Tendring District Council

Community Infrastructure Levy Viability Report

Final Report

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Contents

1 Introduction

1.1.1 Tendring District Council (TDC) is planning to introduce a Community Infrastructure Levy (CIL) once its emerging Local Plan has been adopted. It has appointed Peter Brett Associates to give a high level assessment of development viability in the district and to recommend some broad ranges of CIL charging rates accordingly. This report provides our analysis and recommendations.

2 Legal requirements

2.1 Introduction

2.1.1 The Community Infrastructure Levy (CIL) is a planning charge that local authorities in England and Wales can choose to charge on new developments in their area. The objective of the charge is to help pay for infrastructure that is needed as a result of development. CIL is levied on the gross internal area (GIA) of the net additional floorspace of liable development. Local authorities who wish to charge the levy must produce a draft charging schedule setting out CIL rates for their areas, which are to be expressed as pounds (£) per square metre. Before it is approved by the Council, the draft schedule has to be approved by an independent examiner.

2.1.2 The requirements that a CIL charging schedule has to meet are set out in:

- The Planning Act 2008
- The CIL Regulations 2010[1], as amended in 2011[2] and 2012[3]
- The CIL Guidance, which is statutory guidance, i.e. it has the force of law[4].

2.1.3 To help charging authorities meet these requirements, the government has also produced non-statutory advice, comprising:

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

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

2.2 Finding the balance

2.2.1 Regulation 14 of the 2010 CIL regulations requires that a charging authority 'aims to strike what appears to the charging authority to be an appropriate balance between:

- the desirability of funding from CIL (in whole or in part) the…cost of infrastructure required to support the development of its area…; and
- the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area'.

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

> *'By providing additional infrastructure to support development of an area, CIL is expected to have a positive economic effect on development across an area in the*

[1] http://www.legislation.gov.uk/ukdsi/2010/9780111492390/pdfs/ukdsi_9780111492390_en.pdf
[2] http://www.legislation.gov.uk/ukdsi/2011/9780111506301/pdfs/ukdsi_9780111506301_en.pdf
[3] http://www.legislation.gov.uk/ukdsi/2012/9780111529270/pdfs/ukdsi_9780111529270_en.pdf
[4] DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* http://www.communities.gov.uk/publications/planningandbuilding/cilguidance
[5] http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf
[6] http://www.communities.gov.uk/documents/planningandbuilding/pdf/19021101.pdf

medium to long term. In deciding the rate(s) of CIL for inclusion in its draft charging schedule, a key consideration for authorities is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing CIL on development across their area. The CIL regulations place this balance of considerations at the centre of the charge-setting process. In view of the wide variation in local charging circumstances, it is for charging authorities to decide on the appropriate balance for their area and how much potential development they are willing to put at risk through the imposition of CIL. The amount will vary. For example, some charging authorities may place a high premium on funding infrastructure if they see this as important to future economic growth in their area, or if they consider that they have flexibility to identify alternative development sites, or that some sites can be redesigned to make them viable. These charging authorities may be comfortable in putting a higher percentage of potential development at risk, as they expect an overall benefit.

In their background evidence on economic viability to the CIL examination, charging authorities should explain briefly why they consider that their proposed CIL rate (or rates) will not put the overall development across their area at serious risk.'[7]

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

2.2.4 This appropriate balance must therefore be a matter of judgment as much as rigorous calculation. It is not surprising, therefore, that charging authorities are allowed considerable discretion in this matter. This point is stressed repeatedly in Government publications. For example, the statutory guidance says:

'It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure and the potential implications for the economic viability of development…

'The legislation… only requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed CIL rate (or rates) should appear reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism.'[8]

2.2.5 The guidance adds that charging authorities should 'take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development

[7] DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (5)
[8] DCLG CIL Charge Setting and Charging Schedule Procedures, March 2010 (10)

sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk'.[9]

2.2.6 This reinforces an earlier message: the levy may put some schemes at risk by rendering some schemes unviable. But that is allowable, as long as CIL strikes a sensible overall balance, and does not put the overall development of the area at risk.

2.3 Keeping clear of the ceiling

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

> *'Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area… In setting a CIL rate, [they] will need to bear in mind that economic circumstances and land values could change significantly during the lifetime of the charging schedule.'*[10]

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

i. Whilst our viability assessments relate to typical, or average, schemes, in real life values and costs vary widely between individual schemes and over time;

ii. Perceptions of risk vary between places and types of development, depending on the strength of the market. Where risks are perceived to be high, developers will expect a higher profit than the standard assumed in viability assessments;

iii. A charge that aims to extract the absolute maximum would be strenuously opposed by landowners and developers, which would make CIL difficult to implement and put the overall development of the area at serious risk.

2.4 Varying the charge

2.4.1 CIL Regulation 13 allows the charging authority to introduce charge variations by geographical zone within its area, by land use, or both. As part of this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy boundaries. Nor should differential rates be set by reference to the costs of infrastructure.

