sets out national guidance on the 10 unit threshold for affordable housing.

2.9 We do not proposed to rehearse every paragraph of this guidance here, but we set out below the key guidance.

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[7] Department of Communities and Local Government (March 2012) The National Planning Policy Framework ISBN: 978-1-4098-3413-7 paragraph 204
[8] The Community Infrastructure Levy Regulations 2010 in force from 6 April 2010 under section 222(2)(b) of the Planning Act 2008, Regulation 123
[9] http://planningguidance.communities.gov.uk/about/ (accessed 11/1/16)

Viability

2.10 The National Planning Policy Framework says that plans should be deliverable and that the sites and scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.[10]

2.11 Development of plan policies should be iterative – with draft policies tested against evidence of the likely ability of the market to deliver the plan's policies, and revised as part of a dynamic process.[11] – This is what Harborough has done with this viability assessment at the alternative options stage.

2.12 Evidence should be ***proportionate*** to ensure plans are underpinned by a broad understanding of viability. Greater detail may be necessary in areas of known marginal viability or where the evidence suggests that viability might be an issue – for example in relation to policies for strategic sites which require high infrastructure investment.[12] (our emphasis)

2.13 Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; ***site typologies may be used to determine viability at policy level.*** Assessment of samples of sites may be helpful to support evidence and more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.[13] (our emphasis) – In this respect we have set out our rationale for the site typologies for each use within the relevant section below.

2.14 Plan makers should ***not plan to the margin of viability but should allow for a buffer*** to respond to changing markets and to avoid the need for frequent plan updating. ***Current costs and values*** should be considered when assessing the viability of plan policy. Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first five years of the plan period. This will help to ensure realism and avoid complicating the assessment with uncertain judgements about the future. Where any relevant future change to regulation or policy (either national or local) is known, any likely impact on current costs should be considered.[14] (our emphasis)

2.15 Local Plan policies should reflect ***the desirability of re-using brownfield land***, and the fact that brownfield land is often more expensive to develop. Where the cost of land is a major barrier, landowners should be engaged in considering options to secure the successful development of sites. Particular consideration should also be given to Local Plan policies on planning obligations, design, density and infrastructure investment, as well as in setting the

[10] Paragraph: 001 Reference ID: 10-001-20140306 (accessed 12/1/16)
[11] Paragraph: 005 Reference ID: 10-005-20140306 (accessed 12/1/16)
[12] Paragraph: 005 Reference ID: 10-005-20140306 (accessed 12/1/16)
[13] Paragraph: 006 Reference ID: 10-006-20140306 (accessed 12/1/16)
[14] Paragraph: 008 Reference ID: 10-008-20140306 (accessed 12/1/16)

Community Infrastructure Levy, ***to promote the viability of brownfield sites*** across the local area. [15] (our emphasis)

2.16 ***Central to the consideration of viability is the assessment of land or site value.*** The most appropriate way to assess land or site value will vary but there are common principles which should be reflected. In all cases, estimated land or site value should:

- ***reflect emerging policy requirements and planning obligations*** *and, where applicable, any Community Infrastructure Levy charge*;
- ***provide a competitive return to willing developers and land owners*** (including equity resulting from those building their own homes); and
- ***be informed by comparable, market-based evidence*** wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.[16] (our emphasis)

2.17 The National Planning Policy Framework states that viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This ***return will vary significantly between projects to reflect the size and risk*** profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.[17] (our emphasis)

2.18 A ***competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land*** for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.[18] (our emphasis)

Local Plans

2.19 The Local Plans section of the PPG website sets out the key issues for Local Plan preparation, examination and adoption.

2.20 In addressing how detailed a Local Plan should be the guidance makes it clear that -

2.21 *While the content of Local Plans will vary depending on the nature of the area and issues to be addressed, all Local Plans should be as focused, concise and accessible as possible. They should concentrate on the critical issues facing the area – including its development needs –*

[15] Paragraph: 025 Reference ID: 10-025-20140306 (accessed 12/1/16)
[16] Paragraph: 014 Reference ID: 10-014-20140306 (accessed 12/1/16)
[17] Paragraph: 015 Reference ID: 10-015-20140306 (accessed 12/1/16)
[18] Paragraph: 015 Reference ID: 10-015-20140306 (accessed 12/1/16)

and the strategy and opportunities for addressing them, ***paying careful attention to both deliverability and viability***.[19]

2.22 The guidance sets out how the local planning authority should show that a Local Plan is capable of being delivered including provision for infrastructure. In this respect -

A Local Plan is an opportunity for the local planning authority to set out a positive vision for the area, but the plan should also be realistic about what can be achieved and when (including in relation to infrastructure). This means paying careful attention to providing an adequate supply of land, identifying what infrastructure is required and how it can be funded and brought on stream at the appropriate time; and ***ensuring that the requirements of the plan as a whole will not prejudice the viability of development***.[20]

2.23 Paragraph 017 requires that the evidence which accompanies an emerging Local Plan should show how the policies in the plan have been tested for their impact on the viability of development – hence this viability assessment.

Planning Obligations

2.24 Paragraph 204 of the NPPF sets out the following tests for planning obligations which must be: *necessary to make the development acceptable in planning terms; directly related to the development; and fairly and reasonably related in scale and kind to the development.*

2.25 The PPG website provides further detailed guidance on the implementation of planning obligations.

2.26 The guidance sets out how do planning obligations relate to other contributions -

Developers may be asked to provide contributions for infrastructure in several ways. This may be by way of the Community Infrastructure Levy and planning obligations in the form of section 106 agreements and section 278 highway agreements. Developers will also have to comply with any conditions attached to their planning permission. Local authorities should ensure that ***the combined total impact of such requests does not threaten the viability of the sites*** *and scale of development identified in the development plan.*[21]

2.27 In terms of plan making, the policy for seeking planning obligations should be grounded in an understanding of development viability through the plan making process - hence this economic viability assessment having regard to the cumulative impact of the Council's policies on planning obligations and other requirements.

[19] Paragraph: 009 Reference ID: 12-009-20140306 (accessed 22/2/17)
[20] Paragraph: 017 Reference ID: 12-017-20140306 (accessed 22/2/17)
[21] Paragraph: 001 Reference ID: 23b-001-20161116 (accessed 22/02/17)

Starter Homes

2.28 The PPG contains a complete section on Starter Homes (dated 10 03 2015). At the time of writing this guidance is still 'live' however, the Housing White Paper amends the definition of affordable housing to include Starter Homes within other forms of Low Cost Home Ownership. We have therefore sought to reflect the Housing White Paper proposals to ensure our report as up to date as possible (see Housing White Paper below).

2.29 The current Starter Homes policy is an exception sites policy. Paragraph: 001 Reference ID: 55-001-20150318 states –

'Starter Homes exception sites policy helps to meet the housing needs of young first time buyers, many of whom increasingly cannot afford to buy their own home, by allowing Starter Homes to be offered to them at below their open market value. The exception site policy enables applications for development for Starter Homes on under-used or unviable industrial and commercial land that has not been currently identified for housing. It also encourages local planning authorities not to seek section 106 affordable housing and tariff-style contributions that would otherwise apply. Local planning authorities should work in a positive and proactive way with landowners and developers to secure a supply of land suitable for Starter Homes exception sites to deliver housing for young first time buyers in their area.'

2.30 The PPG goes on to describe the implementation of the Starter Homes exceptions sites policy by defining what land is suitable for Starter Homes (Paragraph: 007 Reference ID: 55-007-20150318) and what are underuse or unviable industrial commercial sites (Paragraph: 008 Reference ID: 55-008-20150318).

2.31 The PGG also confirms that. 'Local planning authorities can use their discretion to include a small proportion of market homes on Starter Homes exception sites where it is necessary for the financial viability of the site. The market homes on the site will attract section 106 or Community Infrastructure Levy contributions in the usual way'. (Paragraph: 012 Reference ID: 55-012-20150318).

2.32 The Planning and Housing Act (2016) provides some further information:

(1) In this Chapter "starter home" means a building or part of a building that—

(a) is a new dwelling,

(b)is available for purchase by qualifying first-time buyers only,

(c) is to be sold at a discount of at least ***20% of the market value****,*

(d) is to be sold for less than the price cap, and

(e) is subject to any restrictions on sale or letting specified in regulations made by the Secretary of State.

(2) "New dwelling" means a building or part of a building that—

(a) has been constructed for use as a single dwelling and has not previously been occupied, or

(b) has been adapted for use as a single dwelling and has not been occupied since its adaptation.

(3) "Qualifying first-time buyer" means an individual who—

(a) is a first-time buyer,

(b) is at least 23 years old but has not yet reached the age of 40, and

(c) meets any other criteria specified in regulations made by the Secretary of State (for example, relating to nationality).

2.33 The initial 'cap' is to be £250,000 outside London.

2.34 Notwithstanding this, DCLG issued Technical consultation on the Starter Homes Regulations in March 2016. This was to widen the scope of Starter Homes to all sites and not just exceptions sites. Furthermore the consultation was on the introduction of a flat rate of 20% Starter Homes on all sites of 11 or more units (i.e. in effect a third tenure form of affordable housing).

2.35 This theme has been followed through in the HM Government's White Paper, 'Fixing our broken housing market' dated February 2017.

Housing White Paper

2.36 The White Paper clearly states that, *'the Government will not introduce a statutory requirement for starter homes at the present time. This is because of concerns expressed in response to our consultation last year, that this would not respond to local needs. Instead we want local authorities to deliver starter homes as part of a mixed package of affordable housing of all tenures that can respond to local needs and local markets*.'[22]

2.37 Government's express intention is *to publish a revised definition of affordable housing*[23] *– to broaden the definition of affordable housing, to include a range of low cost housing opportunities for those aspiring to own a home, including starter homes. In doing so this*

[22] Paragraph A.124 DCLG, 'Fixing our broken housing market,' February 2017.
[23] Paragraph A.121 DCLG, 'Fixing our broken housing market,' February 2017.

approach would seek to retain all types of housing that are currently considered affordable housing[24]*. This is to build on existing practice.*[25]

2.38 The proposed definition of affordable housing includes[26]:

- Affordable housing
- Social rented housing
- Affordable rented housing
- Starter homes
- Discounted market sale housing
- Affordable private rented housing
- Intermediate housing.

2.39 Accordingly, Starter homes will form part of the tenue types under 'home ownership' affordable housing products (as opposed to rented affordable housing tenure).

2.40 Furthermore, the White Paper also states that, '*following any proposed change to the definition of affordable housing, local planning authorities will have to consider the broadened definition of affordable housing in their evidence base for plan-making. However, to promote delivery of affordable homes to buy, we propose to make it clear in national planning policy that local authorities should seek to ensure that* ***a minimum of 10% of all homes on individual sites are affordable home ownership products.*** *We consider that this strikes an appropriate balance between providing affordable homes for rent and helping people into home ownership'*[27] .

2.41 The PPG has not been updated following the technical consultation. However, for the purposes of our economic viability appraisal, we have assumed that starter homes are included within the general affordable 'home ownership' tenure alongside existing Intermediate and Sub-market typologies which form current CDC policy. We have set the affordable housing tenure mix to ensure that the home ownership tenures equate to 10% (see typologies matrix Appendix 3).

[24] Paragraph A.119 DCLG, 'Fixing our broken housing market,' February 2017.
[25] Paragraph A.115 DCLG, 'Fixing our broken housing market,' February 2017.
[26] Box 4, page 100, DCLG, 'Fixing our broken housing market,' February 2017.
[27] Paragraph A.126 DCLG, 'Fixing our broken housing market,' February 2017.

Community Infrastructure Levy

2.42 The guidance on the Planning Practice Guidance website replaces all previous standalone guidance. Whilst the Council has currently decided to suspend the implementation of CIL, the guidance is relevant as infrastructure will still need to be funded – whether through S106, CIL or in the future LIT or SIT (see below).

2.43 Charging authorities should set a [CIL] rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan... They will need to draw on the infrastructure planning evidence that underpins the development strategy for their area. Charging authorities should use that evidence to strike ***an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development*** across their area.[28] (our emphasis)

2.44 In this respect, CIL **Regulation 14** requires that -

> a charging authority must 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 actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
> >
> > (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.[29]

2.45 The ***levy is expected to have a positive economic effect*** on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.[30] (our emphasis)

2.46 A charging authority should be able to explain how their proposed levy rate or rates will contribute towards the implementation of the relevant Plan…, and support development across their area. Charging authorities will need to summarise their economic viability evidence [i.e. this report(s)]. As background evidence, the charging authority should also provide information about the amount of ***funding collected in recent years through section 106 agreements***.

[28] Paragraph: 008 Reference ID: 25-008-20140612 (accessed 12/1/16)
[29] The Community Infrastructure Levy Regulations 2010, 6 April 2010 under section 222(2)(b) of the Planning Act 2008 Regulation 14
[30] Paragraph: 009 Reference ID: 25-009-20140612 (accessed 12/1/16)

This should include information on ***the extent to which their affordable housing and other targets have been met.*** [31] (our emphasis)

2.47 A charging authority must use ***'appropriate available evidence'*** (as defined in the Planning Act 2008 section 211(7A)) to inform their draft charging schedule. The Government recognises that the available data is ***unlikely to be fully comprehensive.*** Charging authorities need to demonstrate that their proposed levy rate or rates are ***informed by 'appropriate available' evidence and consistent with that evidence across their area*** as a whole. [32] (our emphasis)

2.48 In addition, a charging authority should directly sample an appropriate range of types of sites across its area, in order to supplement existing data. This will require support from local developers. The exercise should ***focus on strategic sites*** on which the relevant Plan … relies, and those sites where the impact of the levy on economic viability is likely to be most significant (such as ***brownfield sites***). [33] (our emphasis)

2.49 Charging authorities that decide to set ***differential rates*** may need to undertake more fine-grained sampling, on a higher proportion of total sites, to help them to estimate the boundaries for their differential rates. Fine-grained sampling is also likely to be necessary where they wish to differentiate between categories or scales of intended use. [34] (our emphasis)

2.50 The focus should be in particular on ***strategic sites*** on which the relevant Plan relies and those sites (such as ***brownfield sites***) where the impact of the levy is likely to be most significant. [35] (our emphasis)

2.51 A charging authority's proposed rate or rates should be reasonable, given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence. For example, this might not be appropriate if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism. It would be ***appropriate to ensure that a 'buffer' or margin is included***, so that the levy rate is able to support development when economic circumstances adjust. [36] (our emphasis)

2.52 The regulations allow charging authorities to apply ***differential rates*** in a flexible way, to help ensure the viability of development is not put at risk. .. Differential rates should not be used as a means to deliver policy objectives. Differential rates may be appropriate in relation to -

- geographical zones within the charging authority's boundary
- types of development; and/or

[31] Paragraph: 018 Reference ID: 25-018-20140612 (accessed 12/1/16)
[32] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[33] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[34] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[35] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)
[36] Paragraph: 019 Reference ID: 25-019-20140612 (accessed 12/1/16)

- scales of development. [37] (our emphasis)

2.53 It is important to note that the CIL Regulations refer to **'use'** here rather than **'type'** of development. Regulation 13 states that –

A charging authority may set differential rates—

(a) for different zones in which development would be situated;
*(b) by reference to different intended **uses** of development;*
(c) by reference to the intended gross internal area of development;
(d) by reference to the intended number of dwellings or units to be constructed or provided under a planning permission.[38]

2.54 This is important, because development on brownfield land could be considered a 'type' of development, but it is not a 'use'. Paragraph: 022 Reference ID: 25-022-20140612 refers to 'How can rates be set by type of use?' This states that 'the definition of "use" for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987. Therefore it is not entirely clear whether differential rates can or cannot be set by reference to brownfield (previously developed land) typologies, however, in our experience most Charging Authorities are interpreting 'type' to mean 'use' as in the Regulations.

2.55 A charging authority that plans to set differential rates should seek to ***avoid undue complexity.*** Charging schedules with differential rates should not have a disproportionate impact on particular sectors or specialist forms of development. Charging authorities should consider the views of developers at an early stage. [39] (our emphasis)

2.56 If the evidence shows that the area includes a zone, which could be a strategic site, which has low, very low or zero viability, the charging authority should consider setting a low or zero levy rate in that area. The same principle should apply where the evidence shows similarly low viability for particular types and/or scales of development. [40]

CIL Review – LIT / SIT

2.57 As mentioned in the introduction, the CIL Review Group chaired by Liz Peace submitted it report to the Communities Secretary and the Minister of Housing and Planning in October 2016 and this report was published alongside the Housing White Paper in February 2017. The review has been generally well received by the development industry.

2.58 The purpose of the review was to -

[37] Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)
[38] The Community Infrastructure Levy Regulations 2010 and (Amendment) Regulations 2014
[39] Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)
[40] Paragraph: 021 Reference ID: 25-021-20140612 (accessed 12/1/16)

"Assess the extent to which CIL does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the Government's wider housing and growth objectives."[41]

2.59 The report found that there are 130 authorities charging CIL (not including the Mayor of London and the London Legacy Development Corporation) and a further 88 working towards adopting a CIL. Once completed, this would give coverage of just under 60% of charging authorities. However the report notes that some of the 88 authorities have abandoned the idea of charging CIL as several local authorities consulted on preliminary draft charging schedules in 2012/13 and have taken no action since. Also that implementation is much patchier in the north, midlands and Wales[42].

2.60 The original impact assessments for the creation of CIL suggested that it might raise £4700 million to £6800 million over a ten-year period with the top end increasing to £1 billion in later assessments. If this were to be split evenly over a ten-year period, this would result in an average of £470 million to £680 million per annum. However, the CIL Review team estimate that CIL raised was approximately £170 million by the end of March 2015. In this context neither the developer nor the community has the certainty that the required 'school/surgery/road' will be delivered on time which in turn affects the developer's ability to sell completed houses. This effect is exacerbated by the way in which CIL has effectively transferred financial and construction risk from developers to local authorities which often lack the capacity to deliver. The Review team noted that this can result in a 'catch 22' situation where charging authorities have not accumulated sufficient CIL revenues to fund key elements of enabling infrastructure that will unlock house building; so the house building does not take place and the related CIL payments needed to deliver infrastructure are not made[43].

