APPENDIX 2

Community Infrastructure Levy: Viability Study

Executive Summary

Prepared for

Wiltshire Council

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Contents

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1 Executive Summary

1.1 This report tests the ability of a range of development types throughout the County of Wiltshire to yield contributions to infrastructure requirements through the Community Infrastructure Levy ('CIL'). Levels of CIL have been tested in combination with the Council's other Core Strategy requirements, including the provision of affordable housing. The April 2013 Statutory Guidance requires charging authorities to focus on the deliverability of the scale of housing and other uses identified in their plan. CIL should contribute positively towards delivery of Core Strategy objectives by, for example, securing funding for essential infrastructure that will support growth. The Statutory Guidance also recognises that charging authorities may use CIL and S106 flexibly to secure their objectives, provided the use of each is clearly set out in the Regulation 123 list.

Methodology

1.2 The study methodology compares the residual land values of a range of generic developments to a range of benchmark land values. If a development incorporating a given level of CIL generates a higher value than the benchmark land value, then it can be judged that the proposed level of CIL will be viable.

1.3 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and Developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a Developer in determining an appropriate offer price for the site.

1.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak but have subsequently recovered to some degree. Despite this recovery, there is some uncertainty as to the likely short term trajectory of house prices. We have allowed for this by running a sensitivity analysis which inflates sales values by 10% and build costs by 5%. This analysis is indicative only, but is intended to assist the Council in understanding the levels of CIL that are viable in today's terms but also the impact of changing markets on viability. We have also tested a fall in sales values of 5%, to enable the Council to take a view on the impact of any adverse movements in sales values in the short term. Our commercial appraisals incorporate sensitivity analyses on rent levels and yields.

Key findings

1.5 The key findings of the study are as follows:

- The results of this study are reflective of current market conditions, which are likely to improve over the medium term. It is therefore important that the Council keeps the viability situation under review so that levels of CIL can be reviewed, if necessary, to reflect any future changes.
- The ability of **residential schemes** to make CIL contributions varies depending on scale of development, area, the current use of the site and the need to strike a balance between funding for infrastructure and the delivery of affordable housing. Having regard to these variations in sales values and existing use, and the impact of varying CIL rates on affordable housing delivery, residential schemes should be able to absorb a **maximum** CIL rate of between £100 to £200 per square metre, depending on the settlement. These levels of CIL would generate a significant contribution towards delivering the infrastructure requirements that are required to support growth, as identified in the Council's Core Strategy.
- CLG guidance requires that charging authorities do not set their CIL at the margins of viability. Other authorities have set their rates at a discount to the maximum rate, with discounts ranging from circa 30% to 50%. The maximum rates shown in Table 1.5.1 below take a broad view across our appraisal results and are pitched at a level that optimises affordable housing delivery. The full results are shown in tables 6.7.1 to 6.7.5 and we have exercised a degree of judgement in distilling these results into the maximum rates shown in Table 1.5.1. For example, we have arrived at a maximum rate of £160 per sqm for Settlement Category 2 because this would still

allow at least 20% affordable on sites in former employment use (and 40% on greenfield sites). A maximum CIL rate of £120 per sqm would allow developments in Settlement Category 3 to provide between 20% and 30% affordable housing on greenfield sites. A maximum CIL rate of £100 per sqm would allow developments in Settlement Category 4 to provide at least 20% affordable housing on greenfield sites. The Council may, of course, decide that a different prioritisation between affordable housing and CIL is appropriate.

Table 1.5.1: Maximum CIL rates – residential

Settlement Categories	Maximum CIL indicated by appraisals (£s per sqm)
Category 1 Marlborough & surrounding area, including Pewsey	£200
Category 2 Bradford upon Avon, Salisbury, rural villages south of Salisbury, Wilton and Chippenham	£160
Category 3 Corsham, Amesbury, Devizes and surrounding villages	£120
Category 4 Melksham, Trowbridge, Westbury, Dilton Marsh, Calne, Warminster, Mere and Tisbury	£100