2.4.2 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid 'undue complexity'.[11] Moreover 'it would not be appropriate to seek to draw zones on the basis of individual sites'[12] or in ways that 'impact disproportionately on a particular sector, or small group of developers',[13] otherwise the CIL may fall foul of State Aid rules.

[9] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (8)
[10] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (10)
[11] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (12)
[12] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (13)
[13] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (13)

2.5 Supporting evidence

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

2.5.2 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate. One implication of this is that this testing does not focus on analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area. This suggests that the viability calculations may leave aside geographical areas or land uses which are expected to see little or no development over the plan period.

2.6 Chargeable floorspace

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

2.7 What the examiner will be looking for

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

- The charging authority has complied with the required procedures
- The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence
- The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and
- Evidence has been provided that shows the proposed rate would not put at serious risk the overall development of the area.'[18]

2.8 Summary

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

> *'Aim to strike what appears to the charging authority to be an appropriate balance between the need to fund infrastructure and the impact of CIL'; and*
>
> *'Not put at serious risk the overall development of the area'.*

2.8.2 As explained in Government guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making

[14] Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (9)
[15] Ibid.
[16] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (para 37)
[17] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (para 38)
[18] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (5)

certain schemes unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the local authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.

2.8.3 Legislation and guidance also advise that:

- Authorities should avoid setting charges up to the margin of viability for the bulk of sites;
- CIL charging rates may vary across geographical zones and land uses. But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying infrastructure costs; it should not introduce undue complexity; and it should have regard to State aid rules.
- Charging rates should be informed by 'appropriate available evidence', which need not be 'fully comprehensive or exhaustive'; and
- While charging rates should be consistent with the evidence, they are not required to 'mirror' the evidence[19]. In this and other ways, charging authorities have a large measure of discretion in setting charging rates.

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

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

3 Policy Context and Approach

3.1 History

3.1.1 Over the 10-year period 2001/2 to 2010/11, there was a total of 4,045 net additional dwellings completed in the district. This is an average of 405 dwellings per annum. However, over the last two years of the period, only 536 net additional dwellings were completed, an annual average of just 268 dwellings.

3.1.2 Over the period 2007/8 to 2009/10, it was predominantly two-bedroom properties that were completed. This is shown in Table 3.1:

Table 3.1: House size of gross housing completions in Tendring, 2007/8 to 2009/10

No. of bedrooms	Percentage of completions
One	18.0%
Two	42.3%
Three	27.3%
Four or more	12.0%
Total	**100.0%**

Source: Tendring Annual Monitoring Report, 2010
Does not sum due to rounding

3.1.3 Formal monitoring of non-residential uses was last completed up to March 2010. For B-class uses, there were the following level of completions over the nine-year period 2001/2 to 2009/10:

Table 3.2: B-class net completions in Tendring, 2001/2 to 2009/10

Use class	Net additional floorspace (m2)
B1a (office)	-92*
B1b (research and development)	290
B1c (light industry	31,831
B2 (industrial)	12,113
B8 (warehousing)	13,862
Total	**58,004**

Source: Tendring Annual Monitoring Report, 2010
* Figures for 2009/10 only

3.1.4 Table 3.2 shows that over the nine-year period, over 58,000m2 of B-class floorspace was completed. This does exclude some B1a office space, as figures were only available for 2009/10. However, this is a significant amount of floorspace.

3.1.5 For retail uses, information is only available for the single year, 2009/10. During this period, there were net losses totalling 262m2 of A-class floorspace.

3.1.6 For leisure uses over the year 2009/10, there were net additions totalling 245m2 (use class D2).

3.2 Emerging Local Plan

3.2.1 The Tendring Local Plan Proposed Submission Draft (November 2012) requires 4,000 net additional dwellings to be delivered over the plan period 2011 to 2021. In addition, there will be some limited expansion of B-class uses and retail. All will create demands on the infrastructure network.

Residential

3.2.2 The Local Plan Submission Draft identifies a total of 38 sites for allocation which will accommodate housing. These sites are shown in Table 3.3 below:

Table 3.3: Provision site allocations for housing, Tendring Core Strategy Submission Draft