2.61 The Review also found the following weaknesses of CIL:

- Neighbourhood Share[44] - doubts as to whether the community or neighbourhood share is having any impact on a community's likelihood of accepting or even welcoming development. Charging Authorities were generally concerned that allocating a substantial portion of their CIL receipts to neighbourhoods reduced their ability to fund some of the larger infrastructure, such as roads and schools.

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41 A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 para 1.1.1
42 A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 para 3.2.1
43 A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 section 3.3-3.4
44 A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 section 3.7

- Complexity[45] - the CIL regulations are 155 pages long and consist of 129 separate regulations. They have been amended each year since they were first introduced in 2010 to deal with policy changes and technical issues.
- Implementation and Rate Setting Process[46] - the EIP process was dominated by a small number of development typologies, generally large residential developments on greenfield strategic sites and noted that a small number of advisors were having the same arguments (e.g. about Threshold Land Value) on behalf of developers and councils at most EIPs with little public benefit.
- Exemptions and Reliefs[47] - applying for exemptions can require a considerable amount of paperwork for both the applicant and the local authority. For the local authority this is particularly burdensome as they receive no CIL revenue in compensation.

2.62 The CIL Review team recommended[48] -

- that the Government should replace the Community Infrastructure Levy with a hybrid system of a broad and low level **Local Infrastructure Tariff (LIT)** and Section 106 for larger developments
- that Combined Authorities should be enabled to set up an additional Mayoral type **Strategic Infrastructure Tariff (SIT)**

2.63 The CIL Review proposes a twin track system of a new low level tariff (LIT), combined with Section 106 for larger sites. The low level infrastructure tariff is meant to provide a means of ensuring that all development makes some contribution to the wider cumulative infrastructure need in an area that comes from development pressures generally. It is not for site specific impact mitigation.

2.64 The LIT should be applied to all development, almost without exception.

2.65 Larger developments which require direct mitigation to make them acceptable in planning terms or very specific major infrastructure on or close by the development including infrastructure delivered up-front, would be subject to an additional Section 106, strictly in accordance with the Regulation 122 tests.

[45] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 section 3.8
[46] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraphs 3.8.5 - 3.8.10
[47] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraph 3.8.11
[48] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraph 4.3.6 – 4.3.8

2.66 Also, given the changing nature of the local government geography and the emergence of Combined Authorities, the CIL Review team consider there is a good case for making the necessary legislative and regulatory provision to enable CAs to collect a 'Mayoral' type CIL as a contribution to major pieces of infrastructure. This would not be obligatory and indeed would only be relevant where there was a requirement for such large infrastructure (e.g. Crossrail in London).

2.67 The intention is that LIT would be set by a standard calculation based on 1.75 - 2.5% of the sale price for a "standardised 100 square metre three bedroom family home, and divide that by 100 to reach a square metre rate, which would then be applied to all residential development."[49] This would make LIT rate setting much simpler and the argument goes that, because it applies to nearly all development without exception has the potential to raise equally, if not more, funding for infrastructure as CIL.

2.68 Note, that should the Council introduce LIT/SIT in the future, it should do so having regard to the cumulative impact of the Local Plan policies at that time.

2.69 For the purposes of the current review we have left the sensitivity scenarios in the financial modelling for CIL as a proxy for future implementation of LIT/SIT.

10 Unit Threshold

2.70 In November 2014, the PPG was updated to introduce the "10 unit threshold" for 'affordable housing and tariff style planning obligations'. This was the subject of a legal challenge and following an order of the Court of Appeal dated 13 May 2016, legal effect was given to the policy set out in the Written Ministerial Statement of 28 November 2014.

2.71 The Guidance states that[50], 'affordable housing and tariff style planning obligations (section 106 planning obligations)' should not be sought from small scale and self-build development.' Specifically,

- contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1,000 sqm
- in designated rural areas, local planning authorities may choose to apply a lower threshold of 5-units or less. No affordable housing or tariff-style contributions may be sought from these developments. In addition, in a rural area where the lower 5-unit or less threshold is applied, affordable housing and tariff style contributions should be sought from developments of between 6 and 10-units in the form of cash payments which

[49] A New Approach to Developer Contributions, A report by the CIL Review Team, Submitted October 2016 paragraph 5.1.2
[50] Paragraph: 031 Reference ID: 23b-031-20160519 (accessed 31/8/16)

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are commuted until after completion of units within the development. – Note, that there a no such designated rural areas in Harborough.

- affordable housing and tariff-style contributions should not be sought from any development consisting only of the construction of a residential annex or extension to an existing home.

2.72 We have had regard to this threshold when preparing our viability appraisals.

3 Local Plan Context

3.1 This section of our report sets out the Local Plan context for Harborough.

Current Adopted Local Plan

3.2 The current adopted development plan for Harborough is the Core Strategy (2006 – 2028) which was adopted in November 2011. This sets out the strategic objectives for the District.

3.3 Key issues for the District are set out and include -

- P1 Ensuring delivery of new housing to accommodate population growth does not impact adversely on existing settlement and landscape character;
- P2 Securing delivery of appropriate affordable housing, particularly in the more rural areas;
- P3 Providing an appropriate range of housing to enable young people and older people to stay in rural settlements;

3.4 In accordance with Policy CS2: 'Delivering New Housing' the overall housing provision of at least 7,700 dwellings between 2006-2028 will be distributed as follows -

- Market Harborough at least 3,300 dwellings
- Leicester PUA (Scraptoft, Thurnby and Bushby) at least 880 dwellings
- Lutterworth at least 700 dwellings
- Broughton Astley at least 400 dwellings
- Rural Centres and selected rural villages at least 2,420 dwellings.

Current Adopted Affordable Housing Policy

3.5 The current adopted affordable housing policy (Policy CS3: Delivering Housing Choice and Affordability), requires that a minimum of 40% of the total number of dwellings will be affordable within the two highest value sub-market areas of Harborough Rural South West and Harborough Rural North and Central (red and blue areas on the map). In the remaining three sub-market areas (i.e. Lutterworth, Market Harborough and Blaby Border Settlements), a minimum of 30% of the total number of dwellings will be affordable. This is illustrated on the following map (Figure 3.1).

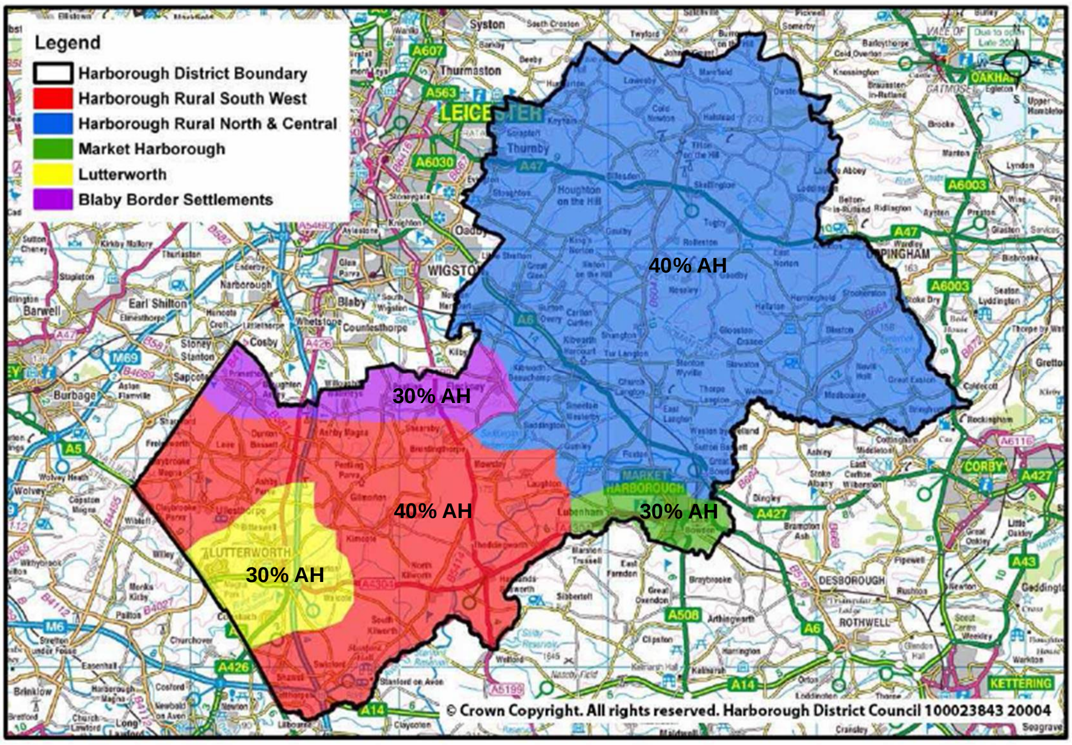

Figure 3.1 – Harborough District's Housing Viability Sub-Market Areas[51]

3.6 Affordable Housing will be provided on site in most cases, although provision off site or by way of a commuted sum will be allowed in exceptional circumstances or where it can be robustly justified.

3.7 The Council's Affordable Housing Guidance Note (amended August 2015) sets out the requirements which is to seek Affordable Housing Contributions on all developments of **3 units** and above in accordance with Policy CS3 of the Adopted Core Strategy.

3.8 On proposals of 3 units and above: The benchmark housing mix profile we will aim to seek as referenced in SHMA 2014 at District level is as follows:

- 1 bed - 41%
- 2 bed - 37%
- 3 bed - 20%
- 4+ beds - 2%

[51] Harborough District Local Development Framework, Core Strategy, 2006 – 2028, page 33

3.9 This is an indicative mix for planning purposes within the District. Individual site issues will influence housing mix on a particular development – This is intended to provide a basis for the kind of house types/sizes we should seek as a starting point in future development. Applicants are advised consult Harborough District's Housing Enabling and Community Infrastructure Officer at the earliest opportunity to discuss and agree site / locality specific

3.10 Harborough District's current tenure requirement is to seek in general terms a 60 / 40 split between rent (a percentage of which we would accept as Affordable Rent) and Intermediate housing respectively. However each site is assessed independently in meeting specific local housing need.

3.11 The affordable housing must comply with Homes & Communities Agency Quality Development Standards particularly in relation to space and floor areas as a minimum requirement.

3.12 The affordable housing is to be transferred to a partner Registered Provider (RP) at Open Market Values to be agreed between the developer and RP partner and approved by Harborough District Council.

Other Current Planning Obligations

3.13 Harborough District Council (together with Leicestershire County Council) has various requirements for planning obligations.

3.14 This is currently contained within the HDC Planning Obligations Supplementary Planning Document January 2017. This takes into account: the adoption of the Harborough District Core Strategy (2011); the Community Infrastructure Levy Regulations (2011); National Planning Policy Framework (2012); National Planning Practice Guidance (– revised November 2014); Leicestershire Developer Contributions Protocol 2015 and Leicestershire County Council Planning Obligations Policy 2014.[52]

3.15 The SPD sets out the areas that are the subject of planning obligations (based on Policy CS2, CS12 and Appendix 2 of the Core Strategy) - [53]

- Affordable Housing
- Community Facilities
- Open Space, Sport and Recreation Provision
- Library Facilities Education
- Highways and Transportation

[52] HDC Planning Obligations Supplementary Planning Document January 2016, para 1.1.3
[53] HDC Planning Obligations Supplementary Planning Document January 2016, para 2.2.2

- Library Services and Facilities
- Recycling and Waste (Including Civic Amenity Sites)
- Health Care
- Policing and Fire and Rescue
- Flood control and sustainable drainage[54]

3.16 Note that the County Council is responsible for the provision/commissioning of a range services including education, highways, transport, libraries, social care, public health and waste disposal. [55]

3.17 Note also that the SPD makes specific reference to viability assessments – paragraph 4.5 -

> *If the viability assessment is accepted as reasonable and shows that the development cannot proceed without reduced obligations, the Council may request lower contributions or no contributions for a particular site provided that the benefits of developing the site significantly outweigh the loss of planning obligations which were to make the development acceptable in planning terms*[56].
>
> *The Council's practice is to seek to maintain, as far as possible, obligations towards community infrastructure and* ***adopt a more flexible approach towards the affordable housing component*** *(stock managed by social landlords) in order to assist in making the development viable. This may result in changes to the mix of the affordable housing component or look to, increase the numbers of smaller and cheaper market housing types (1 /2 bed properties) to help increase opportunities for private rented and first time buyers*[57]. (our emphasis)

3.18 A summary of the current planning obligations requirements is set out on the following table (Table 3.1).

3.19 Note that we received feedback from the Pre-Consultation stakeholder event that S106 contributions can vary considerably between c £6,000 per unit to c £12,000 per unit. For the purposes of our current appraisals we have used a typical site specific cost of £13,500 per unit (and £21,000 per unit in Market Harborough). This has been informed based on an iterative approach between the viability testing and the IDP research and development.

[54] HDC Planning Obligations Supplementary Planning Document January 2016, para 2.2.3
[55] HDC Planning Obligations Supplementary Planning Document January 2016, para 2.2.5
[56] HDC Planning Obligations Supplementary Planning Document January 2016, para 4.5.4
[57] HDC Planning Obligations Supplementary Planning Document January 2016, para 4.6.5

Development type	Affordable Dwellings	Community Facilities	Open Space provision/ contribution	Health	Community Safety	Education	Highways	Civic Amenity	Libraries	Legal Fees	Monitoring Fees
Small housing scheme (3 dw or under)	None	None	None	None	None	None	None	None	None	None	None
Medium housing scheme (3- 10 dw)	30% (40% in specified rural areas)	£735 per dwelling where justified	As determined by individual assessment of existing provision and impact	As determined by individual assessment	As determined by individual assessment of capacity and impact	As determined by individual assessment of capacity and impact	As determined by transport assessment	As determined by individual assessment of capacity and impact	As determined by individual assessment of capacity and impact	HDC:: £975 per agreement	None
Large housing scheme (11 dw +)	30% (40% in specified rural areas)	£735 per dwelling where justified	As determined by individual assessment of existing provision and impact	As determined by individual assessment	As determined by individual assessment	As determined by individual assessment	As determined by transport assessment	As determined by individual assessment	As determined by individual assessment	HDC:: £975 per agreement	Monitoring fee: determined by individual assessment
Strategic Development Area (1000 dwellings +)	30% (40% in rural areas)	Land and contribution or direct provision	Direct provision on site as part of scheme	As determined by individual assessment	As determined by individual assessment	Direct provision on site as part of scheme	As determined by transport assessment			HDC:: £975 per agreement	Monitoring fee: determined by individual assessment
Small business development (<1000m2)	None	None	None	None	None	None	As determined by LCC Highways	None	None	HDC:: £975 per agreement	None
Large business development (>1000m2)	None	None	None	None	None	None	As determined by transport assessment	None	None	HDC:: £975 per agreement	None
Retail development	None	None	None	None	None	None	As determined by transport assessment	None	None	HDC:: £975 per agreement	None

Table 3.1 – Planning Obligations Summary

Other Current Policy Requirements

3.20 The previous SPG[58] highlights that inefficient use of land should be avoided and that densities on all housing developments should make the best use of the land to promote a more sustainable pattern of development. The Strategic Housing Land Availability Assessment (May 2016) and Adopted Harborough Core Strategy uses the following minimum net density standards –

Area	**Density Applied**
Sites within and adjacent to the Principal Shopping and Business Area of Market Harborough and Lutterworth	40 dwellings per hectare
Sites elsewhere within the District	30 dwellings per hectare

Table 3.2 – Residential Density

3.21 Harborough District Council currently has no specific policy requirements in terms of environmental design standards.

Emerging Local Plan Options

3.22 The emerging Local Plan will set out planning policies in the District for the period to 2031[59 60].

3.23 The Council is currently at the draft Proposed Submissions stage and New Local Plan policies are currently being formulated.

3.24 In order to appraise the Local Plan viability we have analysed each of the emerging draft Policies in order to determine which policies have a direct or indirect impact on development viability. Those policies with a direct impact on viability have been factored into our economic assessment below. Those policies with an indirect impact have been incorporated into the viability study indirectly through the property market cost and value assumptions adopted.

3.25 It is important to note that all the policies have an indirect impact on viability. The Council's Local Plan sets the 'framework' for the property market to operate within. All the policies have an indirect impact on viability through the operation of the property market and via site allocations which shape supply over time.