- Our understanding is that the bulk of development is expected to come forward in Settlement categories 2, 3 and 4. In light of this expectation, the Council may wish to consider adopting a single charge across the County at £70 per square metre, as the loss of potential income from Settlement Category 1 will be limited. This would also avoid the need to define a boundary for different charging zones for residential development and result in a simple structure which would be simple to implement. The settlement categories do not form continuous areas and defining appropriate boundaries would be complicated, not least by the variability of sales values on a localised basis. These factors would suggest that variable CIL rates would be difficult to implement and would, in any case, result in very little change in terms of overall CIL income. Alternatively, the Council could set a dual rate structure, which combines settlement categories 1, 2 and 3 to form one charging zone and settlement category 4 in another charging zone. A third option would be to have four charging zones, one for each settlement category. The pros and cons of each option are set out in paragraph 1.8.
- Inevitably, affordable housing delivery on individual schemes may need to be adjusted to accommodate CIL contributions (as is the case now with Section 106 obligations). On sites with lower sales values, the proportion of affordable housing is likely to be lower than on sites with higher sales values. However, as sales values increase, viability of developments on the lower value sites will improve; additional value generated can then be used to provide higher levels of affordable housing, in addition to CIL contributions.
- A significant proportion of the Council's housing supply will come from strategic sites. Strategic sites in the County currently generate relatively low residual land values, even if CIL is not levied. This is due, in part, to the need for these sites to contribute to on-site infrastructure, schools and strategic transport. The reduction in residual land value resulting from the application of CIL at £70 per square metre is not substantial. However, the Council will need to weigh the risks to delivery of levying CIL on these sites, given their importance to delivering the bulk of housing identified in the Plan. It is also important to consider the relative merits of raising funding for infrastructure through CIL in comparison to direct delivery of on-site facilities by developers. The Council could consider a reduced rate of CIL to reflect the burden carried by these schemes in terms of on-site infrastructure.
- Whilst the maximum rates are higher than the proposed rates, the buffer will help to mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market). However, there is no prescribed percentage buffer and this is entirely a matter for the Charging Authority's judgement.

- Our appraisals indicate that, at the current time, **office, industrial and warehouse** developments are unlikely to be sufficiently viable to absorb CIL contributions. We would therefore suggest a nil rate on these types of development.
- Residual values generated by **Retail developments in the main shopping centres (Trowbridge, Chippenham, Salisbury, Marlborough and Bradford upon Avon)** are higher than current use values. However, to a degree retail development will involve the re-use of existing retail space, so the difference in value between current and newly developed space is modest in areas where rents are low. Our appraisals indicate that the development of new retail space is sufficiently viable to absorb CIL. The maximum rate is £181 per square metre and we recommend a rate of £70 per square metre, which will allow for a substantial buffer below the maximum rate. Outside these town centre areas, in district centres in these settlements and in town/district centres in other settlements across the county, our appraisals indicate that new retail development (excluding retail warehouses, supermarkets and similar developments) is unlikely to be sufficiently viable to be capable of absorbing a CIL contribution.
- **Retail warehouse, supermarket** and similar developments are viable throughout the County and could also absorb a CIL contribution. Allowing a buffer below the maximum rates indicated by our appraisals, we would recommend a rate of £175 per square metre.
- **Student housing** (C2) in the County generates sufficient surplus residual values to absorb a CIL of up to £142 per square metre. After allowing for a buffer for site-specific factors, we suggest a rate of £70 per square metre.
- **Hotel developments** are able to absorb a maximum CIL of £253 per square metre when built on low values sites. After allowing a buffer for site-specific factors, we suggest a rate of £70 per square metre.
- **D1 and D2** uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. We therefore suggest that a nil rate of CIL be set for D1 and D2 uses.

1.6 Tables 1.6.1, 1.6.2, 1.6.3 and 1.6.4 provide four options on CIL rates that the Council may wish to consider. These rates combine the benefits of a simple structure with optimisation of infrastructure funding.