Location	Provisional Site Allocations	No. of dwellings
Clacton	Land off Lotus Way, Jaywick, Clacton-on-Sea CO15 2LU	100
	Land at Rouses Farm, Jaywick Lane, Clacton-on-Sea CO16 8AE	350
	Land south of Clacton Coastal Academy, Jaywick Lane, Clacton-on-Sea CO16 7BE	100
	Land East of Rush Green Road, Clacton-on-Sea CO16 7BH	60
	Land off Bluehouse Avenue, Clacton-on-Sea CO16 7LA	10
	Land at Clacton Garden Centre, St. John's Road, Clacton-on-Sea CO16 8BJ	16
	Land at Coppins Court, Coppins Road, Clacton-on-Sea CO15 3HS	30
	Land east of Thorpe Road, north of Oakwood Business Park, Clacton-on-Sea CO16 9RZ	300
	Land south of Centenary Way, Clacton-on-Sea	70
	Land off Abbigail Gardens, Clacton-on-Sea CO15 6HG	20
	Land off Gainsford Avenue, Clacton-on-Sea CO15 5AT	50
Harwich and Dovercourt	Land adj to Harwich Town FC and Isolation Hospital, Main Road, Harwich CO12 4AA	40
	Land adj 360 Main Road, Harwich CO12 4AJ	30
	Land East of Pond Hall Farm off Valley Road, Dovercourt CO12 4LT	150
	Land West of Mayes Lane, Ramsey CO12 5EL	60
	Land South of Ramsey Road, Ramsey CO12 5EW	90
Frinton, Walton and Kirby Cross	Martello Caravan Site, Kirby Road, Walton-on-the-Naze CO14 8QP	250
	Station Yard and Avon Works, off Station Road, Walton-on-the-Naze CO14 8DA	40
	Old Town Hall Site, Kirby Mill Lane, Walton-on-the-Naze	10
	Southcliffe Trailer Park, Woodberry Way, Walton-on-the-Naze	15
	Land at Former Reservoir Site, Witton Wood Road, Frinton-on-Sea CO13 9LB	30
	Land at Turpins Farm, West of Elm Tree Avenue, Frinton-on-Sea CO14 8TE	50
Manningtree, Lawford, Mistley	Land East of Cox's Hill, Lawford CO11 2LA	100
	Land East of Bromley Road, Lawford CO11 2JE	100
Brightlingsea	Land South of Robinson Road, Brightlingsea CO7 0ST	120
Key Rural Service Centres	Land south of Cockaynes Lane, Alresford CO7 8BT	50
	Land off Holly Way, Elmstead Market CO7 7QR	40
	Land east of Sturricks Lane, Great Bentley CO7 8LG	20
	Land east of Station Road, Great Bentley CO7 8LH	20
	Land off Springfield Meadows, Weeley Road, Little Clacton CO16 9EW	20
	Land north-east of the Montana Roundabout, London Road, Little Clacton CO16 9RB	35
	Land south of Clacton Road, St. Osyth CO16 8PR	20
	Land rear of Clacton Road and Rochford Road, St. Osyth	20
	Land south of Rochford Road, St. Osyth CO16 8PH	20
	Land north of Abbey Street, Thorpe-le-Soken CO16 0JH	40
	Land at Willow's Farm, Mill Lane, Weeley CO16 9BZ	10
	Land south of Thorpe Road, Weeley (Ash Farm)	20
	Land off St Andrew's Road, Weeley CO16 9HR	10
Total		**2,516**

3.2.3 Policy PEO10 addresses affordable housing. It states that development of 10 or more net dwellings will be required to provide 25% of these dwellings for the District Council to acquire at a discounted value for use as council housing. An alternative is to provide 10% council housing on site and then make a financial contribution towards the construction or acquisition of property for use as council housing, equivalent to 25% provision.

3.2.4 The emerging Local Plan also has a policy on ‘aspirational housing’. Policy PEO8 states that developments of 100 or more net dwellings which are not included in Table 3.3 and are not the subject of specific housing mix requirements, will be expected to provide at least 30% of new dwellings to meet the District Council’s definition of aspirational housing. For sites of between 10 and 99 net dwellings will also be expected to provide 30% aspirational housing unless there are genuine physical or economic viability reasons why this cannot be achieved.

3.2.5 The definition of aspirational housing is a dwelling that is detached with a minimum of two storeys and with at least four bedrooms and two bathrooms.

3.2.6 Lastly, there is a policy on providing family housing. Policy PEO9 states that, in addition to any aspirational housing, at least 40% of the housing delivered on sites of 10 or more dwellings must be family housing. The definition of family housing is having at least three bedrooms, of which two will be double bedrooms.

B-class commercial

3.2.7 There are significant employment allocations proposed in the emerging Local Plan. The plan does not specify the amount of employment floorspace proposed in total. However, it does identify the number of jobs it proposes to create. In Clacton, this total 1,700 jobs, with more planned in the other main employment centre of Harwich.

Retail

3.2.8 There is expansion of the retail offer in Tendring planned. Much of this is expected to be in Clacton, specifically the following locations:

- expansion of the Waterglade Retail Park planned in Policy COS4;
- redevelopment of the Warwick Castle market site for a mix of uses including retail in Policy COS5;
- development of retail uses in Jackson Road (Policy COS6);
- redevelopment of the Station Gateway to include retail uses (Policy COS7).