[58] SPG – Note 2 to the Harborough District Plan, Residential Development 19th March 2003)
[59] SPG, Note 2 Residential Development (19th March 2003).
[60] http://www.harborough.gov.uk/info/20004/planning_strategy/123/planning_policies_-_new_local_plan (accessed12/1/16)

3.26 We have reviewed the emerging policies to ensure that there are no new Local Plan policies that have an adverse impact on viability. In this respect the policies are set out on the following table (Table 3.3) –

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
SS1 The Spatial Strategy [for Harborough]	Indirect	This policy is about: 1. Managing the planned growth to appropriate locations, in accordance with the settlement hierarchy; 2. enabling housing and commercial development; 3. bringing forward strategic development areas at East of Lutterworth and Scraptoft North etc. The concentration of development in Principal Urban Areas; Sub-Regional Centres and Key Centres etc. may have an impact on land values creating distinct market areas. We have undertaken a thorough market analysis of residential, commercial and agricultural land values to look into whether there is a variation in both Existing Use Values (EUV) and Market Values (MV) across the District. Our approach adopts both a bottom-up (EUV plus premium) and top-down (MV less discount) to arrive at an appropriate Threshold Land Value for the agreed development typologies. The distribution of development across the District will impact on property markets through the price mechanism. We have used current values (and costs) within our appraisals. Monitor cost and value assumptions and land supply / price for future reviews.
GD1 Achieving sustainable development	Indirect	This policy is about reflecting the presumption in favour of sustainable development contained in the National Planning Policy Framework (NPPF) and also supporting the primacy of the Development Plan (including this Local Plan). Again, this may influence land and property values through the price mechanism. For the purpose of this report we have used current costs and values and recommend HDC keep viability under review going forward. Monitor cost and value assumptions and land supply / price for future reviews.
GD2 Settlement development	Indirect	This policy sets out criteria for development within or contiguous with the existing or committed built up area of Market Harborough, Key Centres, the Leicester Principal Urban Area (PUA), Rural Centres and Selected Rural Villages. It also enables the re-development

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
		of previously developed land which is not of high environmental value etc. Again, this may influence land and property values through the price mechanism. For the purpose of this report we have used current costs and values and recommend HDC keep viability under review going forward. Monitor cost and value assumptions and land supply / price for future reviews.
GD3 Development in the countryside	Indirect	This policy sets out limited circumstances / types of development outside Market Harborough, Key Centres, the Principal Urban Area (PUA), Rural Centres and Selected Rural Villages, and land adjoining them, but excluding Green Wedges. For example: a) agriculture, horticulture, woodland management; b) outdoor sport and recreation c) minerals and waste etc. This policy reinforces the policies above this directs the spatial distribution of development. This may influence land and property values through the price mechanism. For the purpose of this report we have used current costs and values and recommend HDC keep viability under review going forward. Monitor cost and value assumptions and land supply / price for future reviews.
GD4 New housing in the countryside	Indirect	This policy sets out limited circumstances for new residential development outside Market Harborough, Key Centres, the Principal Urban Area, Rural Centres and Selected Rural Villages, and land adjoining them, but excluding Green Wedges e.g. a) on small sites of no more than 4 dwellings; or b) housing to meet the needs of a rural worker. This is small scale development to support the country side. There is no meaningful impact on the large scale distribution of land uses which would impact Plan viability.
GD5 Landscape Character	Indirect	Development will be located and designed in a way that is sensitive to its landscape and/or townscape setting and landscape character area etc. In this respect, construction cost rates take into consideration the quality of development required in the District.
GD6 Areas of Separation	Indirect	This policy creates areas of separation [of development] between a. Great Bowden and

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
		Market Harborough; and b. Bitteswell, Lutterworth and Magna Park. As with policy GD3 above, this policy reinforces the policies above and directs the spatial distribution of development. This may influence land and property values through the price mechanism. For the purpose of this report we have used current costs and values and recommend HDC keeps viability under review going forward .Monitor cost and value assumptions and land supply / price for future reviews.
GD7 Green Wedge	Indirect	This policy is to create the Leicester/Scraptoft/ Bushby Green Wedge and the Thurnby/Leicester/Oadby Green Wedge with the aims of: preventing the merging of settlements etc. As with policy GD3 above, this policy reinforces the policies above and directs the spatial distribution of development. This may influence land and property values through the price mechanism. For the purpose of this report we have used current costs and values and recommend HDC keep viability under review going forward. Monitor cost and value assumptions and land supply / price for future reviews.
GD8 Good design in development	Direct	Development will be permitted where it achieves a high standard of design, based on various criteria set out in the policy. Our construction cost rates take into consideration the quality of development required in the District.
GD9 Minerals Safeguarding Areas	Indirect	Non-exempt development in Minerals Safeguarding Areas will be permitted where the requirements set out in the minerals safeguarding policies of the Leicestershire County Council Minerals Local Plan have been met. This has no meaningful impact on the large scale distribution of land uses which would impact Plan viability.
H1 Provision of New Housing	Indirect	This policy sets out the allocation of land for a minimum of 4,660 new homes in various locations including: 1. at Scraptoft about 1,200 dwellings in a Strategic Development Area on land north of Scraptoft; 2. at Market Harborough a minimum of 1,140 dwellings, and; 3.

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
		at Lutterworth about 1,500 dwellings in a Strategic Development Area on land east of Lutterworth etc.. The allocation of development in accordance with this policy may have an impact on land values creating distinct market areas. We have undertaken a thorough market analysis of residential, commercial and agricultural land values to look into whether there is a variation in both Existing Use Values (EUV) and Market Values (MV) across the District. Our approach adopts both a bottom-up (EUV plus premium) and top-down (MV less discount) to arrive at an appropriate Threshold Land Value for the agreed development typologies. The distribution of development across the District will impact on property markets through the price mechanism. We have used current values (and costs) within our appraisals. Monitor cost and value assumptions and land supply / price for future reviews. Note that the strategic sites have been appraised individually as part of the Viability Assessment.
H2 Affordable housing	Direct	The policy requires that - 1. A minimum of 40% affordable housing will be required on all market housing sites: a. of **more than 10 dwellings**; or b. of a combined gross floorspace of 1000 square metres; or c. on sites of 0.5 hectares or more. 3. The tenure split for the affordable housing will be as follows: a. approximately 75% affordable or social rented; and b. approximately 25% Low Cost Home Ownership (LCHO). 4. Where on-site provision is demonstrated to be impractical, off-site commuted sums of an equivalent value will be made in lieu of on-site provision. 5. Where small housing developments of 10 or fewer dwellings are proposed on sites that have a spatial relationship (such as a shared access or being located adjacent to each

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
		other) affordable housing will be required where a cumulative total of more than 10 dwellings is proposed. 6. Proposals which do not meet the above policy requirements will be acceptable where it is demonstrated ***to the Council's satisfaction*** that a different level or mix of affordable housing is required ***to make the development viable*** and the approach contributes towards creating mixed and balanced communities. For the purposes of our appraisal we have appraised the above 40% affordable housing policy requirement. We have also illustrated sensitivity scenarios for different percentages of affordable housing. Note that we have appraised the SDA sites at Lutterworth and Scraptoft North to ensure that they are viable. We have appraised the tenure mix based on 75% affordable rent and 25% LCHO. This results in an overall % of LCHO products of 10% of the overall number of units which is compliant with the emerging proposals within the Housing White Paper. In our appraisals of the supported living typologies we have calculated the quantum of affordable housing (%) that is viable and the equivalent level of commuted sum (to reflect the fact that in many cases on-site affordable housing (e.g. starter homes) is in compatible with age restricted housing (e.g., over 55's)). Finally, our scheme typologies matrix and viability appraisals are specifically designed to test the viability of the policy in the context of the cumulative impact of all of the new policies herein. The drafting of this policy is an iterative process having regard to the results of the viability appraisals and specifically the sensitivity appraisals. It is important to note that, exceptionally, a lower requirement for affordable housing will be acceptable where there is clear, independently verified evidence that it would make the development unviable.
H3 Rural Exception Sites	Indirect	This is a Rural Exception Sites (RES) policy. It allows development proposals for affordable housing on small sites in rural areas that would not normally be permitted for housing, will be approved as rural exception sites in certain circumstances, and in addition, small numbers of market homes may be permitted to cross-subsidise the affordable housing.

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
		Given the relatively small scale of RES schemes we have not appraised this as a typology as there is no meaningful impact on the large scale distribution of land uses which would impact Plan viability. We note that the NPPF specifically states that 'local planning authorities should be responsive to local circumstances, and consider whether allowing some market housing would facilitate the provision of rural exception sites to meet local needs' However, it should be noted that the danger with the policy of allowing private housing on rural exceptions sites is that landowners will inevitably think that they can charge more for the land i.e. the threshold land value will go up. Landowners will not necessarily make the link between the market housing and the cross-subsidy required to the affordable housing. Landowners will see the market housing as the ‘thin end of the wedge’ which enables them to attribute ‘hope value’ to much higher land value than they might otherwise expect the receive for just 100% affordable housing - they will want their uplift in value particularly in comparison with allocated sites. There is a danger that market housing on RES sites could result a spiralling land values for this type of development which would be counter-productive. It is between the Council and the Registered Providers to retain RES sites with 100% affordable housing, and make up any funding shortfall from the HCA or via internal subsidy from the Registered Providers.
H4 Specialist housing	Direct	This policy sets out requirements to deliver specialist housing development, such as sheltered and extra care accommodation. The costs and values for specialist housing are different to general C3 housing. We have therefore appraised specialist housing separately and propose differential rates for this typology.
H5 Density, mix and housing standards	Direct	This policy sets out requirements for density, mix and housing standards, as follows. For the purposes of our Viability Assessment we have: 1. a. Adopted appropriate residential density assumptions;

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		b. Used house size areas based on analysis of actual new houses constructed which tend to be greater that the nationally described space standards in any event. c. is designed to meet higher water efficiency standards of 110 litres per person per day as prescribed in Building Regulations, Part G. This policy requirement has a direct impact on the construction cost and density of development. In particular the proposed main modification to this policy includes a requirement for all new residential development to achieve the optional building regulations requirement for water efficiency of 110 litres/person/day. The modest cost of achieving this optional requirement has been factored into all of our residential appraisals. Additional costs associated with optional water efficiency standards equate to **£9 per dwelling** which we have included for completeness. (Department for Communities and Local Government Housing Standards Review Cost Impacts (EC Harris September 2014) 2. Appraised an appropriate mix of residential units on each typology 3. Made an allowance of **£521 per unit** for housing development to meet the accessible and adaptable standards in Building Regulations, Part M, Category 2, **in 4% of dwellings proposed on sites capable of providing 100 dwellings or more.** M4(2) Category 2 - Accessible and adaptable dwellings – are dwellings that provide a higher level of accessibility that is beneficial to a wide range of people who occupy or visit the dwelling, and provides particular benefit to older and disabled people, including some wheelchair users. This has a cost implication for development. In addition to the baseline BCIS construction costs we have made extra-over allowance for these optional Building Regulations requirements to demonstrate that this is achievable. This is based on the DCLG housing Standards Review, Final Implementation Impact Assessment, March 2015, paragraphs 153 and 157. 4. Custom build plots are required on sites capable of providing 250 dwellings or more. This policy is to 'encourage' and provide a positive framework for self-build and custom build housing. It outlines locations where this form of house building is considered appropriate and indicates the positive approach to reviewing such applications. The emphasis is on encouragement of the sector. The policy states that, 'sites capable of providing 250 dwellings or more ***should*** provide land'. Note that we have not appraised any self-build schemes explicitly. Self-build housing can be delivered in various ways

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
		from individual self-builder to larger schemes involving self-build enabling development[61] . All our residential typologies are on the basis that land can be acquired and developed into a new unit (including appropriate allowance for profit). Where self-building involves plot sales and/or part completed units (e.g. foundations, or 'wind and watertight') the working assumption is that the developers profit is commensurate with the development work undertaken and therefore there is sufficient development surplus to incentivise the self-builder to complete the unit. See our more detailed assumptions contained within the Typologies matrix (appended) and in the residential section below.
H6 Gypsy, Traveller and Travelling Showpeople accommodation	Indirect	This is for the development of Gypsy, Traveller and Travelling Showpeople pitches. This is not a large sector of the property market and therefore the supply of these sites will have limited, if any impact, on viability. Cost and value assumptions and land supply / price should be monitored for future reviews.
BE1 Provision of new employment	Indirect	This policy sets out the scale and distribution of land for office B1 (a) and (b), industrial B1(c) and B2, and non-strategic storage and distribution B8. It also enables development of the rural economy on sites within or well related to Rural Centres and Selected Rural Villages. The allocation of land for employment uses impacts indirectly on the supply of land for residential use (i.e. if a site is allocated for employment use, then it cannot also be allocated for residential use); and therefore impacts the TLV of residential development land due to reduced supply. That said we have sought to utilise appropriate evidenced / justified land values within our analysis and we recommend that values are monitored for future reviews.
BE2 Strategic distribution	Indirect/Direct	This policy references strategic distribution uses at Magna Park and on sites well related to, Magna Park.

[61] See our report for the Planning Advisory Service, Planning for Self and Custom Build Housing, June 2016 - https://www.local.gov.uk/sites/default/files/documents/planning-self-and-custom--edc.pdf (accessed 20/6/17)

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		Note that we have been instructed by HDC to include the value added by the larger B8 development in respect of the appraisal of the Lutterworth SDA. This is because larger scale distribution units tend to be pre-let and therefore can add considerable value to a scheme.
BE3 Existing employment areas	Indirect	The allocation of land for employment uses impacts indirectly on the supply of land for residential use (i.e. if a site is allocated for employment use, then it cannot also be allocated for residential use); and therefore impacts the TLV of residential development land due to reduced supply. That said we have sought to utilise appropriate evidenced / justified land values within our analysis and we recommend that values are monitored for future reviews.
BE4 Bruntingthorpe proving ground	Indirect	The allocation of land for employment uses impacts indirectly on the supply of land for residential use (i.e. if a site is allocated for employment use, then it cannot also be allocated for residential use); and therefore impacts the TLV of residential development land due to reduced supply. That said we have sought to utilise appropriate evidenced / justified land values within our analysis and we recommend that values are monitored for future reviews.
BE5 Leicester Airport, Stoughton	Indirect	The allocation of land for employment uses impacts indirectly on the supply of land for residential use (i.e. if a site is allocated for employment use, then it cannot also be allocated for residential use); and therefore impacts the TLV of residential development land due to reduced supply. That said we have sought to utilise appropriate evidenced / justified land values within our analysis and we recommend that values are monitored for future reviews.
RT1 Retail needs	Indirect	This policy sets out the Council's proposals for the ongoing enhancement and focus on certain town centres as locations for retail needs based on the settlement hierarchy. The vitality of the service centres impacts indirectly on the desirability of that location as a place to live; and hence residential values. We have had regard to current residential values as part of our viability appraisals. The vitality of the settlements should continue to be monitored as this will impact future values. Note that HDC is no longer considering the implementation of CIL, pending the development of the CIL review (published February 2017) recommendations for LIT/SIT.

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RT2 Town and local centre uses and boundaries	Indirect	Ditto
RT3 Shop fronts and advertisements	Indirect	n/a
RT4 Tourism and Leisure	Indirect	Same comments as for RT1 Retail needs apply.
HC1 Built heritage	Indirect	This policy is in place to protect heritage assets and their settings. There is a cost implication associated with this policy, given it requires developments in conservation areas and other heritage assets to meet certain requirements. We have used current costs based on the BCIS and rebased them to Harborough along with evidence from site-specific EVAs which take into consideration costs of 'typical' development across the District. We acknowledge that construction costs are likely to be higher within designated heritage environments, but values are also likely to be higher. Furthermore, developments involving heritage assets are likely to require a bespoke approach to viability e.g. enabling development and/or grants.
HC2 Community facilities	Indirect	Cost neutral in terms of replacement facilities required.
HC3 Public houses, post office and village shops	Indirect	This policy sets out the circumstances where development involving the loss of an existing public house, post office or village shop selling primarily convenience goods will be permitted. This is not a large sector of the property market and therefore the supply of these sites will have limited, if any impact, on overall Plan viability. Cost and value assumptions and land supply / price should be monitored for future reviews.
GI1 Green Infrastructure networks	Indirect	This policy is to safeguards and supports the potential of green infrastructure. This impacts on the supply of land/sites for development which impacts indirectly on the land values through the price mechanism. We have used current values (and costs) within

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		our appraisals.
GI2 Open space, sport and recreation sites	Indirect	The policy is to: 1. Safeguard the District's open space, sport and recreation facilities and any future facilities 2. Prevent the loss of or reduction in public and private open spaces and recreation spaces will not be permitted unless in certain circumstances 3. Developments of more than 10 dwellings which would result in deficiencies in the quantity, accessibility and/or quality of existing open space, sport and recreation facilities should contribute towards – in this respect we have assumed appropriate development densities for on-site provision, as well as external works costs and site specific S106 allowances. 4. Ditto Monitor cost and value assumptions and land supply / price for future reviews.
GI3 Cemeteries	Indirect	n/a
GI4 Local Green Space	Indirect	1. Local Green Spaces are allocated on the Policies Map and will retain their openness permanently. 2. The construction of new buildings on Local Green Space will not be permitted except in very special circumstances. The protection of land from development impacts indirectly on the supply of land for residential use (i.e. if a site is allocated for green space, then it cannot also be allocated for residential use); and therefore impacts the TLV of residential development land due to reduced supply. That said we have sought to utilise appropriate evidenced / justified land values within our analysis and we recommend that values are monitored for future reviews.
GI5 Biodiversity and	Direct	This policy sets out the requirements for new development on biodiversity and geodiversity.

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geodiversity		Appropriate development and infrastructure costs have been included in the appraisals of major development sites. Costs associated with these requirements are included within our use of appropriate local construction cost benchmarks and external works cost benchmarks which developers will take into consideration biodiversity requirements (which developers have been delivering).
CC1 Mitigating Climate Change	Direct	This policy: 1. Describes what major development are required to demonstrate [the policy only requires the applicant to demonstrate how each element is addressed, rather than requiring a specific standard to be achieved]; and 2. Applicants in Strategic Development Areas ***should*** demonstrate whether a decentralised energy network is viable. The construction costs allowed are based on BCIS costs from the last 5 years which therefore include any costs associated with the current building regulations. We have also sensitivity tested the appraisals for increases in construction costs.
CC2 Renewable energy generation	Indirect	This policy sets out the Council’s approach to renewable and low carbon energy development and wind turbines. Note that we have used BCIS based on the last five years, which therefore only includes schemes based on the current, 2010, building regulations. By careful design the policy’s requirements should be deliverable within the normal building cost budget benchmarks. Where this is not possible, abnormal costs should be deducted from the land value. We have taken this into consideration within our typologies matrix and development appraisals.
CC3 Flood risk and drainage	Indirect / Direct	This policy has an indirect spatial impact on the location of development hence - monitor cost and value assumptions and land supply / price for future reviews.
CC4 Sustainable Drainage	Direct	1. All major development must incorporate sustainable drainage systems (SuDS).