Table 1.6.1: Proposed CIL rates – Option 1

Development type	CIL Charge £/sq m
Residential	£70
Residential (Strategic sites as set out in the Wiltshire Core Strategy)	£0 - £70
High street and covered shopping centre retail in Chippenham, Salisbury, Trowbridge, Marlborough and Bradford upon Avon	£70
Retail warehouse and superstore development across the County	£70
Student housing and hotels	£70
All other uses	£0

Table 1.6.2: Proposed CIL rates – Option 2

Development type	CIL Charge £/sq m
Residential	£70
Residential (Strategic sites as set out in the Wiltshire Core Strategy)	£0 - £70
High street and covered shopping centre retail in Chippenham, Salisbury, Trowbridge, Marlborough and Bradford upon Avon	£70
Retail warehouse and superstore development across the County	£175
Student housing and hotels	£70
All other uses	£0

Table 1.6.3: Proposed CIL rates – Option 3

Development type	CIL Charge £/ sqm			
	Settlement category 1 - Marlborough & surrounding area, including Pewsey	Settlement category 2 - Bradford upon Avon, Salisbury, rural villages south of Salisbury, Wilton and Chippenham	Settlement category 3 - Corsham, Amesbury, Devizes and surrounding villages	Settlement category 4 - Melksham, Trowbridge, Westbury, Dilton Marsh, Calne and Warminster
Residential	£140	£110	£85	£70
Residential (Strategic sites as set out in the Wiltshire Core Strategy)	£70	£70	£70	£70
High street and covered shopping centre retail in Chippenham, Salisbury, Trowbridge, Marlborough and Bradford upon Avon	£70			
Retail warehouse and superstore development across the County	£175			
Student housing and hotels	£70			
All other uses	£0			

Table 1.6.4: Proposed CIL rates – Option 4

Development type	CIL Charge £/sq m	
	Settlement categories 1, 2 and 3	Settlement category 4 - Melksham, Trowbridge, Westbury, Dilton Marsh, Calne and Warminster
Residential	£85	£55
Residential (Strategic sites as set out in the Wiltshire Core Strategy)	£40	£30
High street and covered shopping centre retail in Chippenham, Salisbury, Trowbridge, Marlborough and Bradford upon Avon	£70	
Retail warehouse and superstore development across the County	£175	
Student housing and hotels	£70	
All other uses	£0	

1.7 The four options above are indicative only and the Council will need to arrive at its own judgement as to the balance between the desirability of raising funding for infrastructure and the potential impact upon viability, when also taking into account other Core Strategy requirements.

1.8 The pros and cons of these indicative options are as follows:

Option 1 – Pros:

- Very simple (single rate for all chargeable development)
- Clear and understandable.
- No requirement to establish any zones and boundaries, as the same rate applies across whole county.

Option 1 – Cons:

- Potentially significant loss of income in comparison to a multiple rate CS.
- No benefit from reduced rate for supermarket, other than conformity with rates for other uses.
- Increased burden on strategic sites, that will also carry a significant S106 cost.

Option 2 – Pros:

- Very simple (single rate for all chargable development, other than supermarkets which attract a higher rate)
- Clear and understandable.
- No requirement to establish any zones and boundaries, as the same rate applies across whole county.
- Supermarkets are a very viable form of development and contribute significantly more under this option in comparison to option 4.

Option 2 – Cons:

- Potentially significant loss of income in comparison to a multiple rate CS.
- Increased burden on strategic sites, that will also carry a significant S106 cost.

Option 3 – Pros:

- Rates for smaller sites are more closely tailored to viability of each settlement category.
- Reduced loss of income from schemes that can viably absorb a higher CIL.
- Simple structure for all strategic sites.

Option 3 – Cons:

- Four residential charging zones will need to be defined and mapped.
- Values and sub markets are often difficult to precisely define, leading inevitably to some anomalies.
- Boundaries may require re-drawing if relative values between different charging zones change significantly. This might require submission of a new Charging Schedule.
- Application of a single rate to strategic sites is simple but the ability of individual sites to absorb CIL varies between different parts of the county.

Option 4 – Pros:

- Simplified structure - combines the three most viable areas into a single rate with a reduced rate for the least viable area.
- Reduced rates for the strategic sites, recognising their on-site S106 burden.
- Split rate for strategic sites will help to maximise the ability of sites to provide affordable housing.

Option 4 – Cons:

- As with Option 1, there is a need to define areas and zone boundaries.
- Boundaries may require re-drawing if relative values between different areas change significantly. This would probably require submission of a new CS.