4 Viability Assessment Method

4.1 Development appraisal

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

4.1.2 Our viability assessments are based on development appraisals of hypothetical schemes, using the residual valuation method. This approach is in line with accepted practice and as recommended by emerging RICS guidance[20]. Residual valuation is applied to different land uses and where relevant to different parts of the District, aiming to show typical values for each. It is based on the following formula:

Value of completed development scheme

***Less* development costs** - including build costs, fees, finance costs, etc

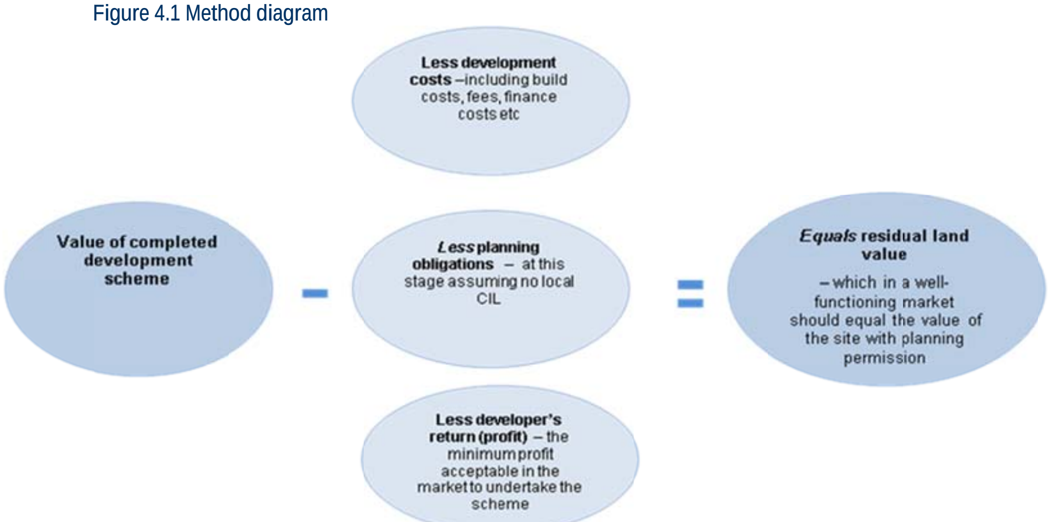
***Less* developer's return (profit)** - the minimum profit acceptable in the market to undertake the scheme

***Less* policy costs** - building in (for example) Section 106 costs but at this stage excluding CIL

Equals residual land value

- which in a well-functioning market should equal the value of the site with planning permission

Figure 4.1 Method diagram



[20] RICS, *Financial Viability in Planning, RICS Guidance Note, Exposure Draft,* April 2012

4.1.3 For each of the hypothetical schemes tested, we use this formula to estimate typical residual land values, which is what the site should be worth once it has full planning permission. The residual value calculation requires a wide range of inputs, or assumptions, including the costs of development, the required developer's return.

4.1.4 The arithmetic of residual appraisal is straightforward (we use the popular ARGUS Developer software for the bulk of our appraisals). However, the inputs to the calculation are hard to determine for a specific site (as demonstrated by the complexity of many S106 negotiations). The difficulties grow when we are required to make calculations that represent a typical or average site – which is what we need to do for CIL purposes. Therefore our viability assessments are necessarily broad approximations, subject to a margin of uncertainty.

4.1.5 Detailed individual appraisals are at Appendix 1.

4.2 The summary tables

4.2.1 Having estimated the residual value, we compare this residual value with the 'benchmark land value' or 'land cost', which is the minimum land value the landowner will accept to release his or her land for the development specified.

4.2.2 This process of comparison takes place in what we call the "summary table". These summary tables can be found in the relevant sections. The first example in this report is found at Table 6.2a.

4.2.3 Benchmark values will vary to reflect the landowner's judgements, which might include the contextual nature of development, the site density achievable, the approach to the delivery of affordable housing (in the context of residential development) and so on. There are a wide range of permutations here. In order to make progress, we have to assume a central value, even though there could be a margin of error in practice. These values are discussed further in section 5.

- If the residual land value shown by the Argus appraisals is below the benchmark value, the development is not financially viable, even without CIL. That means that unless the circumstances change it will not happen.
- If the residual value and the benchmark values are equal, the development is just viable, but there is no surplus value available for CIL.
- If the residual land value shown by the Argus appraisals is above the benchmark value, the development is viable. The excess of residual over benchmark value measures the maximum amount that may be potentially captured by CIL. The summary table then converts this amount available for CIL into a per square metre charge in the column at the far right.

4.2.4 It is important to bear in mind that these calculations are no more than approximations, surrounded by margins of uncertainty but are based on best available evidence and judgement. In drawing the implications for CIL, we take account of this uncertainty and use professional judgment to interpret the figures. We explain below.

4.3 Recommending a CIL charge

4.3.1 The summary table discussed above may indicate that CIL charges of (say) up to £400 per sq m may be capable of being sustained in the area. However, we are likely to recommend that the charge is set well under this point. The principal reasons for this are that:

- Markets fluctuate over time. There must be sufficient latitude for fluctuations to happen without rendering the CIL charge unviable; and
- Individual site costs and values vary. Developments should remain viable after CIL charge is paid in the bulk of cases.

4.3.2 It is conceivable that a simple, arithmetical approach could be used to take us from the 'overage' that the summary table suggests is available for CIL, to a recommended CIL Charge. For example, it would be possible to set a CIL at 50% of the overage indicated in the viability testing, and to mechanically apply this deflator across the study.