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		2. Prior to the commencement of development, the responsibilities for management and maintenance in perpetuity of the SuDS must be agreed. 3. The design and layout of the SuDS will need to satisfy various conditions. There may be a direct cost impact in terms of the incorporation of SUDs which his factored into the appraisals within the external works, infrastructure and contingency costs. We have also sensitivity tested the appraisals for increases in construction costs.
IN1 Infrastructure provision	Direct	The policy requires that: 1. Major development will be permitted where there is sufficient infrastructure capacity, and 2. Direct provision and/or financial contributions towards meeting all the eligible costs of infrastructure directly required by a major development (or cumulatively with other major developments within Harborough District or outside) will be sought from the scheme promoter whenever this is necessary. The Viability Assessment includes appropriate site specific S106 assumptions based on the emerging Infrastructure Delivery Plan (IDP). Special attention has been given to the infrastructure requirements of the SDA sites. Note that HDC has resolved to hold the introduction of CIL in abeyance until the full implications of the CIL Review (published February 2017) are known vis-à-vis the introduction of LIT/ST.
IN2 Sustainable Transport	Direct	This policy sets out requirements: (1) for impact on the national road network; (2) for access, and (3) control of speed and flow of vehicular traffic. Site specific mitigation measures are excluded (in the Plan wide Viability Assessment). Site specific costs should be taken into consideration by developers and deducted from the residual land value.
IN3 Electronic connectivity	Direct	This policy requires:

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		1. Major development will only be permitted where adequate broadband services are to be made available to all residents and/or users of the development. 2. Major development should incorporate a bespoke duct network, designed and implemented in cooperation with a recognised network provider, and ***where viable***, a fibre to the premises (FTTP) solution. 3. Other forms of infrastructure, such as facilities supporting mobile broadband and Wi-Fi, should be included in major development 4. [other] Telecommunications development will be permitted in certain circumstances Note that we have included appropriate external works allowances for on-site service distribution and note that the ducting etc. is only required 'where viable'. In the case of major development one would assume that adequate broadband services could be made available at normal cost. If this is not the case and abnormal costs result from this requirement, then these abnormal costs should be deducted from the land price i.e. site with good electronic connectivity are more valuable than site with limited connectivity.
IN4 Water resources and services	Direct	This policy sets out: 1. Circumstances where water resources will be protected and water services provided for developments, and 2. For major developments (and high or intense water use developments) inclusion of a grey water and rainwater harvesting system, ***unless demonstrated that such a system is not feasible*** or practical. Again, we have included appropriate external works allowances which includes for water. Note that the requirement for major developments to plan for a grey water and rainwater harvesting system in only if ***feasible*** [/viable].
IMR1 Monitoring and review of the Local Plan	N/a	We recommend that the Council monitors land values in its area to facilitate future Plan viability reviews.

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	Impact on Viability	Implications for Local Plan Viability Assessment
SC1 Scraptoft North Strategic Development Area	Direct	This policy sets out the requirements for the Scraptoft North SDA. We have worked alongside HDC to coordinate the site specific infrastructure and S106 costs required to deliver this development. These are set out on detail on the SDA assumptions schedule at Appendix 4. These costs have been incorporated into our SDA appraisals.
MH1 Overstone Park	Indirect	We have not been instructed to appraise this allocation specifically. We have however, appraised various generic typologies for development in Market Harborough.
MH2 East of Blackberry Grange	Indirect	ditto
MH3 Burnmill Farm	Indirect	ditto
MH4 Land at Airfield Farm	Indirect	ditto
MH5 Airfield Business Park	Indirect	ditto
MH6 Compass Point Business Park	Indirect	ditto
L1 East of Lutterworth Strategic Development Area	Direct	This policy sets out the requirements for the Lutterworth East SDA. We have worked alongside HDC to coordinate the site specific infrastructure and S106 costs required to deliver this development. These are set out on detail on the SDA assumptions schedule at Appendix 4. These costs have been incorporated into our SDA appraisals.
L2 Land south of Lutterworth Road / Coventry Road	Indirect	We have not been instructed to appraise this allocation specifically. We have however, appraised various generic typologies for development in Lutterworth.

Harborough Local Plan, 2011-2031, Proposed Submission, September 2017 – Policy:	**Impact on Viability**	**Implications for Local Plan Viability Assessment**
F1 Land off Arnesby Road	Indirect	We have not been instructed to appraise this allocation specifically. We have however, appraised various generic typologies for development in Rural Harborough.
F2 Land off Marlborough Drive	Indirect	ditto
K1 Land south and west of Priory Business Park	Indirect	ditto

Table 3.3 – Emerging Local Plan Policy Assumptions Appraised (August 2016)

Adjacent Authorities' Policies

3.27 The property market for development is a continuum across boundaries within Leicestershire and the region. It is therefore relevant to consider CIL and Affordable Housing requirements in neighbouring authorities. That said every local authority area has unique economic circumstances and geography which could result in different Economic Viability Appraisal (EVA) evidence. For example, Leicester is an urban area compared to Harborough District. Also CIL is not to be used as a policy tool across boundaries, but should be based on the EVA evidence from the relevant authority.

3.28 We set out below the headline CIL and Affordable Housing targets from surrounding authorities for ease of comparison (Table 3.4).

Local Authority	Affordable Housing	Residential CIL
Blaby	25% across the whole District on sites of 15 or more dwellings[62]	No charging schedule
Leicester	15% in the Strategic Regeneration Area; 30% in the South East of the City and Ashton Green; 20% elsewhere in the City on sites of 15 or more dwellings or sites of 0.5 ha or over[63]	Two charging zones with rates of £0 / £25 psm[64]
Charnwood	20% to 30% in urban areas and service centres (on sites of 10 or more dwellings). 30% to 40% in rural locations (on sites of 5 or more dwellings).[65]	No charging schedule
Melton	From 20% to 100% on allocated sites[66]	No charging schedule
Rutland	35% across the whole District on sites of 5 dwellings or more or sites of 0.15 ha or over[67]	£100 psm (Sheltered Housing and Extra Care Housing £NIL)
Corby	30% across the borough on sites of 1.5 ha or more[68]	Two charging zones with rates of £50 / £100 psm
Kettering	15% - 20% on sites of 20 or more dwellings[69]	Two charging zones with rates of £50 / £100 psm

[62] Blaby District Local Plan Adopted February 2013 (Policy CS7 Affordable Housing)
[63] Leicester City Core Strategy Adopted July 2014 (CS Policy 7 Affordable Housing)
[64] Community Infrastructure Levy Draft Charging Schedule, February 2015, City Mayor
[65] Charnwood Local Plan 2011 to 2028 Adopted November 2015 (Policy CS3 Strategic Housing Needs)
[66] (Policy H7 Affordable Housing on Allocated Sites)
[67] Rutland Core Strategy Adopted July 2011 (Policy CS11 Affordable Housing)
[68] Corby Borough Council Local Plan 1997 (saved Policy P1(R) Affordable Housing)

Local Authority	Affordable Housing	Residential CIL
Daventry	25% in Daventry Town; 40% in Rural Areas on sites of 5 or more dwellings[70]	Two charging zones with rates of £50 / £200 psm. £200 psm reduced to £65 psm if sufficient affordable housing.
Rugby	33.3% on sites of between 0.5 - 1 ha or capable of accommodating 15 or more dwellings 40% on sites exceeding 1 ha or capable of accommodating 30 or more dwellings[71]	Two charging zones with rates of £50 / £100 psm
Oadby and Wigston	Oadby 30%; Wigston 20%; South Wigston 10% on sites of 10 dwellings or more[72]	No charging schedule

Table 3.4 – Neighbouring Authorities Policies

69 Supplementary Planning Guidance Saved Policies July 2011, Kettering Borough Council (saved Policies D5, B5 and RA6)
70 West Northamptonshire Joint Core Strategy Local Plan Adopted December 2014 (Policy H2 Affordable Housing)
71 Final Version Core Strategy Rugby Borough Council Adopted June 2011 (Policy CS19)
72 Oadby and Wigston Core Strategy Adopted September 2010 (Policy 11 Affordable Housing)

4 Viability Assessment Method

4.1 In this section of the report we set out our methodology to establish the viability of the various land uses and development typologies described in the following sections. We also set out the professional guidance that we have had regard to in undertaking the economic viability appraisals and some important principles of land economics.

The Harman Report

4.2 The Harman report 'Viability Testing Local Plans'[73] (June 2012) refers to the concept of 'Threshold Land Value' (TLV). We adopt this terminology throughout this report as it is an accurate description of the important value concept. Harman states that the *'Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development.'*[74]

4.3 The Harman report also advocates that when considering the appropriate Threshold Land Value, consideration should be given to *'the fact that future plan policy requirements will have an impact on land values and owners' expectations'.* In this context Harman is concerned that *'using a market value approach as the starting point carries the risk of building-in assumptions of **current** policy costs rather than helping to inform the potential for **future** policy'*[75] (our emphasis).

4.4 Harman does still acknowledge that reference to market values will provide a useful 'sense check' on the Threshold Land Values that are being used in the appraisal model; however*, 'it is not recommend that these are used as the basis for input into a model'.*[76]

4.5 Harman recommends that '*the Threshold Land Value is based on a premium over current use values and 'credible' alternative use values'.* However, the report accepts that *'alternative use values are most likely to be relevant in cases where the Local Plan is reliant on sites coming*

[73] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report)
[74] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 28
[75] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29
[76] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29

forward in areas (such as town and city centres) where there is competition for land among a range of alternative uses.'[77]

4.6 The Harman report does not state what the premium over existing use value should be, but states that this should be 'determined locally' – but then goes on to state that *'there is evidence that it represents a sufficient premium to persuade landowners to sell'*[78]. This takes us back to a Market Value approach (see RICS guidance below).

4.7 The guidance further recognises that in certain circumstances, particularly in areas where landowners have '*long investment horizons'* (e.g. family trusts, The Crown, Oxbridge Colleges, Financial Institutions), '*the premium will be higher than in those areas where key landowners are more minded to sell'*[79]. An example of this is in relation to large urban extensions where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset. In this scenario the uplift on current use value will invariably be significantly higher than those in an urban context. In reconciling such issues, Harman stresses the **importance of using local market evidence** as a means of providing a sense check.

4.8 The Harman report clearly favours an approach to benchmarking which is based on current / existing use value plus a premium. However, this is not how the market works in practice as property is transacted by reference to the Market Value which for development land is derived from the Residual Land Value. Also, to determine the existing use value you need to know the use which is to be redeveloped. This is relevant for site-specific S106 negotiations but is more problematic for hypothetical typologies for a District-wide strategic context. At numerous points throughout the document, Harman advocates, that the outcome of this approach will need to be 'sense checked' against **local market evidence** (pages 29, 30, 31, 34, 36, 40).

4.9 Indeed the report does acknowledge that, *'if resulting Threshold Land Values do not take account [of local market knowledge], it should be recognised that there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound.'*[80]

[77] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29
[78] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 29
[79] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30
[80] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30

RICS Guidance

4.10 The RICS guidance on Financial Viability in Planning[81] was published after the Harman report in August 2012 (the Harman Report was published in June 2012) and it is much more 'market facing' in its approach.

4.11 The RICS guidance is grounded in the statutory and regulatory planning regime that currently operates in England and is consistent with the Localism Act, the NPPF and Community Infrastructure Levy (CIL) Regulations.

4.12 Whilst the RICS Guidance and that from the Local Housing Delivery Group can be seen as complementary the RICS guidance provides more technical guidance on determining an appropriate site / benchmark value.

4.13 The RICS Guidance defines financial viability for the purposes of town planning decisions as -

> *An objective financial viability test of the ability of development to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer*[82]

4.14 In assessing the impact of planning obligations on the viability of the development process, the Guidance does not specify a prescriptive tool or financial model - albeit it does recognise that it is accepted practice to use a residual valuation model as the appraisal framework.[83]

4.15 However, it does emphasise the '***importance of using market evidence*** *as the best indicator of the behaviour of willing buyers and willing sellers in the market*'[84]. The Guidance warns that -

> *where planning obligation liabilities reduce the Site Value to the landowner and return to the developer below an appropriate level, land will not be released and/or development will not take place. This is recognised in the NPPF.*[85]

4.16 The RICS Guidance defines 'site value', whether this is an input into a scheme specific appraisal or as a [threshold land value] benchmark, as follows -

> *Site value should equate to the* ***market value*** *subject to the following assumption: that the value has regard to development plan policies and all other material planning*

[81] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012
[82] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 2.1.1
[83] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 page 16
[84] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 3.1.4
[85] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph 2.1.4

> *considerations and disregards that which is contrary to the development plan*[86] *(Box 7)* (our emphasis)

4.17 The guidance also advocates that any assessment of site value will need to consider prospective planning obligations and recommends that a second assumption be applied to the aforementioned definition of site value, when undertaking Local Plan or CIL (area wide) viability testing. This is set out below -

> *Site value (as defined above) may need to be further* ***adjusted to reflect the emerging policy / CIL charging level.*** *The level of the adjustment assumes that site delivery would not be prejudiced. Where an adjustment is made, the practitioner should set out their professional opinion underlying the assumptions adopted*…..(Box 8) (our emphasis)

4.18 As mentioned above emerging practice has tended to use the existing use value plus premium approach to land value. This is useful to help 'triangulate' the market value for a particular site, but the emphasis does have to be on property market evidence if the scheme is to be grounded in reality and therefore deliverable.

Planning Inspectorate Examination Reports

4.19 A number of Planning Inspectorate reports have comments upon the critical issue of land value, as set out below.

Mayor of London CIL (Jan 2012)

4.20 The impact on land value of future planning policy requirements e.g. CIL [or revised Affordable Housing targets] was contemplated in the Examiner's report to the Mayor of London CIL (January 2012)[87].

4.21 Paragraph 32 of the Examiner's report states:

> *…the price paid for development land may be reduced. As with profit levels there may be cries that this is unrealistic, but* ***a reduction in development land value is an inherent part of the CIL concept****. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts*

[86] This includes all Local Plan policies relevant to the site and development proposed
[87] Holland, K (27 January 2012) Report on the Examination of the Draft Mayoral Community Infrastructure Levy Charging Schedule, The Planning Inspectorate, PINS/K5030/429/3

and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges. (our emphasis)

Greater Norwich CIL (Dec 2012)

4.22 The Greater Norwich Development Partnership's CIL Examiner's report adds to this -

> *Bearing in mind that the cost of **CIL needs to largely come out of the land value**, it is necessary to establish a threshold land value i.e. the value at which a typical willing landowner is likely to release land for development. Based on market experience in the Norwich area the Councils' viability work assumed that **a landowner would expect to receive at least 75% of the benchmark value**. Obviously what individual land owners will accept for their land is very variable and often depends on their financial circumstances. However in the absence of any contrary evidence **it is reasonable to see a 25% reduction in benchmark values as the maximum** that should be used in calculating a threshold land value*[88]*.* (our emphasis)

Sandwell CIL (Dec 2014)

4.23 Furthermore the Examiner's report for the Sandwell CIL states -

> *The TLV is calculated in the VAs [Viability Assessments] as being **75% of market land values** for each typology. According to the CA, this way of calculating TLVs is based on the conclusions of Examiners in the Mayor of London CIL Report January 2012 and the Greater Norwich Development Partnership CIL Report December 2012. **This methodology was uncontested.***[89]

HCA Transparent Viability Assumptions (August 2010)

4.24 Finally, in terms of the EUV + premium approach, the HCA (in August 2010) published a consultation paper on transparent assumptions for Area Wide Viability Modelling[90].

4.25 This notes that, '*typically, this gap or premium will be expressed as a percentage over EUV for previously developed land and as a multiple of agricultural value for greenfield land*'[91].

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[88] Report to the Greater Norwich Development Partnership – for Broadland District Council, Norwich City Council and South Norfolk Council, by Keith Holland BA (Hons) Dip TP, MRTPI ARICS, 4 December 2012, File Ref: PINS/G2625/429/6 – paragraph 9

[89] Report to Sandwell Metropolitan Borough Council by Diana Fitzsimons MA MSc FRICS MRTPI an Examiner appointed by the Council, 16 December 2014, File Ref: PINS/G4620/429/9 - paragraph 16

[90] The HCA Area Wide Viability Model, Annex 1 Transparent Viability Assumptions, August 2010, Consultation Version

[91] The HCA Area Wide Viability Model, Annex 1 Transparent Viability Assumptions, August 2010, Consultation Version para 3.3

4.26 It also notes that benchmarks and evidence from planning appeals tend to be in a range of '*10% to 30% above EUV in urban areas. For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value*'[92].

Brownfield / Greenfield Land Economics

4.27 CIL has its roots in the perceived windfall profit arising from the release of greenfield land by the planning system to accommodate new residential sites and urban extensions[93]. However, lessons from previous attempts to tax betterment[94] show that this is particularly difficult to achieve effectively without stymieing development. It is even harder to apply the concept to brownfield redevelopment schemes with all attendant costs and risks. The difference between greenfield and brownfield scheme economics is important to understand for affordable housing targets and CIL rate setting.

4.28 The timing of redevelopment and regeneration of brownfield land particularly is determined by the relationship between the value of the site in its current [low value] use ("Existing Use Value") and the value of the site in its redeveloped [higher value] use ("Alternative Use Value") – less the costs of redevelopment. Any planning gain which impacts on these costs will have an effect on the timing of redevelopment. This is relevant to consider when setting the 'appropriate balance'.

4.29 Fundamentally, CIL is a form of 'tax' on development as a contribution to infrastructure. By definition, any differential rate of tax/CIL will have a distorting effect on the pattern of land uses. The question as to how this will distort the market will depend upon how the CIL is applied.

4.30 Also, consideration must be given to the 'incidence' of the tax i.e. who ultimately is responsible for paying it i.e. the developer out of profit, or the landowner out of price (or a bit from each).

4.31 This is particularly relevant in the context of brownfield sites in the town centres and built up areas. Any CIL on brownfield redevelopment sites will impact on the timing and rate of redevelopment. This will have a direct effect on economic development, jobs and growth.

4.32 In the brownfield context redevelopment takes place at a point in time when buildings are economically obsolete (as opposed to physically obsolete). Over time the existing use value of buildings falls as the operating costs increase, depreciation kicks in and the rent falls by comparison with modern equivalent buildings. In contrast the value of the next best alternative use of the site increases over time due to development pressure in the urban context

[92] The HCA Area Wide Viability Model, Annex 1 Transparent Viability Assumptions, August 2010, Consultation Version para 3.5
[93] See Barker Review (2004) and Housing Green Paper (2007)
[94] the 2007 Planning Gain Supplement , 1947 'Development Charge', 1967 'Betterment Levy' and the 1973 'Development Gains Tax' have all ended in repeal

(assuming there is general economic growth in the economy). Physical obsolescence occurs when the decreasing existing use value crosses the rising alternative use value.

4.33 However, this is not the trigger for redevelopment. Redevelopment requires costs to be incurred on site demolition, clearance, remediation, and new build construction costs. These costs have to be deducted from the alternative use value 'curve'. The effect is to extend the time period to achieve the point where redevelopment is viable.

4.34 This is absolutely fundamental for the viability and redevelopment of brownfield sites. Any Tariff, Tax or Obligation which increases the costs of redevelopment will depress the net alternative use value and simply extend the timescale to when the alternative use value exceeds the existing use value to precipitate redevelopment.

4.35 Contrast this with the situation for development on greenfield land (e.g. the Strategic Development Areas). Greenfield sites are constrained by the planning designation. Once a site is 'released' for development there is significant step up in development value – which makes the development economics much more accommodating. There is much more scope to capture development gain, without postponing the timing of development.

4.36 That said, there are some other important considerations to take into account when assessing the viability of greenfield sites. This is discussed in the Harman Report[95].

4.37 The existing use value may be only very modest for agricultural use and on the face of it the landowner stands to make a substantial windfall to residential land values. However, there will be a lower threshold (Threshold Land Value) where the land owner will simply not sell. This is particularly the case where a landowner *'is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations.'*[96] Accordingly, the 'windfall' over the existing use value will have to be a sufficient incentive to release the land and forgo the future investment returns.

4.38 Another very important consideration is the promotional cost of strategic greenfield sites. For example, in larger scale urban extension sites such as the Strategic Development Areas identified in the Options Consultation Paper for the Harborough Local Plan, there will be significant investment in time and resources required to promote these sites through the development plan process. The threshold land value therefore needs to take into account of the often substantial planning promotion costs, option fees etc. and the return required by the promoters of such sites. *'This should be borne in mind when considering the [threshold] land*

[95] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) pp 29-31

[96] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 30

value adopted for large sites and, in turn, the risks to delivery of adopting too low a [threshold] that does not adequately and reasonably reflect the economics of site promotion…' [97]

4.39 This difference between the development 'gain' in the context of a greenfield windfall site and the slow-burn redevelopment of brownfield sites is absolutely fundamental to the success of any regime to capture development gain such as CIL. It is also key to the 'incidence' of the tax i.e. whether the developer or the land owner carries the burden of the tax.

4.40 In this case we have carefully considered the physical nature of the SDAs and other areas where greenfield and brownfield development is likely to take place.

Land Economics Summary

4.41 A very important aspect when considering CIL is an appreciation of how the property market for development land works in practice.

4.42 Developers have to secure sites and premises in a competitive environment and therefore have to equal or exceed the landowners' aspirations as to value for the landowner to sell. From the developers' perspective, this price has to be agreed often many years before commencement of the development. The developer has to subsume all the risk of: ground conditions; obtaining planning permission; funding the development; finding a tenant/occupier; increases in constructions costs; and changes to the economy and market demand etc. This is a significant amount of work for the developer to manage; but this is the role of the developer and to do so the developer is entitled to a 'normal' developers' profit. In this respect we have included an allowance of 20% (see Profit, Finance, Overhead pp 37-38) as many developers (and their funders) require this level of return given the current economic circumstances. The developer will appraise all of the above costs and risks to arrive at their view of the residual site value of a particular site.

4.43 To mitigate some of these risks developers and landowners often agree to share some of these risks by entering into arrangements such as Market Value options based on a planning outcome, 'subject to planning' land purchases', and / or overage agreements whereby the developer shares any 'super-profit' over the normal benchmark.

4.44 From the landowners' perspective, they will have a preconceived concept of the value or worth of their site. This could be fairly straight-forward to value, for example, in the case of greenfield agricultural land which is subject to per hectare benchmarks. However, in the case of brownfield sites, the existing use value could be a lot more subjective depending upon the previous use of the property; the condition of the premises; and/or any income from temporary

[97] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 31

lets, car parking and advertising hoardings etc. Also, whilst (say) a former manufacturing building could have been state-of-the-art when it was first purchased by the landowner, in a redevelopment context it might now be the subject of depreciation and obsolescence which the landowner finds difficult to reconcile. Accordingly, the existing use value is much more subjective in a brownfield context.

4.45 Furthermore, where there is a possibility of development the landowner will often have regard to ‘hope value’. Hope value is the element of open market value of a property in excess of the existing use value, reflecting the prospect of some more valuable future use or development. It takes account of the uncertain nature or extent of such prospects, including the time which would elapse before one could expect planning permission to be obtained or any relevant constraints overcome, so as to enable the more valuable use to be implemented. Therefore in a rising market landowners may often have high aspirations of value beyond that which the developer can justify in terms of risk and in a falling market the land owner my simply ‘do nothing’ and not sell in the prospect of a better market returning in the future. The actual amount paid in any particular transaction is the purchase price and this crystallises the value for the landowner.

4.46 Hence land ‘value’ and ‘price’ are two very different concepts which need to be understood fully when formulating planning policy and CIL. The incidence of any tax/CIL to a certain extent depends on this relationship and the individual circumstances. For example, a farmer with a long-term greenfield site might have limited ‘value’ aspirations for agricultural land – but huge ‘price’ aspirations for residential development. Whereas an existing factory owner has a much higher value in terms of sunk costs and investment into the existing use and the tipping point between this and redevelopment is much more marginal.

Viability Modelling Best Practice

4.47 The general principle is that CIL and affordable housing (etc.) will be levied on the increase in land value resulting from the grant of planning permission. However, there are fundamental differences between the land economics and every development scheme is different. Therefore in order to derive the potential CIL and understand the ‘appropriate balance’ it is important to understand the micro-economic principles which underpin the viability analysis.

4.48 The uplift in value is calculated using a Residual Land Value (RLV) appraisal. Figure 4.1 below, illustrates the principles of a RLV appraisal.

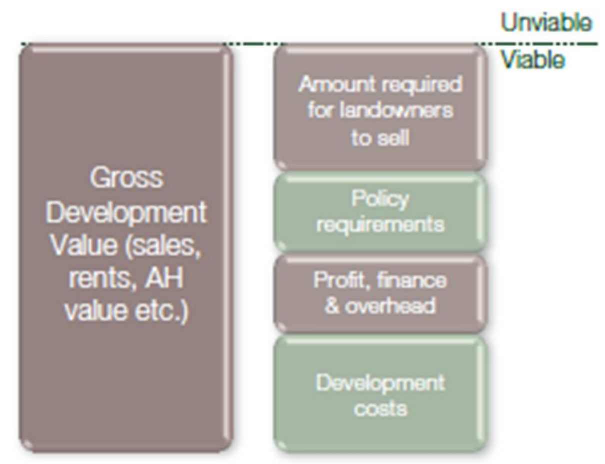

Figure 4.1 - Elements Required for a Viability Assessment[98]

4.49 Our specific appraisals for each for the land uses and typologies are set out in the relevant section below.

4.50 In order to advise on the ability of the proposed uses/scheme to support affordable housing and CIL charge we have benchmarked the residual land values from the viability analysis against existing or alternative land use relevant to the particular typology – the Threshold Land Value (TLV).

4.51 A scheme is viable if the total of all the costs of development including land acquisition, planning obligations and profit are less than the GDV of the scheme. Conversely, if the GDV is less than the total costs of development (including land, S106s and profit) the scheme will be unviable.

4.52 If the balance is positive, then the policy is viable. If the balance is negative, then the policy is not viable and the CIL and/or affordable housing rates should be reviewed.

4.53 This approach is summarised on the diagram below (Figure 4.2).

[98] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 25

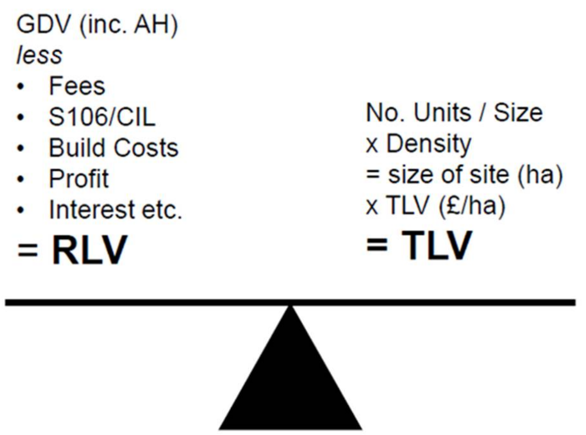

Figure 4.2 – Balance between RLV and TLV

5 Residential

5.1 In this section we review the existing evidence base, development monitoring data, Land Registry values and asking values from Rightmove and Zoopla, as well as evidence for land values and transfer values. This is to inform our residential cost, profit and land value assumptions. We also set out our residential typology assumptions and the viability results.

Residential Existing Evidence Base

5.2 We set out below the available evidence from other key plan making documents.

SHMA and HEDNA

5.3 The Leicester and Leicestershire Strategic Housing Market Assessment (SHMA) was prepared by GL Hearn in June 2014 and provides an assessment of housing needs to 2031 and 2036, setting out an indication of the scale, mix and range of tenures that the local population is likely to need over the next 15 to 20 years.

5.4 The report sets out a number of housing need projections and recommends a level of objectively assessed housing need for the Leicester and Leicestershire area as well as for individual local authorities, including Harborough.

5.5 The study identifies a need for between 415-475 dwellings per annum within Harborough District between 2011 to 2031 and 400-460 per annum from 2011 to 2036.

5.6 With respect to Affordable Housing, and based on the assumption of 30% affordable housing delivery, the study provides the following guidance on affordable housing mix (Table 5.1) –

Size	% Mix
1 bed	35-40%
2 bed	30-35%
3 bed	20-25%
4 bed	5-10%

Table 5.1 – Affordable Housing Needed in Harborough District 2011-2036[99]

5.7 The following table shows suggestions for the most appropriate mix of market housing. The majority of market demand is expected to be for two and three bed housing (Table 5.2) –

[99] Source: Leicester and Leicestershire SHMA (June 2014)

Size	% Mix
1 bed	5-10%
2 bed	35-40%
3 bed	35-40%
4 bed	15-20%

Table 5.2 – Market Housing Needed in Harborough District 2011-2036[100]

5.8 Subsequently the Leicester and Leicestershire local authorities and the Local Enterprise Partnership (LLEP) have published a Housing and Economic Development Needs Assessment (HEDNA) also by GL Hearn (January 2017).

5.9 With respect to Affordable Housing the HEDNA study recommends the same affordable housing mix as the previous SHMA (see above).

5.10 The following table shows the HEDNA (2017) suggestions for the most appropriate mix of market housing. Again, the majority of market demand is expected to be for two and three bed housing (Table 5.2a) –

Size	% Mix
1 bed	0-10%
2 bed	25-35%
3 bed	35-45%
4 bed	15-25%

Table 5.2a – Market Housing Needed in Harborough District 2011-2036[101]

5.11 We had regard to the above mix recommendations when establishing our typologies matrix.

[100] Source: Leicester and Leicestershire SHMA (June 2014)
[101] Source: Leicester and Leicestershire local authorities and the Local Enterprise Partnership (LLEP) HEDNA (January 2017)

Leicestershire and Rutland CIL Viability Study (2013)

5.12 The Leicester, Leicestershire and Rutland CIL Viability Study was jointly commissioned by Leicester County Council for Blaby, Charnwood, Harborough, Hinckley and Bosworth, Leicester City, Melton, North West Leicestershire, Oadby and Wigston, and Rutland Councils. It was prepared by HDH Planning and Development in January 2013.

5.13 In the study a set of 16 residential and 13 non-residential development sites were modelled to represent those developments that are likely to come forward in Leicestershire and Rutland in the future and therefore may be able to contribute to infrastructure through the payment of CIL. From this set of sites particular site types were selected that are most representative within each local authority area. For each site a high level, financial development appraisal was carried out to assess the sites ability to pay CIL and the effect that CIL may have on development viability.

5.14 It was not the purpose of this study to set individual rates of CIL or to recommend them.

5.15 In terms of setting the threshold land value, this was defined as a sites worth in its current use plus an uplift of 20% to incentivise the owner to sell the land. It was recognised that this would not be sufficient in some situations and therefore a further £250,000 /ha was applied on greenfield sites (being those in agricultural and paddock uses). The following alternative land prices were adopted (Table 5.3) –

Land typology	TLV (per ha)	TLV (per acre)
Agricultural Land	£25,000	£10,117
Paddock Land	£50,000	£20,234
Residential Land	£750,000	£303,520
Central Leicester (retail land)	£4,000,000	£1,618,777
Industrial Land (Leicester City and Oadby and Wigston)	£440,000	£178,065
Industrial Land Residual Area	£350,000	£141,643

Table 5.3 – Threshold Land Values (HDH Planning and Development (January 2013))

Three Dragons Affordable Housing Viability Report (2009)

5.16 Three Dragons affordable housing viability report was commissioned by Harborough DC, Oadby and Wigston Borough Council, Leicester City Council, Blaby District Council and North West Leicestershire District Council to "…. prepare a joint Affordable Housing Viability Assessment (AHVA) compliant with PPS3 (paragraph 29). This will form part of the Evidence Base for their Local Development Frameworks (LDFs) and inform the development of Core Strategy Housing Policies."

5.17 The study identified five sub market areas in Harborough District. The sub market areas are defined by prices by postcode sectors and are: Harborough Rural South West; Harborough Rural North and Central; Market Harborough; Lutterworth and Blaby Border Settlements.

5.18 The study also highlighted how market values vary significantly between these areas. These differences in market values were reflected in differences in residual values (for the different scenarios tested). It found that the residual value will vary as result of both location and adopted density.

5.19 A key finding was that the District has a broad split between the towns (Market Harborough, Lutterworth and the Blaby Border settlements) at the upper value range and the more rural locations including Harborough Rural South West and Harborough Rural North and Central.

Residential Development Monitoring

5.20 We have been provided by the Council with a representative sample of development typologies from across the District[102] which we have analysed. We have also analysed the key metrics from various economic viability assessments (EVAs) that we have reported on for the Council (under a separate commission). This analysis is set out below.

Development Monitoring Sample Analysis

5.21 We have been provided with the details of a sample of 19 schemes by the Council. These comprise 6 schemes in the Urban Settlements locations (of Market Harborough, Lutterworth and Broughton Astley), 4 in Scraptoft. Thurnby and Bushby on the borders with Leicester, 6 in Rural Centres and 3 in Selected Rural Village locations.

5.22 In terms of the 6 **Urban Settlement** schemes the median scheme size was 120 units with a range of between 24 – 149 units. Some of these schemes are within the settlement and others are on the settlement boundary, however, this is not a determinant of the scheme size. The average development density of these schemes is 23 dph (median 22 dph) with a range between 16-37 dph. Note that this may not be representative as the quoted site area is the

[102] 160201 Viability Housing data_v1

gross site area on the planning application and may not be the net developable area. All of the schemes made contributions to affordable housing of between 24% - 30%. The average was 28% (median 29%). In addition, the average contribution to 'other' S106 contributions was £4,825 per unit (median £5,910 per unit).

5.23 Schemes in **Scraptoft. Thurnby and Bushby** showed similar characteristics. The median scheme size was 129 units but with a larger range of between 111 – 275 units (the three largest schemes being edge of settlement schemes). The average development density of these schemes is 22 dph (median 19 dph) with a range between 16-32 dph[103]. We only have affordable housing data for 2 of the schemes but the average was 31% (median 31%). In addition, the average contribution to 'other' S106 contributions was £4,825 per unit (median £5,910 per unit). One of the schemes made other S106 contributions amounting to £5,429 per unit in lieu of affordable housing.

5.24 In terms of the 6 schemes in the **rural centres** the median scheme size was 34 units with a range of between 13 – 60 units. The larger of the schemes (>40 units) are on the settlement boundary and the smaller schemes are within the settlement (<28 units). The average development density of these schemes is 23 dph (median 24 dph) with a range between 17-31 dph.[104] All of the schemes made contributions to affordable housing of between 5% - 40%. The average was 28% (median 31%). In addition, the average contribution to 'other' S106 contributions was £39,708 per unit (median £29,268 per unit) – but this is skewed by two projects with £1 million and £1.2 million healthcare S106s. One of these was responsible for on 5% affordable housing (presumably as a consequence).

5.25 Finally, in terms of developments in selected **rural villages**, two of the schemes had 8 units and one of the schemes had 20 units (on the edge of settlement). The average development density of these schemes is 20 dph (median 24 dph).[105] The average affordable housing contribution was 33% (median 38%). In addition, one scheme (with the lowest affordable housing contribution of 25%) contributed £1.2 million to libraries (£63,600 per unit).

[103] Again, note that this may not be representative at the quoted site area is the gross site are on the planning application and may not be the net developable area.
[104] Again, note that this may not be representative at the quoted site area is the gross site are on the planning application and may not be the net developable area.
[105] Again, note that this may not be representative at the quoted site area is the gross site are on the planning application and may not be the net developable area.

Economic Viability Assessments (EVA) Analysis

5.26 We have reviewed 10 site specific EVA's in the Harborough District to understand the profit levels, residual land values and development densities being achieved.

5.27 We discuss the findings from this analysis below and in the following value and cost assumptions sections.

5.28 Note that these are schemes that have been subject to a viability assessment and it could be misleading to benchmark affordable housing to these and exclude schemes that have been approved without a viability case.

5.29 Of these schemes 5 are in rural centres and 4 are in urban settlements (1 x in a selected rural village).

5.30 The schemes in the urban settlements ranged between 9 and 99 units with an average of 56 units (median 58). The schemes in rural centres were unsurprisingly smaller – a range between 4 and 28 with an average 18 units (median 18).

5.31 The average development density is 35 dph (median 38 dph)[106]. This did not differ significantly between rural and urban schemes.

5.32 All the schemes in the urban settlements made contributions to affordable housing of between 11% - 40%. The average was 26% (median 36%). In addition, the average contribution to 'other' S106 contributions was £4,706 per unit (median £5,234 per unit) – but this is skewed by two projects with nil contributions.

5.33 The schemes in the rural settlements delivered less affordable housing (<8%). The average contribution to 'other' S106 contributions was £4,068 per unit (median £3,768 per unit) – but again this is skewed by three projects with nil contributions.

Airfield Farm SDA, Market Harborough

5.34 We have been provided with a copy of a Viability Assessment Report by BNP Paribas Real Estate for Airfield Farm SDA in Market Harborough (July 2014). The BNP report is to examine the development economics of the proposed development of 924 new dwellings.

5.35 This SDA is not part of our study as the scheme has planning permission. We have reviewed the BNP report in order to 'sense-check' our assumptions for the SDA appraisal typologies[107].