4.3.3 However, we have intentionally avoided this approach, because the viability tests necessarily cannot take account of developers' market understanding of risk, or of institutional investors' willingness to invest. These are important components of the judgement on a sensible level of CIL charge, but they cannot emerge arithmetically from the viability model. Instead, we use our market judgement in arriving at a sensible charge.

5 Viability Assessment assumptions

5.1.1 In this chapter we discuss the main assumptions used in our development appraisals. A number of these assumptions require detailed explanation and are discussed in the next section. Other assumptions will be set out briefly in Table 5.1 below.

5.2 Benchmark land values

5.2.1 Our estimates of benchmark values are based on market comparables. We have examined a wide variety of land transactions in Tendring over the past five years, principally through consultations with local property agents.

5.2.2 The actual comparables we have used were provided in confidence and cannot be made public.

5.2.3 Throughout, we have only looked at new-build schemes rather than conversions, because CIL is levied on net additional floorspace. The economics of conversion schemes are very different.

5.2.4 It is important to appreciate that assumptions on benchmark land values can only be broad approximations, subject to a wide margin of uncertainty. We take account of this uncertainty in drawing conclusions and recommendations from our analysis.

5.2.5 The benchmark values for each development type are discussed in more detail in the next sections of the report.

5.3 S106 contributions

5.3.1 In order to assess development viability, we need to make assumptions about the broader policy costs faced by development. S106 is one of these policy costs, and so these costs need to be allowed for in our viability calculations.

5.3.2 Section 106 will continue to exist after CIL begins to be charged. However, the use of S106 will be scaled back. Under recent CIL Regulations (which also cover Section 106), Section 106 is now expected to be very tightly targeted at mitigating the impacts of individual developments.

5.3.3 In general, we expect that Section 106 agreements, together with Section 278 highways agreements and planning conditions, will still be used to secure the following elements:

- Site-specific mitigation. These might be local improvements/infrastructure necessary to enable the grant of planning permission such as access roads, on-site open space, archaeology, and some off-site requirements directly related to support individual sites.
- Development-specific infrastructure on large-scale major development sites (of around 200-300 or more dwellings). In these instances, developers frequently prefer the use of S106 agreements, because they provide comfort that key infrastructure (which is frequently essential to sales) will be delivered. There are several sites of this scale proposed in Tendring, at Rouses Farm in Clacton, north of Oakwood Business Park in Clacton and the Martello Caravan site in Walton.

- Affordable housing. Under the current Regulations, Section 106 agreements will also continue to be used to secure affordable housing. And we have assumed that this will continu to be the case.

5.3.4 To investigate how much might be allowed for S106 in Tendring district, we have looked through the typical types of activities which used S106 funding, and indicated whether we would ordinarily expect to pay for a type of impact mitigation through S106 or through CIL. This analysis is provided at Appendix 2.

5.3.5 S106 and S278 contributions will typically be used for:

- Site-specific transport improvements, such as connections from a development to the wider transport network;
- Some open space and playspace. Frequently these are secured as part of the condition on the planning permission, but there may be infrequent instances when these demands form part of a S106 agreement; and
- Affordable housing, which is separately allowed for in our viability testing.

5.3.6 **Based on the above, and in agreement with the client team, our appraisals allow £500 per housing unit for S106 and S278 contributions, excluding affordable housing.**

5.3.7 This estimate is made for the sole purpose of the CIL viability assessment. It does not commit Tendring district to allocating CIL receipts or S106 receipts to any infrastructure theme or stakeholder.

5.4 Other assumptions

5.4.1 The other assumptions underlying our development appraisals are in Table 5.1 below. Inevitably, these assumptions are broad estimates. We have aimed to model typical new build schemes, as opposed to high-specification or particularly complex schemes that require particular construction techniques or materials.

Table 5.1 Viability testing assumptions

Assumption	Source	Notes
Revenue		
Sales value of completed scheme	Land Registry, CoStar and EGi	Property values are derived from different sources, depending on land use. For housing, **Land Registry** data forms a basis for analysis. This provides a full record of all individual transactions.[21] This data is then supplemented following conversations with agents and house builders' sales representatives, which allows us to form a view on new build sales values. Values used shown in Section 6. For non-residential uses, we used the **CoStar**[22] and **EGi** databases[23], supplemented by discussions with local property agents. **Offices: £450 per sq m capitalised at 9.0%** **Light industrial: £3,500 per sq m capitalised at 9.0%** **Town Centre Retail (convenience): £465 per sq m capitalised at 6.0%** **Retail (convenience): £4,000 per sq m capitalised at 4.5%** **Town Centre Retail (comparison): £465 per sq m capitalised at 10.5%** **Out of town Retail Warehouse (comparison): £929 per sq m capitalised at 9.0%**
Affordable housing transfer values	HCA policy	In all our residential appraisals we have assumed that affordable rented properties are approximately 55% of capital market value. We have also appraised intermediate housing at 65% of capital market value.
Densities	Emerging Local Plan policy	We will use the density standards proposed for specific sites/areas. Because developments at higher densities will tend to be more viable, it is prudent to assess viability using minimum standards. This helps us comply with the spirit of the guidance which requires us to show that the CIL Charges set do not 'set a charge right up to the margin of economic viability.'[24]
Construction costs		
Construction	BCIS Quarterly Review of Building Prices Issue No 123 Oct	BCIS is published by RICS on a quarterly basis. BCIS offers a range of prices dependent on the final specification. Build costs used are derived from recent (Oct 11) data of actual prices in the marketplace. As early as 2009, the market across the UK was building at round Code for Sustainable Homes Level 3 to 4 for private and Level 4 for social housing[25].