[106] Again, note that this may not be representative at the quoted site area is the gross site are on the planning application and may not be the net developable area.
[107] Confidential scheme data removed – see confidential version 9

Residential Value Assumptions

5.36 This section sets out our residential value assumptions. It should be read in conjunction with the residential market review appended (Appendix 1).

Housing Market Zones

5.37 We discussed District-wide value patterns at the Stakeholder Consultation workshop on 21st September 2016. A respondent concurred that the 2011 Housing Market Zones were probably still relevant (Figure 3.1 above) albeit the Land Registry/EPC data is less conclusive. For the purposes of our Viability Assessment we have adopted the following sales values to analyse the proposed Plan policies (which are based on District-wide targets (as the baseline)).

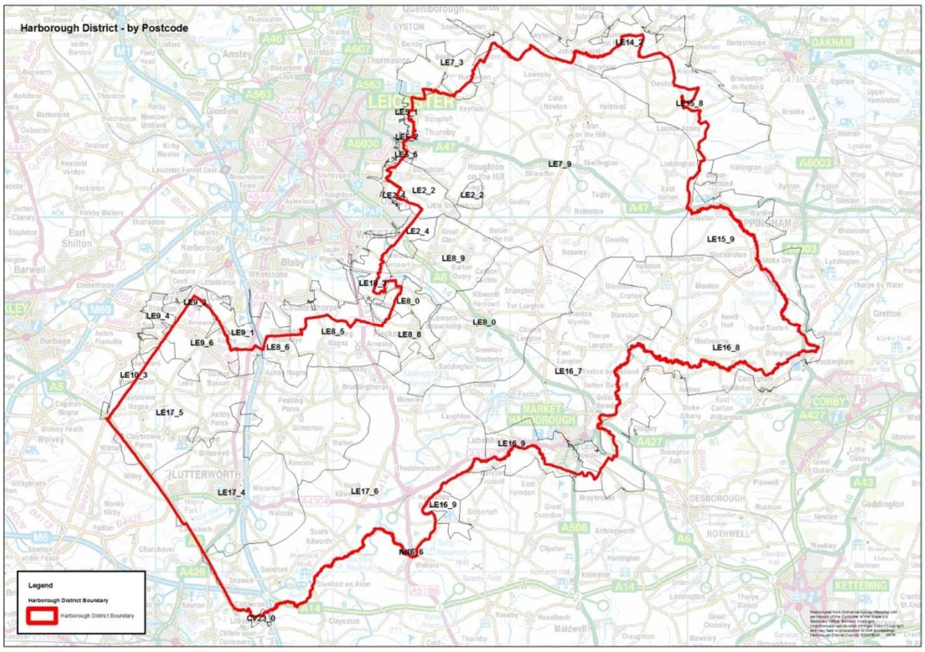

Figure 5.1 – Harborough Postcodes Map

Open Market Sales (OMS)

5.38 For the purposes of our viability appraisals we have carried out market research into residential sale values at various stages throughout the study. This is set out in detail within our Residential Market Review Paper which is appended at Appendix 1.

5.39 The table below (Table 5.4) sets out our baseline residential Open Market Sales (OMS) value assumptions informed by the market research.

Housing Zone	Postcodes	1 Bed	2 Bed Flat	2 Bed House	3 Bed	4 Bed	5 Bed
Blaby Border Settlements	LE9_4; LE9_3; LE9_6; LE9_1; LE8_6; LE8_5; LE8_8	£150,000	£170,000	£180,000	£230,000	£280,000	£310,000
Lutterworth	LE17_4 (incl.Luttworth SDA)	£155,000	£175,000	£210,000	£250,000	£300,000	£370,000
Market Harborough	LE16_7; LE16_9	£170,000	£200,000	£230,000	£265,000	£340,000	£430,000
Rural	LE10_3; LE17_5; LE17_6; CV23_0; NN6_6; LE16_9; LE8_0; LE18_13; LE8_9; LE2_4; LE2_2; LE7_9; LE14_2; LE15_8; LE15_9; LE16_8; LE7_3 (incl. Kibworth SDA)	£175,000	£190,000	£230,000	£265,000	£375,000	£450,000
Kibworth SDA	LE8_0	£125,000	£145,000	£230,000	£235,000	£275,000	£400,000
Scraptoft SDA	LE7_9; LE4_9; LE5_0	£150,000	£170,000	£185,000	£220,000	£260,000	£320,000

Table 5.4 – OMS Value Assumptions (August 2016)[108]

5.40 We only received one comment on the above values following the Pre-Consultation Draft report stakeholder workshop on 21 September 2016. This was from a developer who commented that the values were ‘far too high’ particularly for Market Harborough and the Blaby Border Settlements. However, the above values are based on an analysis of approximately 200 new build units (i.e. Land Registry Value / EPC floor area) in Market Harborough and c360 new build units in the Blaby Border postcodes. Furthermore we received feedback that it is right to differentiate between the generic “rural areas” residential sales values and those values that would be achieved through a Strategic Development Area. Homes here would be a very different product from those generally available in the rural area and would not command the same price premium.

5.41 The values in above are based upon:

[108] 161114 Residential Sales Values Harborough_v13

- Hypothetical values derived by multiplying the value (£ psm) x the average actual floor area of units delivered in the District (from the EPC data) (sqm) = the hypothetical value (£).
- The values that we proposed within the April 2016 review which were derived from different analysis of new build and second hand sales values and asking prices (as set out above).
- The average and maximum actual new build sales absolute values from the Land Registry database (August 2013-206).

5.42 We subsequently updated residential OMS value assumptions for Scraptoft North and Lutterworth SDA's. This is set out on the following table (Table 5.4a).

Housing Zone	Postcode	1 bed Flat	2 bed Flat	2 bed house	3 bed house	4 bed house	5 bed house
Lutterworth	LE17 4	£160,000		£210,000	£275,500	£350,000	£475,000
Scraptoft North	LE5 1/ LE7 9		£190,000	£200,000	£255,000	£315,000	£400,000

Table 5.4a – OMS Value Assumptions for Scraptoft North and Lutterworth (July 2017)[109]

5.43 Our research has identified a marginal increase in all the values expect for 2 bed houses in the Lutterworth postcode area.

5.44 Whilst for Scraptoft North postcode areas 2 bed flats and 3 bed houses saw a marginal increase in values.

5.45 For the purposes of our appraisals we have adopted the above values for the SDA typologies.

[109] 170720 Residential Market Update v3

Transfer Values

5.46 The current assumptions for Transfer Values are -

- Affordable Rent is 45% of OMV; and
- Low Cost Home Ownership (to include Starter Homes) is 60% of OMV.

5.47 We received feedback from a Stakeholder following the 21 September 2015 stakeholder workshop that the above transfer values are ‘about right’.

Commercial Values

5.48 The Lutterworth SDA includes employment land. Based on the HEDNA (2017) density / by use assumptions and given that the 2 parcels of land at Lutterworth East SDA are proposed for different uses in Policy L1 (i.e. Parcel A 10ha for B1/B2, Parcel B 13.1ha for small B8 {individual units 9,000 sqm or less}) and assuming an equal split of uses for Parcel A the total estimated floor-space would equate to 90,900 sqm (i.e. Parcel A 38,500 sqm and Parcel B 52,400 sqm).

5.49 We have been instructed to incorporate this into the appraisal for Lutterworth assuming that it is used of strategic distribution uses given that bespoke development of this typology adds value to the infrastructure investment required to open up the site. This is set out on the Lutterworth scheme assumptions spreadsheet appended (Appendix 4).

5.50 In our April 2016 report we researched the commercial property market for the purposes of testing the potential for CIL. This research and analysis has been moved to the appendices (Appendix 5) for the current report as it is only relevant for the Lutterworth SDA appraisal.

5.51 For the purposes of our Lutterworth appraisal we have applied the following value assumptions for strategic distribution uses (Table 5.5).

Use	Rent (psf)	Yield	Incentives
B8 Strategic Distribution	£6.50	5%	0 months’ Rent Free – assumed pre-let

Table 5.5 – Commercial Value Assumptions

Residential Cost Assumptions

5.52 The development costs are described below.

Initial Payments

5.53 These are the 'up-front' costs prior-to or at start-on-site. These costs are set out in Table 5.6 below.

Item	**Assumption**
Planning Application Professional Fees and reports	Allowance for typology
Statutory Planning Fees	Based on national formula
CIL	This is the CIL rate (£ psm) and an input to the CIL sensitivity tables. The baseline assumption is £0 psm and we have shown sensitivities to include CIL (as a proxy for future LIT or SIT).
Site specific S106/S278	Site Specific Allowance for typology where appropriate – this is based on £13,500 per unit (unless specified otherwise (e.g. Scraptoft North and Lutterworth SDAs)
AH Commuted Sum	This is a field for affordable housing commuted sums on smaller scheme typologies where there is 0% affordable housing 'on-site'

Table 5.6 – Residential Appraisals Initial Cost Assumptions

Construction Costs

5.54 We have excluded any costs for demolition and site clearance. This is on the basis that the TLV assumptions used are for cleared sites.

5.55 For the purposes of this viability appraisal we have used costs from the Building Cost Information Services (BCIS). These have been rebased on Leicestershire (not Harborough, due to the smaller sample size for Harborough) and adjusted for costs within the last 5 years. The relevant costs are (Table 5.7) –

Type	Mean	Lowest	Lower quartiles	Median*	Upper quartiles	Highest	Sample [size]
Estate housing – generally	£1,053	£612	£902	£1,017	£1,153	£3,373	748
Flats (apartments) - generally	£1,287	£720	£1,079	£1,233	£1,444	£4,221	261
'One-off' housing detached (3 units or less)	£1,885	£961	£1,234	£1,656	£2,348	£5,129	32

Table 5.7 – BCIS Residential Construction Costs (£ psm) (February 2016)

5.56 Note that the above BCIS costs are all based on a 5 year sample and therefore based on the 2010 Part L Building Regulations which is the current approved technical guidance for conservation of fuel and power.

5.57 We have 'sense-checked' this against the sites specific scheme EVA data (see above). This shows that the build rates agreed by developers are less than the BCIS rates above. The developers build rates are set out on the following table (Table 5.8) –

Type	Urban Settlements		Rural Centres		All Settlements	
	Houses	Flats	Houses	Flats	Houses	Flats
Max	£1,044.00	£1,044.00	£1,051.00	£1,128.00	£1,051.00	£1,128.00
Min	£667.69	£1,044.00	£902.87	£941.00	£667.69	£941.00
Ave	£907.56	£1,044.00	£969.22	£1,040.00	£927.03	£1,041.00
Median	£1,011.00	£1,044.00	£961.50	£1,051.00	£961.50	£1,047.50

Table 5.8 – Residential Construction Costs from Site Specific EVAs (£ psm)

5.58 Note that government has consulted on a mandatory set of national standards for the technical performance of new housing to be implemented through the Building Regulations. The Code for Sustainable Homes will be superseded by the new technical standards elements of which some will be mandatory (e.g. energy efficiency standards), while others will be optional to be pursued through Local Plan policies (e.g. water efficiency).

5.59 The above build costs exclude external works. The Harman report states, '[external works] *are likely to vary significantly from site to site. The planning authority should include appropriate average levels for each type of site unless more specific information is available. Local* *developers should provide information to assist in this area where they can, taking into account commercial sensitivity.'*[110]

5.60 From the sample of 10 site specific EVA's we calculate that the average external work rate applied was 12.5% (median 13.4%). The range was between 8.2% and 15% maximum.

5.61 For the purposes of our appraisal we have used 15% for external works.

5.62 For the purposes of our appraisals we have used the following build costs (Table 5.9).

Typologies	**Build Cost**	**Comment**
Estate Housing (>100 units)	£902 psm	Based on BCIS lower quartile rates
Estate Housing (<100 units)	£962[111] psm	Based on BCIS lower quartile rates and industry evidence
Flats/apartments	£1,079 psm	Based on BCIS lower quartile rates and industry evidence
	+ 15%	External Works
	+ 3%	Contingency

Table 5.9 – Residential Construction Cost Assumptions

5.63 We only received one comment on the above construction costs following the Pre-Consultation Draft report stakeholder workshop on 21 September 2016. This was from a developer who commented that the build cost assumptions were 'too light' and that they had agreed building costs with the District Valuer of £100 psf (*including* external works) and that their current experience was that construction costs equate to £110 psf (*including* external works). This equates to £1,006 psm excluding *external* works which is close to the BCIS Median rate above. We have therefore revised our build cost rate having regard to this and the evidence from other site specific EVAs.

[110] Local Housing Delivery Group, Local Government Association / Home Builders Federation / NHBC (20 June 2012) Viability Testing Local Plans, Advice for planning practitioners, Edition 1 (the 'Harman' report) page 35

[111] We originally proposed a construction rate of £902 psm in the Pre-Consultation Draft report (September 2016) which reflected the BCIS lower quartile rate, but we have increased this to £962 to add weight to the industry evidence.

Extra-over Construction Costs

5.64 In addition to the above we made additional allowances for Policy H5 density, mix and housing standards:

- Wheelchair User Dwellings – Policy H5 requires that housing development to meet the accessible and adaptable standards in Building Regulations, Part M, Category 2, in **4%** of dwellings proposed on sites capable of providing **100 dwellings or more.** M4(2) **Category 2 - Accessible and adaptable dwellings** – are dwellings that provide a higher level of accessibility that is beneficial to a wide range of people who occupy or visit the dwelling, and provides particular benefit to older and disabled people, including some wheelchair users. This has a cost implication for development. In this respect we have made an allowance of £521 per unit in addition to the baseline BCIS construction costs to demonstrate that this is achievable[112] .

- Water efficiency – Policy H5 required housing to be designed to meet higher water efficiency standards of 110 litres per person per day as prescribed in Building Regulations, Part G. This policy requirement has a direct impact on the construction cost and density of development. In particular the proposed main modification to this policy includes a requirement for all new residential development to achieve the optional building regulations requirement for water efficiency of 110 litres/person/day. The modest cost of achieving this optional requirement has been factored into all of our residential appraisals. Additional costs associated with optional water efficiency standards equate to £9 per dwelling[113] which we have included for completeness.

SDA Infrastructure Costs

5.65 The SDA sites have their on specific infrastructure (including S106) costs. These assumptions are set out within the spreadsheets at Appendix 4.

Professional Fees

5.66 In analysing a sample of actual site-specific EVAs we have noted the typical professional fees applied. This ranges from 2.8-10.9% across all the schemes. The average is 7.8% (median 8.0%). We note that the professional fees on the smaller Rural Centres schemes (average 9.1%) are higher than on the Urban Settlements schemes (average 6.0%).

[112] DCLG housing Standards Review, Final Implementation Impact Assessment, March 2015, para 157
[113] Department for Communities and Local Government Housing Standards Review Cost Impacts (EC Harris September 2014)

5.67 For the purposes of our appraisal we have applied 8% professional fees. Note, that 'up-front' fees such as planning fees are included under a separate heading (Initial Payments above) and we are satisfied that 8% is adequate.

Disposal Costs

5.68 Disposal costs are included based on 1% sale agents, 0.5% sales legal fees and 3% marketing and promotion.

5.69 Note that the marketing and promotion costs have to be considered 'in-the-round' with the sales values.

Finance Costs

5.70 We have reviewed the interest charges on a sample of actual site specific EVAs. This ranges from 1.3 - 7.0% across all the schemes. The average is 5.4% (median 6.3%). We note that the interest charges on the smaller Rural Centres schemes are generally lower than on the Urban Settlements schemes (average 4.3% versus 6.6%).

5.71 For the purposes of our appraisal we have applied an interest rate of 6.0%. This is on 100% of the debit interest.

5.72 We note that banks will normally include finance fees (arrangement, valuation, non-utilisation, exit fees etc.) within any financing arrangement. However, interest in our model is calculated based on 100% of the debt, and banks will only lend say, 60% of the costs. The finance fees are therefore covered in the 100% interest allowance.

Lutterworth Commercial Cost Assumptions

5.73 As mentioned above, Lutterworth SDA includes 23.1 hectares / 57.1 acres of employment land which equates to 92,400 sqm / 994,585 sqft of floorspace.

5.74 We have been instructed to incorporate this into the appraisal for Lutterworth on the basis that this is strategic distribution use.

5.75 The commercial development costs are described below.

5.76 The initial 'up-front' costs prior-to or at start-on-site are on a similar basis as for the residential up-front costs. This includes statutory planning application fees for the commercial floorspace.

5.77 In terms of construction costs we have used costs from the Building Cost Information Services (BCIS). These have been rebased on Leicestershire (not Harborough, due to the smaller sample size for Harborough) and adjusted for costs within the last 5 years. The relevant costs are (Table 5.10) –

Type	Mean	Lowest	Lower quartiles	Median*	Upper quartiles	Highest	Sample [size]
Factories – generally	841	351	558	718	966	2,292	24
Warehouses / stores - generally	721	335	431	679	715	2,048	18
Offices - generally	1,665	1,070	1,537	1,672	1,750	2,326	12

Table 5.10 – BCIS Commercial Construction Costs (£ psm) (September 2016)

5.78 Note that the above BCIS costs are all based on a 5 year sample and therefore based on the 2010 Part L Building Regulations which is the current approved technical guidance for conservation of fuel and power.

5.79 For the purposes of our appraisal we have used 15% for external works.

5.80 For the purposes of our appraisals we have used the following build costs (Table 5.11).

Typologies	Build Cost	Comment
Warehousing (B8)	£680 psm	Based on BCIS median rates
	+ 15%	External Works
	+ 5%	Contingency

Table 5.11 - Commercial Construction Cost Assumptions (Sept 2016)

5.81 Professional fees are the same as for residential for simplicity.

5.82 Disposal costs are included based on 1% investment sale agents and 0.5% investment sales legal fees. Letting fees are included based on 15% letting agent fees and 5% letting legal fees. Note that these fees are considered 'in-the-round' in terms of disposal costs.

Residential Profit Assumptions

5.83 Similarly, we have reviewed the profit on the OMS on a sample of actual site specific EVAs. This ranges from 13.5% - 20.0% across all the schemes. The average is 18.0% (median 18.8%). We note that the profit on the smaller Rural Centres schemes is generally lower than on the Urban Settlements schemes (average 17.0% versus 19.5%).