[21] Land Registry data is aggregated onto www.home.co.uk and mouseprice.co.uk. This is collated by postcode.
[22] http://www.costar.co.uk/
[23] http://www.egi.co.uk/
[24] DCLG (March 2010) *CIL Charge Setting and charging schedule Procedures* (10)
[25] In 2009, the NHBC stated that Code 3 and 4 was the level most commonly specified in new building. See NHBC (2009, revised Jan 2010) *The Code for Sustainable Homes Simply Explained*

Assumption	Source	Notes
	2011	The following costs have been used in this study and are considered to cover realistic costs for Code Level 4: • **Build costs houses £915 per sq m** Costs may alter in future. In particular, there may be national policy change regarding Code for Sustainable Homes building standards. The final effect of these changes on viability is difficult to foresee. While we have reviewed current Government research on cost impacts of CSH[26] we note that past forecasts of price changes (such as that predicted in the original Cyril Sweett work)[27] have never affected costs to the extent forecast. When these future requirements come into force, they will impact on both development costs and land values. We have not incorporated these possible impacts into our calculations, because CIL should deal with current market conditions, not forecasts of potential future change. Our approach to incorporating these (and other) potential but unknown costs is to set a wide margin for error that will cover variations in factors such as build costs, site conditions, and timing. All major non-domestic development which does not qualify for assessment under Code for Sustainable Homes will to be built to a minimum of BREEAM (Building Research Establishment Assessment Method) Excellent standard.
Floorspace size assumptions	Industry standard	We have assumed average floorspaces using Policy PEO4 in the emerging Local Plan**:** • **200 sq m (aspirational housing)** • **96 sq m (family housing)** • **77 sq m (flats)** Floorspace assumptions for non-residential uses are detailed in the specific scenarios for that use explained in each chapter.
Contingency	Industry standard	Contingency is an expression of risk relating to a specific scheme and will vary from site to site. We have adopted a **generic average of 5%** though in practice it will vary.
Road/site works/ external works	Industry standard	On-site preparation for internal access roads and other external works. This will vary from site to site, but we have assumed a figure of **£375k/ha, pro rata**
Affordable housing (Section 106)	Draft Local Plan	In line with the draft Tendring Local Plan we have tested schemes with a requirement for 25% council housing. As sensitivity tests, we have also tested 0%, 10% and 20%.
Section 106 assumptions for residential development	Tendring District analysis	See text above this table in section 5.3 onwards. No S106 is assumed to be paid for non-residential development.
Fees		
Architect	Industry	We assumed **8% of development costs** based on accepted

[26] DCLG (2010) *Code for Sustainable Homes – a Cost Review*
[27] Cyril Sweete for DCGL (2008) *Cost Analysis of The Code for Sustainable Homes*

Assumption	Source	Notes
	standard	industry standards
Marketing	Industry standard	We assume **2% of the Gross Development Value** based on accepted industry standards. For non-residential appraisals, we have assumed 10% of the first year's annual rental. This is supplemented with appropriate legal and marketing costs based on the quantum of development
Sales agent	Industry standard	**1% of Gross Development Value** on the market sale property for residential and commercial properties.
Sales legal	Industry standard	Approximately **£600 per unit for residential and £5,000-£20,000 per transaction on commercial** properties depending on the size and nature of the product.
Finance		
Finance	Industry standard	Residential: Finance costs assume an **interest rate of 7%.** We assume that all dwellings are sold within 12 weeks of practical completion. Commercial: Our finance charges for commercial projects are also **at 7%.**
Commercial	DCLG[28]	To take account of unoccupied property rates on commercial property during void periods. Rates are set by HM Treasury at **48.5 pence in the pound**.
Profit	Industry standard	This has been assessed at **20% on costs.** This is based on our knowledge of comparable schemes and on knowledge of institutions lending criteria. It represents a developer's minimum return on a speculative project. In practice this may vary with pre-let commercial projects being able to proceed with a reduced profit (reflecting the lower risk) and more speculative projects in uncertain markets requiring a higher profit margin. For non-residential appraisals, we also have assumed a 20% profit as a minimum return.

Source: PBA; various

[28] http://www.communities.gov.uk/localgovernment/localgovernmentfinance/businessrates/

6 Residential

6.1 Method

6.1.1 Setting zones requires us to marshal the 'appropriate available evidence' available from a range of sources in order to advise on the best way forward. We took the following steps.

- Our first step was to look at home prices. Sales prices of homes are a good proxy for viability. We downloaded Land Registry data to do this. These are only a first step and generate a range of options or hypotheses.
- Secondly, we talked to agents, developers and officers of the District Council. Together with Land Registry data, this allowed us to generate a main hypothesis.
- Thirdly, we tested this main hypothesis through formal development appraisals.

6.1.2 We explain this process below.

6.2 House prices

6.2.1 In advising on residential charging levels, our first step was to look at residential sales prices. Tendring has a range of housing types on offer, so it was appropriate to look at prices for all types of dwelling – detached, semi-detached, terraced and flatted properties.

In

6.2.2 **Figure 6.1**a-d below, we looked at the average sales prices of dwellings over a two-year period. Average prices are shown for each Census Standard Table (ST) ward.[29] Aside from the highest and lowest bands (which are tailored to actual values), average prices are broken in eight equal bands.

6.2.3 We have presented this data on a map because it allows us to understand the broad contours of residential prices in the Tendring area. Sales prices are a reasonable, though imperfect, proxy for development viability, so the map provides us with a broad idea of which areas would tend to have more viable housing developments, other things being equal.

6.2.4 It is worth noting that new homes are typically more expensive than second hand homes, but the prices we have mapped include both second hand and new homes. We used data on both new and second hand homes because, firstly, datasets on sales values for new homes only would be very much smaller (and so more unstable), and secondly, because at this stage it is the differentials between areas that we are seeking to identify, not the absolute price levels[30]. There were therefore good reasons to look at both new and second hand data.

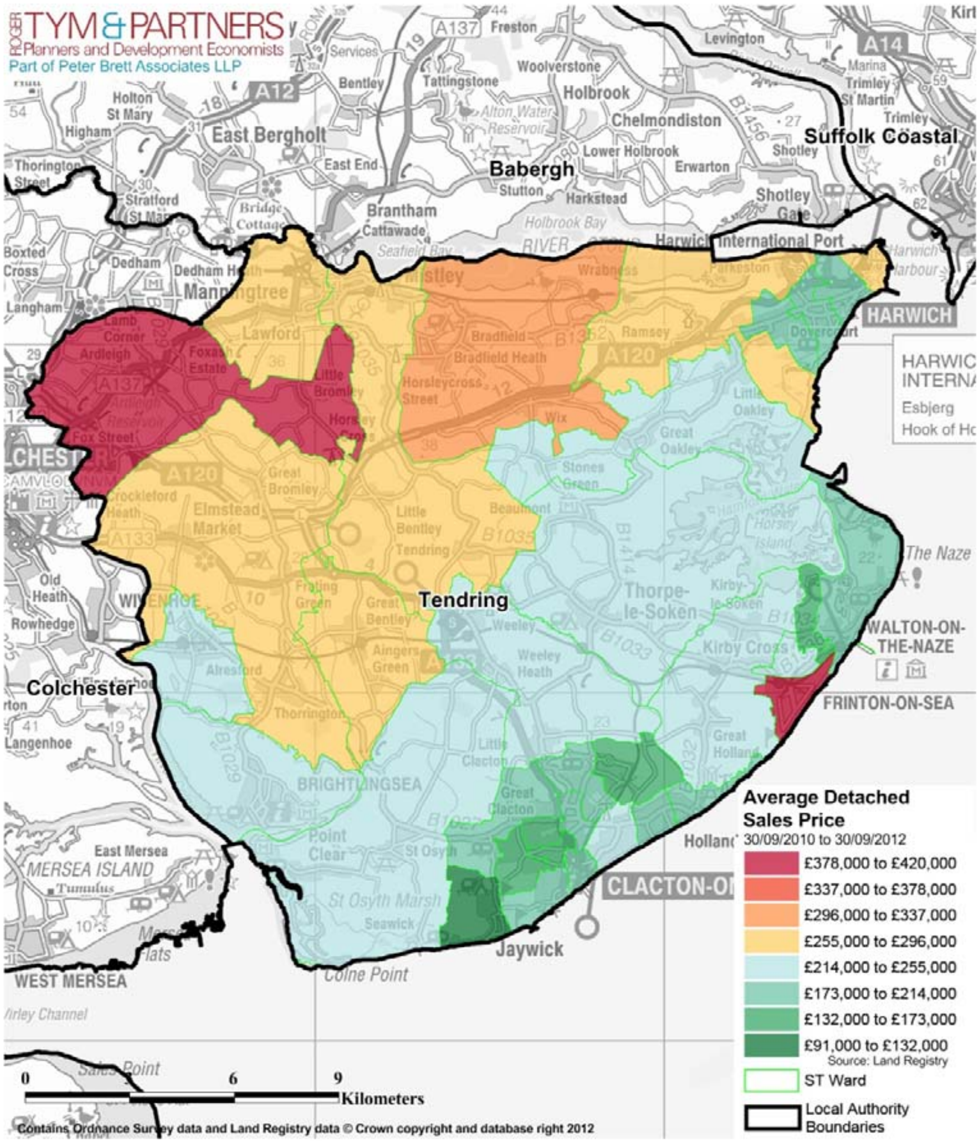
6.2.5 Figure 6.1a shows that, for detached properties:

- prices are generally high in locations close or adjacent to Colchester;
- prices are much lower in and around Clacton-on-Sea, Walton-on-Naze and parts of Harwich;
- the northern and western areas of Tendring tend to achieve reasonable values, which is most likely because of their proximity to Colchester.