5.84 In all cases the benchmark profit on Affordable Housing is 6%.

5.85 For the purposes of this EVA we consulted on a profit level of 17.5% to the private housing and the starter homes and 6% to the on-site affordable housing (where applicable).

5.86 We only received one comment on the above profit levels following the Pre-Consultation Draft report stakeholder workshop on 21st September 2016. This was from a developer who commented that '*it is essential that an allowance of 20% is made as the banks will not lend unless this level of profit is achieved [and] a profit on affordable of 6% is generally acceptable*'.

5.87 The level of profit is a significant input (alongside TLV) into the viability modelling and it is important not to overstate profit. However, it is important that the profit margin is set in the context of the current market conditions.

5.88 It is important to note that CIL (and for that matter Affordable Housing requirements) should not be set right up to the margins of viability and in this respect evidence shows that developers, in certain circumstances, will agree lower profit margins in order to secure planning permission and generate turnover.

5.89 We have had sight of evidence from the Homes and Communities Agency (HCA) Development Partner Panel (DPP) which shows profit from their tender at an average of 17.3% on open market GDV (including overheads).

5.90 Developer's will say that sales risks have increased in the current market, particularly given the uncertainty for at least the next 2 years around 'Breexit'. However, Harborough remains a desirable area and developers can manage their build out rates to demand.

5.91 For the purposes of our appraisals we have set the base case profit at 20% and 6%. We have applied 17.5% to the strategic sites due the quantum.

5.92 However, where schemes are marginally unviable, it is important to look at the Profit sensitivity analyses within the appendices which show the 'balance' (i.e. RLV – TLV) for developers profit from 25% on private housing down to 15%. This clearly shows the significant impact of profit on viability (especially for larger schemes).

Commercial Profit Assumptions

5.93 This is only relevant in the context of the commercial elements (strategic distribution uses) associated with the Lutterworth SDA appraisal.

5.94 The RICS Guidance on Financial Viability in Planning describes the different types of developer and the requirements for profit in more detail. It notes that commercial developers tend to seek a return on cost, usually expressed as a percentage of the total development cost[114].

5.95 For the purposes of commercial appraisals we would ordinarily apply profit on cost of 15-20% for the commercial typologies. However, given that our Lutterworth SDA is primarily a residential typology we have appraised the commercial element based on 13% on value as

[114] RICS Professional Guidance England (August 2012) Financial viability in planning, 1st edition guidance note GN 94/2012 paragraph E.3.2.8.1

proxy for profit in cost. This is for simplicity so that the costs do not need to be apportioned between the residential and the commercial uses.

5.96 Note that in any event developers profit and overhead vary from sector-to-sector, scheme-to-scheme and developer-to-developer. There are different measures of profit for example - % on cost or value, IRR (Internal Rate of Return), ROCE (Return on Capital Employed) etc. Similarly, different developers will have different a requirement for the treatment of overheads.

Residential Land Value Assumptions

5.97 The land value assumption is possibly the most important assumption in Plan Viability as it is the difference between the TLV and the RLV that is the margin for CIL and affordable housing (see Figure 4.2).

5.98 We have reviewed the development land market for values in Harborough. This includes land transactional information, land values data from the sample of site specific EVA's and details of asking values for land on the market.

5.99 Our land value market review is contained within the separate Land Market Review paper (Appendix 2).

5.100 For the purposes of our EVA we have adopted the following market land values (Table 5.12) –

Typology	Location	Existing Use	EUV -					Uplift Multiplier	TLV -		Policy adjustment	MV -	
			(per acre) (gross)	(per ha) (gross)	Net:Gross (%)	(per acre) (net)	(per ha) (net)	x [X] x [Y]%	(per acre) (net developable) (rounded)	(per ha) (net developable) (rounded)	- [X] %	(per acre) (net)	(per ha) (net) (rounded)
Residential	Blaby Border Settlements	Urban Fringe – agricultural	£10,000	£24,710	75%	£13,333	£32,947	16.5	£220,000	£544,000	41%	£375,000	£927,000
Residential	Lutterworth	Urban Fringe – agricultural	£10,000	£24,710	75%	£13,333	£32,947	16.5	£220,000	£544,000	41%	£375,000	£927,000
Residential	Market Harborough	Urban Fringe – agricultural	£10,000	£24,710	75%	£13,333	£32,947	17.0	£227,000	£560,000	50%	£450,000	£1,112,000
Residential	Rural	Edge of Settlement – agricultural	£10,000	£24,710	75%	£13,333	£32,947	20.0	£267,000	£659,000	37%	£425,000	£1,050,000
Residential	SDA Sites (Lutterworth, Scraptoft) and large 100+ unit typologies	Urban Fringe – agricultural	£8,500	£21,004	75%	£11,333	£28,005	15.0	£170,000	£420,000	n/a	n/a	n/a
Residential	District Wide	Brownfield	£540,000	£494,200	100%	£540,000	£494,200	20%	£648,000	£1,601,208	n/a	n/a	n/a

Table 5.12 – Threshold Land Value Assumptions (AspinallVerdi, July 2017[115])

5.101 In order to arrive at Threshold Land Values we have selected multipliers for the premium over EUV in the upper end of the range recommended by the HCA – i.e. 15-20 x agricultural values. We have adopted the mid-point of the HCA range (i.e. 15 x) for the largest strategic greenfield land and typologies of 100+ units. This shows a TLV of £170,000 per acre (£420,000 per ha) which is £35,000 per acre above the agreed TLV of £135,000 per acre (£332,000 per ha) for a large greenfield site in Market Harborough in January 2017. We are therefore content with this assumption given this evidence and the 15 times premium applied to the Existing Use Value (i.e. middle of the HCA range).

5.102 We have then selected multipliers between 16.5 x and 20 x for the smaller site typologies to reflect the perceived market value areas.

5.103 Our brownfield land TLV is based on a similar approach, using a 20% premium over EUV which reflects the middle of the range in the HCA guidance.

Commercial TLV (Lutterworth SDA)

5.104 As with the comments above in respect of profit, this is only relevant in the context of the commercial elements (strategic distribution uses) associated with the Lutterworth SDA appraisal.

[115] 170804 Land Values Harborough_v15

5.105 In order to incorporate the commercial element of the Lutterworth SDA into the appraisal it is important to account for the value of the land. However, this is commercial not residential land and therefore it is not appropriate to apply residential TLVs.

5.106 For the purposes of the commercial parts of the Lutterworth SDA we have adopted a TLV of £100,000 per acre. Note that commercial sites for individual buildings in Lutterworth may realise greater value, but I this context the commercial and is 57.08 acres / 23.1 hectares and therefore we consider £100,000 to be reasonable.

TLV Caveat

5.107 **It is important to note that the TLV's contained herein are for 'high-level' plan viability purposes and the appraisals should be read in the context of the TLV sensitivity table (contained within the appraisals). It is important to emphasise that the adoption of a particular TLV £ in the base-case appraisal typologies in no way implies that this figure can be used by applicants to negotiate site specific planning applications. Where sites have obvious abnormal costs these costs should be deducted from the value of the land. The land value for site specific viability appraisals should be thoroughly evidenced having regard to the existing use value of the site. I.e. this report is for plan-making purposes and is 'without prejudice' to future site specific planning applications**.

Residential Typology Assumptions

5.108 This flows from the Local Plan and HEDNA[116] evidence (section 3) and also the Development Management/EVA data above. The detailed typologies are set out on the matrix appended (Appendix 3).

Number of Units

5.109 We have appraised 100 unit schemes in the Leicester Urban Fringe, Lutterworth and Market Harborough key towns. This is a representative scheme size.

5.110 We have appraised a 30 unit scheme in the Rural Centre locations and an 8 unit scheme in the Selected Rural Villages – both in the Rural Hinterland.

5.111 For the SDAs (Lutterworth and North Scraptoft) we have used the number of units promoted by the landowners/sponsors.

[116] Leicester and Leicestershire local authorities and the Local Enterprise Partnership (LLEP), Housing and Economic Development Needs Assessment (HEDNA) (January 2017) (see email 6/7/17)

Scheme Mix

5.112 We have adopted a consistent set of scheme mix assumptions for all typologies based on the evidence above. This is as follows for OMS units (Table 5.13) –

2B	3B	4B	5B	1B (apart)	2B (apart)	Total
25%	50%	10%	5%	5%	5%	100%

Table 5.13 – General OMS Scheme Mix

5.113 We have adopted the following unit mix for the Affordable Housing (Table 5.14) –

2B	3B	4B	5B	1B (apart)	2B (apart)	Total
20%	25%	2.5%	0%	42.5%	10%	100%

Table 5.14 – Affordable Housing Scheme Mix

5.114 Following the Stakeholder workshop on 21st September 2016, we received one comment from a developer to suggest that the 'above mix does not reflect the market demand and what most house builders will look to achieve on site.' However, the market mix is consistent with the SHMA requirements and the affordable housing mix has been updated by Harborough District Council based on the HEDNA and emerging Housing trends. We are therefore content that these mixes as appropriate for viability testing.

Unit Size

5.115 For the purposes of our appraisal we have ensured our assumptions meet or exceed the nationally described space standards by DCLG.[117] These minimum floorspace standards are set out on the following table (Table 5.15) –

Table 1 - Minimum gross internal floor areas and storage (m^2)

Number of bedrooms(b)	Number of bed spaces (persons)	1 storey dwellings	2 storey dwellings	3 storey dwellings	Built-in storage
1b	1p	39 (37)[2]			1.0
	2p	50	58		1.5
2b	3p	61	70		2.0
	4p	70	79		
3b	4p	74	84	90	2.5
	5p	86	93	99	
	6p	95	102	108	
4b	5p	90	97	103	3.0
	6p	99	106	112	
	7p	108	115	121	
	8p	117	124	130	
5b	6p	103	110	116	3.5
	7p	112	119	125	
	8p	121	128	134	
6b	7p	116	123	129	4.0
	8p	125	132	138	

Table 5.15 – Nationally Described Space Standards (DCLG)

5.116 The DCLG standards set out a complex matrix of house types and storey heights. We have therefore had to simply this for our analysis.

5.117 We have analysed the unit sizes for different house types which have actually been built in Harborough over the last three years. This is actual floor area data from the EPC certificates of (c1,200) new houses in the District recorded on the Land Registry.

[117] Technical housing standards – nationally described space standard (March 2015)

Aspinall Verdi

		1 Bed	2 Bed Flat	2 Bed House	3 Bed	4 Bed	5 Bed
Floor area assumptions (as being built)	Ave	54	72	71	95	116	129
	Mode	57	75	70	105	117	127
	Median	57	74	72	93	117	128

Table 5.16 – Actual Floor Areas of Units Delivered in Harborough (EPC data)

5.118 As you can see from the above, these floor areas are generally consistent with the national described standards, but the range is smaller which helps to identify the 'typical' new house type in Harborough. By ensuring the floor area assumptions either meet or exceed the nationally described standards, this appraisal provides evidence of the general viability of applying nationally described space standards in Harborough.

5.119 For the purposes of this EVA we have adopted the following floor area assumptions (Table 5.17) –

Dwelling Type	**Sqm**
1 Bed Flat	55
2 Bed Flat	70
2 Bed House	72
3 Bed House	95
4 Bed House	117
5 Bed House	128

Table 5.17 – Residential Floor Area Assumptions

5.120 Following the Stakeholder workshop on 21st September 2016, we received one comment to suggest that 'the unit sizes assumed are oversized at the smaller house type level but under sized for larger house types'. For that particular house-builder their 'own 2 bed flats are generally 64 sqm (rather than 70 sqm) and a 2-bed house is 65 sqm (rather than 72 sqm). However, a 4 bed house would, on average, be circa 130 sqm (rather than 117 sqm) and a 5-bed generally 190 sqm (rather than 128 sqm). We have considered this and (from table 5.16 above) note that this developer's 2 bed units are at the lower end of the nationally described space standards; the 4 bed house is at the higher end of the nationally described space standards (e.g. a 3-storey house type); and the 5 bed house is significantly larger than the nationally described space standards.

5.121 Our floor areas above (Table 5.16) are derived from detailed analysis of c1,200 new houses that have been developed in the District by a range of house-builders and they broadly align with the nationally described space standards (which the Council is seeking to adopt as a policy requirement) – hence we are content with the areas in table 5.17 for the purposes of viability testing.

Density

5.122 The absolute TLV for any particular typology depends on the net developable site area that is required for the construction the relevant scheme. This is on the basis that developer would not attribute significant value to the 'surplus' land. The absolute TLV is therefore a function of development density as well as TLV £ per hectare.

5.123 As set out above (in section 3) the Council's Strategic Housing Land Availability Assessment (May 2016) assumes residential development densities of 40 dph on sites within and adjacent to the Principal Shopping and Business Area of Market Harborough and Lutterworth and 30 dph on sites elsewhere in the District.

5.124 The development densities from the development monitoring data describe a *range* of densities that have been achieved albeit often significantly lower than the policy targets (see paragraphs 5.3 – 5.7 above). This could be due to the site area being the gross 'red line' site area and not the 'net' area.

5.125 The *average* development density is 35 dph (median 38 dph). This did not differ significantly between rural and urban schemes. The development density applied by the applicant for the Airfield Farm is 31.5 dph (net).

5.126 In calculating our absolute TLV's we have adopted a density of 32 dph (net developable area). This is higher on the SDA sites where densities of 35.5 dph and 37.6 dph are applied for North Scraptoft and Lutterworth respectively.

Residential Viability Results

5.127 We set out below a summary and results of our viability appraisals. We have appraised a series of hypothetical schemes across the District (see Typologies Matrix – Appendix 3) and these results are set out first. Below this are the results of the SDA appraisals.

5.128 Note that we have rounded the figures for ease of reading. The exact figures are shown on the appraisals appended (Appendix 6).

100 Unit Scheme Typologies

5.129 We have appraised three 100 unit schemes representing hypothetical sites in Blaby Boarder, Market Harborough and District Wide (/other locations).

5.130 **All of these typologies are viable**.

5.131 All of the typologies produce a positive RLV of over £170,000 per acre / £420,200 per hectare in Blaby Border up to nearly £377,000 per acre / £932,500 per hectare in Market Harborough and higher still in the rural locations.

5.132 Taking into consideration the TLV (which is £170,000 per acre / £420,000 per hectare for these larger greenfield scheme typologies) all of the schemes generate a surplus over and above the TLV.

5.133 The Blaby Border typology (scheme reference C.) has the lowest surplus (RLV – TLV) of the 100 unit schemes and is only just viable with a surplus of £400. One should therefore look at the sensitivity scenarios to see the viability for changes in profit margin, TLV and density. The other schemes are more viable.

5.134 Table 5.18 below summarises the results of our appraisals for the 100 units schemes –

Aspinall Verdi

	C. Blaby Border (100 Units)	D. Market Harborough (100 Units)	E. District Wide (100 Units)
Residential GDV	16,704,375	19,993,500	20,287,500
Commercial GDV	-	-	-
Total GDV	16,704,375	19,993,500	20,287,500
CIL	-	-	-
Site Specific S106 (£ per unit)	13,500	21,000	13,500
Infrastructure Costs (£ per unit)	-	-	-
Developers Profit	2,846,063	3,417,210	3,470,550
Developers Profit (% Blended)	17.04%	17.09%	17.11%
Total Costs (including profit)	15,212,985	16,663,075	15,978,960
RLV (net)	1,304,966	2,914,122	3,769,972
RLV (£/acre)	170,052	377,385	488,220
RLV (£/ha)	420,199	932,519	1,206,391
RLV comments	Viable	Viable	Viable
Balance for Plan VA:			
TLV	£1,304,565	£1,312,719	£1,312,719
TLV (£/acre)	170,000	170,000	170,000
TLV (£/ha)	420,070	420,070	420,070
Surplus/Deficit	401	1,601,403	2,457,254
Surplus/Deficit (£/acre)	52	207,385	318,220
Surplus/Deficit (£/ha)	129	512,449	786,321
TLV comments	Viable	Viable	Viable
		AspinallVerdi reference: 170808 Harborough AH Appraisals_v16_Schemes A-E	

Table 5.18 – Viability Results – 100 Unit schemes

30 Unit Scheme Typologies

5.135 We have also appraised three 30 unit schemes representing hypothetical sites in Lutterworth, Market Harborough and District Wide (/other locations).

5.136 **All of these typologies are again viable**.

5.137 All of the typologies produce a positive RLV of over £220,000 per acre / £544,500 per hectare in Lutterworth up to £426,500 per acre / £1.054 million per hectare in the rural locations.

5.138 Taking into consideration the TLV (which ranges between £220,000 per acre / £543,000 per hectare to £267,000 per acre / £660,000 per hectare) all of the schemes generate a surplus over and above the TLV.

5.139 The Lutterworth typology (scheme reference F.) has the lowest surplus (RLV – TLV) of the 30 unit schemes and is only just viable with a surplus of £700. The Market Harborough typology (scheme reference G.) again is only just viable with a surplus of £12,300. One should therefore look at the sensitivity scenarios of these typologies to see the viability for changes in profit margin, TLV and density. The District Wide scheme (H.) is more viable.

5.140 Table 5.19 below summarises the results of our appraisals for the 30 units schemes –

	F. Lutterworth (30 Units)	G. Mrkt. Harborough (30 Units)	H. District Wide (30 Units)
Residential GDV	5,507,944	5,730,750	6,086,250
Commercial GDV	-	-	-
Total GDV	5,507,944	5,730,750	6,086,250
CIL	-	-	-
Site Specific S106 (£ per unit)	13,500	21,000	13,500
Infrastructure Costs (£ per unit)	-	-	-
Developers Profit	941,577	986,445	1,041,165
Developers Profit (% blended)	17.09%	17.21%	17.11%
Total Costs (including profit)	5,011,427	5,115,726	4,956,888
RLV (net)	434,452	538,146	988,192
RLV (£/acre)	220,362	232,304	426,577
RLV (£/ha)	544,513	574,023	1,054,071
RLV comments	Viable	Viable	Viable
Balance for Plan VA:			
TLV	433,739	525,860	618,522
TLV (£/acre)	220,000	227,000	267,000
TLV (£/ha)	543,620	560,917	659,757
Surplus/Deficit	713	12,287	369,670
Surplus/Deficit (£/acre)	362	5,304	159,577
Surplus/Deficit (£/ha)	893	13,106	394,314
TLV comments	Viable	Viable	Viable
	AspinallVerdi reference: 170808 Harborough AH Appraisals_v16_Schemes F-H		

Table 5.19 – Viability Results – 30 Unit schemes

SDA Viability Results

5.141 In addition to the above generic typologies we have been instructed to appraise two SDA sites – one at Lutterworth and one at North Scraptoft.

5.142 These sites are more challenging due to the quantum of infrastructure required to open up the sites and also deliver social infrastructure (schools etc.) For example, Lutterworth requires infrastructure of £32,000 per unit and site specific S106s of £6,680 per unit and Scraptoft North requires infrastructure of £13,100 per unit and site specific S106s of £11,620 per unit.

5.143 Dealing with Lutterworth first. The Lutterworth SDA generates a total GDV of circa £600million (including £51 million from the commercial zones). This is therefore a substantial scheme which demands significant capital and will be brought forward over many years and via a number of different delivery mechanisms and commercial structures.

5.144 We calculate the RLV of the Lutterworth SDA to be £41.1 million which equates to £200,000 per acre / £495,000 per hectare. This includes circa £90 million of developers profit. These are substantial sums and the scheme is fundamentally viable on this basis.

5.145 In terms of the TLV we have applied £170,000 per acre / £420,000 per hectare for residential and we have applied £100,000 per acre / £247,000 per hectare for the commercial land. This results in a total TLV of £33.2 million.

5.146 On this basis the Lutterworth SDA is viable for plan making purposes. There is a surplus (RLV – TLV) of some £7.9 million. As mentioned above the SDA will be brought forward over many years and with various delivery mechanisms. The TLV is a theoretical 'adjustment' and we draw your attention to the various sensitivity scenarios at the end of the Lutterworth appraisal.

5.147 Turning to Scraptoft North. This faces similar viability challenges.

5.148 We calculate the RLV of the Scraptoft North SDA to be £21.9 million which equates to £247,000 per acre / £611,400 per hectare. This includes £33.7 million for developer's profit. As such there are substantial development surplus to facilitate and incentivise delivery.

5.149 Again, based on a TLV of £170,000 per acre / £420,000 per hectare, this results in a total TLV of £15.05 million.

5.150 On this basis the Scraptoft North SDA is viable for plan making purposes. There is a surplus (RLV – TLV) of some £6.85 million which equates to £77,400 per acre / £191,300 per hectare. Again, this is a theoretical 'adjustment' to reflect a notional TLV and we draw your attention to the various sensitivity scenarios at the end of the Scraptoft North appraisal.

5.151 Table 5.21 below summarises the results of our appraisal for the SDA sites –

	A. Lutterworth SDA	B. North Scraptoft SDA
Residential GDV	548,006,250	222,603,750
Commercial GDV	50,939,268	-
Total GDV	598,945,518	222,603,750
CIL	-	-
Site Specific S106 (£ per unit)	6,678	11,621
Infrastructure Costs (£ per unit)	31,927	13,101
Developers Profit	89,881,105	33,725,025
Developers Profit (% Blended)	15.01%	15.15%
Total Costs (including profit)	551,989,593	197,573,847
RLV (net)	41,086,434	21,901,165
RLV (£/acre)	199,998	247,433
RLV (£/ha)	494,194	611,408
RLV comments	Viable	Viable
Balance for Plan VA:		
TLV	33,194,205	£15,047,284
TLV (£/acre)	n/a (blended resi & commerical)	170,000
TLV (£/ha)	n/a (blended resi & commerical)	420,070
Surplus/Deficit	7,892,229	6,853,881
Surplus/Deficit (£/acre)	n/a (blended resi & commerical)	77,433
Surplus/Deficit (£/ha)	n/a (blended resi & commerical)	191,338
TLV comments	Viable	Viable
	AspinallVerdi reference: 170808 Harborough AH Appraisals_v16_Schemes A-E	

Table 5.21 – SDA Viability Results

5.152 Detailed viability appraisals and sensitivity tables are appended (Appendix 6).

6 Supported Living

6.1 In addition to the above residential strategic sites and typologies, we have also appraised generic sheltered housing and extra-care housing typologies.

6.2 Much of the market analysis and commentary on the private residential market is equally as applicable to supported living. Consistent with national trends, Harborough District has an aging population. Across Leicestershire, there is a rural/ urban dimension (with a higher concentration of younger people in central Leicester, Oadby and Wigston and Loughborough linked to the universities). There are particular concentrations of elderly population in the rural areas around Harborough (and Melton)[118].

6.3 We recognise that there is are various types of housing for older people ranging from:

- Sheltered / Age Exclusive / Retirement Housing – This is accommodation that is built specifically for sale or rent to older people e.g. McCarthy and Stone or Churchill. They comprise self-contained units (apartments) with communal facilities and a live-in or mobile scheme manager and alarm call systems in case of emergency.

- Extra Care / Very Sheltered / Assisted Living Housing - This is similar to the Sheltered Housing, but is designed to enable residents to retain their independence as they grow older and their need for support and/or care increases. Residents still occupy their own self-contained home within blocks of flats, estates of bungalows or retirement 'villages' but often enjoy enhanced communal accommodation and occupants may also be offered individual care and assistance from support staff, within the complex, 24 hours per day.

- Close Care or Assisted Living Housing – This is normally situated within the grounds of a care home and takes the form of self-contained, independent flats or bungalows. Units may be rented or purchased by the occupier. Residents will also have access to the care home's other facilities and will normally have some form of direct communication with the care home, for emergencies. There may well be an arrangement whereby, the care home management will buy-back the property if it becomes necessary for them to move into the care home.

- Care Homes / Residential care homes - Living accommodation for older people and employ staff who provide residents with personal care, such as washing and dressing. Residents normally occupy their own single room but have access to other communal facilities.

[118] Leicester and Leicestershire Strategic Housing Market Assessment, Leicester and Leicestershire Local Planning Authorities GL Hearn Report, June 2014, para 2.50

- Care Homes with Nursing / Nursing Homes – Similar to a residential home but, they offer the full time service of qualified nursing. Such accommodation is suited to residents who are physically or mentally less capable and require a higher level of care.

6.4 It is important to note that some schemes are developed by housing associations and others by the private sector and/or charities. All will have a different status in terms of liability for Affordable Housing and CIL (for example, Charitable Organisations are exempt from CIL).

Supported Living Typologies

6.5 It is important to note that for the purposes of this viability assessment we have only modelled the Age Restricted / ECH schemes which are more likely to be developed by the private sector and are most similar to C3 Use housing. C2 Use Residential Institutions such as residential care homes and nursing homes are specialist developments (valued on a turnover or 'profits' basis) and are not included in the viability assessment. Note that some of these schemes are developed by housing associations and others by the private sector and/or charities and all will have a different status in terms of liability for Affordable Housing (and CIL (for example, Charitable Organisations are exempt from CIL)).

6.6 For the purposes of our Viability Assessment we have modelled a 55 unit sheltered housing and a 45 unit extra-care typology (both on brownfield land in key towns and District wide on greenfield sites) to be representative of the different levels of care provision – see typologies matrix and Table 6.1 below.

	Sheltered Housing	**Extra-Care Housing (ECH)**
No. of units	55	45
Development Density (dph)	125	100
1 Bed unit size (sqm)	50	60
2 Bed unit size (sqm)	75	80
Non-chargeable communal space (net-to-gross)	75%	65%

Table 6.1 – Sheltered Housing and ECH Typology Parameters

6.7 These assumptions have been corroborated by a recent Sheltered Housing scheme in Market Harborough that we have appraised for site specific S106 purposes.

Supported Living Value Assumptions

6.8 Evidence from the Retirement Housing Group[119] recommends that supported living sales values are a premium to private residential apartments as follows:

Sheltered housing unit prices	In high value areas - • 10-15% premium to private market 1/2 bed flats Or, in low value areas (where no apartment scheme comparables) - • 75% value of 3-bed semi-detached house for a 1 bed sheltered housing unit, and • 100% value of 3-bed semi-detached house for a 2 bed sheltered housing unit
Extra-care housing unit prices	• 25% premium to sheltered housing

Table 6.2 – Sheltered Housing and ECH Sales Values

6.9 These assumptions have been corroborated by a recent Sheltered Housing scheme in Market Harborough that we have appraised for site specific S106 purposes.

6.10 For the schemes in Key Towns we have used the Lutterworth baseline values and for the schemes out-with the Key Town we have used the Rural baseline values. Both have been adjusted to reflect the above value parameters.

Supported Living Development Costs

6.11 The development costs are shown explicitly on the development appraisals (Appendix 7). They follow a similar format as the residential appraisals (see above), but the main differences are highlighted below.

- Initial Payments (S106 & CIL) – We understand that whilst affordable housing is generally applicable on these types of schemes, the developers will generally negotiate this on a viability basis and pay a commuted sum. This is because there are often high estate management charges in these types of schemes and it is not viable for the service charge on the private units to cross-subsidise the service charge for affordable units. We have therefore tested the equivalent commuted sum (£ psm) in addition to any S106/CIL. This is shown within the Initial Payments section of the appraisals.

[119] RHG Retirement Housing Group, Retirement Housing Viability Base Data (April 2013) / Briefing Paper for CIL Practitioners Retirement Housing and the Community Infrastructure Levy (June 2013) by Churchill Retirement Living and McCarthy and Stone

- Demolition and Site Clearance - On the typologies within the Key Towns we have assumed that the supported living schemes are generally brownfield typologies, based on the redevelopment of sites within the town centres where the providers perceive the occupier demand. We have therefore included an allowance of £50,000 per acre for site clearance and demolition.

- Construction Costs – We have assumed the following construction costs:

Typologies	Build Cost	Comment
Flats/apartments (for comparison)	£1,079 psm	From above
Sheltered Housing	£1,127 psm	Based on BCIS Median rate (3-storey) rebased to Leicestershire (5 years)
Extra care housing	£1,183 psm	+4% over Sheltered housing for ECH
	+ 10%	External Works (there is generally less external works costs for supported living typologies than for general needs housing)
	+ 3%	Contingency

Table 6.3 – Residential Construction Cost Assumptions

Supported Living Land Values

6.12 For the purposes of our appraisals, we have assumed the TLV for the District wide (other than Key Towns) greenfield most likely development scenario to be based on the Rural land values (£267,000 per acre / £660,000 per hectare) from Table 5.12 above.

6.13 For the appraisals within the Key Towns most likely brownfield development scenario, we have assumed at TLV based on commercial / brownfield land values (£648,000 per acre / £1.6 million per hectare).

Supported Living Viability Results

6.14 We have tested both Sheltered Housing and Extra-Care typologies in the Key Towns and District Wide locations.

6.15 Key viability issues for these typologies include –

- The high net-to-gross ratio compared to C3 apartment typologies which reduces the saleable area;

- The larger unit sizes which reduces the number of units that can be accommodated within a particular sales area;
- The higher build cost based on the gross area an BCIS data;
- The high development density which reduces the quantum of land assumed and therefore the TLV, but not by enough to off-set the above costs.

6.16 Due to the above key viability issues, we have prepared three appraisals for the supported living typologies, as follows:

- Policy compliant scheme appraisals based on 40% affordable housing on-site;
- Reduced % affordable housing on-site – this is an illustrative scheme which shows the *maximum* quantum of affordable housing that could, in theory, be viable on-site (we append these appraisals (Appendix 7));
- Commuted Sum appraisal – this appraisal shows the same viable scheme, but calculates the equivalent commuted sum.

Sheltered Housing Typologies

6.17 On a policy compliant basis the Sheltered Housing typologies shows mixed results. We have appraised two hypothetical 55 unit schemes in Key Town i.e. brownfield (scheme reference **I**.) and out-with Key Towns i.e. greenfield (scheme K.) in the rest of the District. Both are viable in that they generate a positive RLV.

6.18 Based on the above appraisal assumptions the sheltered housing typologies are viable.

6.19 However, taking into consideration the TLV, the results are different. The brownfield typology (scheme **I**.) with a TLV of £648,000 per acre / £1.6 million per hectare is not viable, whereas the greenfield typology (scheme K.) with a lower TLV (£267,000 per acre / £660,000 per hectare) is viable (i.e. the RLV > TLV).

6.20 On a reduced affordable housing basis, Scheme **I**. (Sheltered housing – brownfield) becomes viable at 16% on-site affordable housing (see Appendix 7). (Scheme K. Sheltered housing – greenfield is viable at a policy compliant 40%).

6.21 As mentioned above, private sector developers' preference is for an off-site commuted sum in this sector and we have calculated this based on the principle of equivalence.

6.22 The equivalent *maximum* commuted sum for the Sheltered Housing typologies is £97 psm for scheme **I**. (Key Town / brownfield) and £253 psm for scheme K. (out-with Key Towns / greenfield). Given the surpluses above, there is no reason why the Council cannot charge **up to (say) £230 psm** commuted sum on greenfield sites and **£90 psm** on brownfield sites.

Extra-Care Housing Typologies

6.23 Based on the above appraisal assumptions the ECH housing typologies are less viable. We have appraised two hypothetical 45 unit schemes in Key Town / brownfield (scheme reference J.) and out-with Key Towns / greenfield (scheme L.) in the rest of the District.

6.24 On a policy compliant basis, only Scheme L. (greenfield) results in positive RLV. Scheme J. (Key Town brownfield) is not viable. This is due to the lower sales values assumptions in Scheme J.

6.25 Taking into consideration the TLV, both scheme typologies are not viable. The brownfield typology (scheme J.) has a TLV of £648,000 per acre / £1.6 million per hectare and the greenfield typology (scheme K.) has a TLV of £267,000 per acre / £660,000 per hectare. In both schemes the RLV < TLV.

6.26 On a reduced affordable housing basis, Scheme L. (ECH housing – greenfield) becomes viable at 34% on-site affordable housing and the brownfield Scheme J. this is only 2% (see Appendix 7).

6.27 Again we have calculated the equivalent *maximum* commuted sum for the Extra-Care Housing typologies. This is £11 psm for scheme J. (Key Town / brownfield) and £208 psm for scheme L. (out-with Key Towns / greenfield). As can been seen the brownfield ECH typology is margin even with very little affordable housing, however, there is no reason why the Council cannot charge **up to (say) £190 psm** commuted sum on greenfield sites.

6.28 Table 6.4 below summarises the results of our appraisals for the supported living schemes –

	I. Sheltered 55 Key Town BF	J. ECH 45 Key Town BF	K. Sheltered 55 Dwide GF	L. ECH 45 Dwide GF
Residential GDV	10,715,389	11,834,914	9,849,056	10,434,471
Commercial GDV	-	-	-	-
Total GDV	10,715,389	11,834,914	9,849,056	10,434,471
CIL	-	-	-	-
Site Specific S106 (£ per unit)	13,500	13,500	13,500	13,500
Infrastructure Costs (£ per unit)	-	-	-	-
Developers Profit	2,013,621	2,351,240	1,631,598	1,789,146
Developers Profit (% blended)	18.79%	19.87%	16.57%	17.15%
Total Costs (including profit)	9,910,209	11,011,434	9,256,826	10,095,167
RLV (net)	704,533	720,545	518,201	296,892
RLV (£/acre)	648,001	648,001	476,621	267,001
RLV (£/ha)	1,601,210	1,601,210	1,177,730	659,759
RLV comments	Viable	Viable	Viable	Viable
Balance for Plan VA:				
TLV	704,532	720,544	290,293	296,891
TLV (£/acre)	648,000	648,000	267,000	267,000
TLV (£/ha)	1,601,208	1,601,208	659,757	659,757
Surplus/Deficit	1	1	227,908	1
Surplus/Deficit (£/acre)	1	1	209,621	1
Surplus/Deficit (£/ha)	2	2	517,973	2
TLV comments	Viable	Viable	Viable	Viable
AH % on-site	16%	2%	40%	34%

AspinallVerdi reference: 170808 Harborough AH Appraisals_v16_Schemes I-L

Table 6.4 – Viability Results – Supported Living schemes

7 Conclusions and Recommendations

7.1 In this section we draw together the results summary tables from the viability modelling.

Residential Uses

7.2 Based on the residential viability results above, we recommend that the affordable housing policy of 40% is viable generally across the District having regard to the cumulative impact of the Plan policies and the surpluses and sensitivities generated by the appraisals.

7.3 It is important to note with the SDA sites that these are large schemes. This is particularly the case with the Lutterworth SDA which has a total GDV of c. £600 million (including £50.1 million from the commercial zones). Furthermore, we calculate the RLV of the Lutterworth SDA to be £41 million and the developers profit to be £90 million. This is therefore a substantial scheme which demands significant capital and will be brought forward over many years and via a number of different delivery mechanisms and commercial structures.

7.4 Similarly the Scraptoft North SDA generates a GDV of c. £222 million, RLV of £21.9 million and profit of £33.7 million.

7.5 In this respect, we recommend that the Council negotiates the economic viability of each SDA on a phase by phase basis having regard to the infrastructure and capital requirements of each phase.

Supported Living

7.6 In addition to the above we make the following recommendations in respect of supported living typologies:

- The equivalent commuted sum for Age Restricted / Sheltered Housing is up to (say) £230 psm commuted sum on greenfield sites and £90 psm on brownfield sites.
- The equivalent maximum commuted sum for the Assisted Living / Extra Care Homes is up to (say) £190 psm commuted sum on greenfield sites, but nothing (£0 psm) on brownfield sites.

7.7 In addition we recommend that, in accordance with best practice, the plan wide viability is reviewed on a regular basis to ensure that the plan remains relevant as the property market cycle(s) change.

7.8 Furthermore, to facilitate the process of review, we recommend that the Council monitors the development appraisal parameters herein, but particularly data on land values across the District.

Appendix 1 – Residential Market Review

Appendix 2 – Land Market Review

Appendix 3 – Residential Typologies

Appendix 4 – SDA Assumptions

Appendix 5 – Commercial Market Review

Appendix 6 – Residential Appraisals and Sensitivities

Appendix 7 – Supported Living Appraisals and Sensitivities

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