6.2.6 Some of the more sparsely populated areas of the district have relatively few house sales, so the averages in those areas are more prone to distortion by a few transactions.

[29] ST wards are used because very precise boundary mapping exists which shows ward boundaries, and is not subject to the degree of change that electoral wards or postcode boundaries are subject to.
[30] Note that the map we have produced here is sophisticated, in that shows the results after eliminating the outlier values which skew the average. We have removed these outlier values using an accepted Interquartile Range test.

Figure 6.1a Average sales price of detached homes (Sept 2010-Sept 2012)

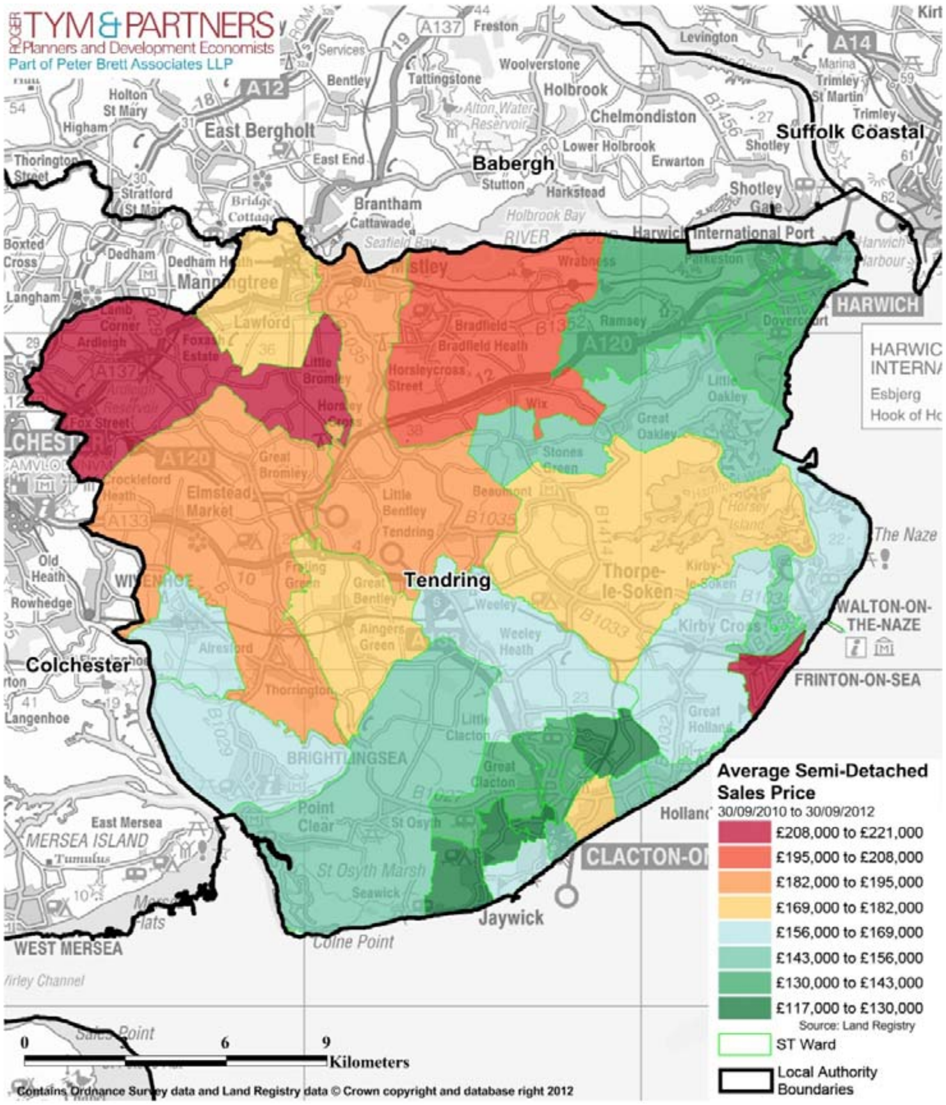


Source: Land Registry, PBA

6.2.7 Figure 6.1b shows that, for semi-detached properties:

- prices are dramatically lower across the whole of Tendring in comparison to detached properties;
- lower values are more pronounced in Clacton-on-Sea;
- much higher prices are experienced in Frinton-on-Sea;
- the northern and western parts of Tendring tend to perform better in value terms than the south and east coast.

Figure 6.1b Average sales price of semi-detached homes (Sept 2010-Sept 2012)

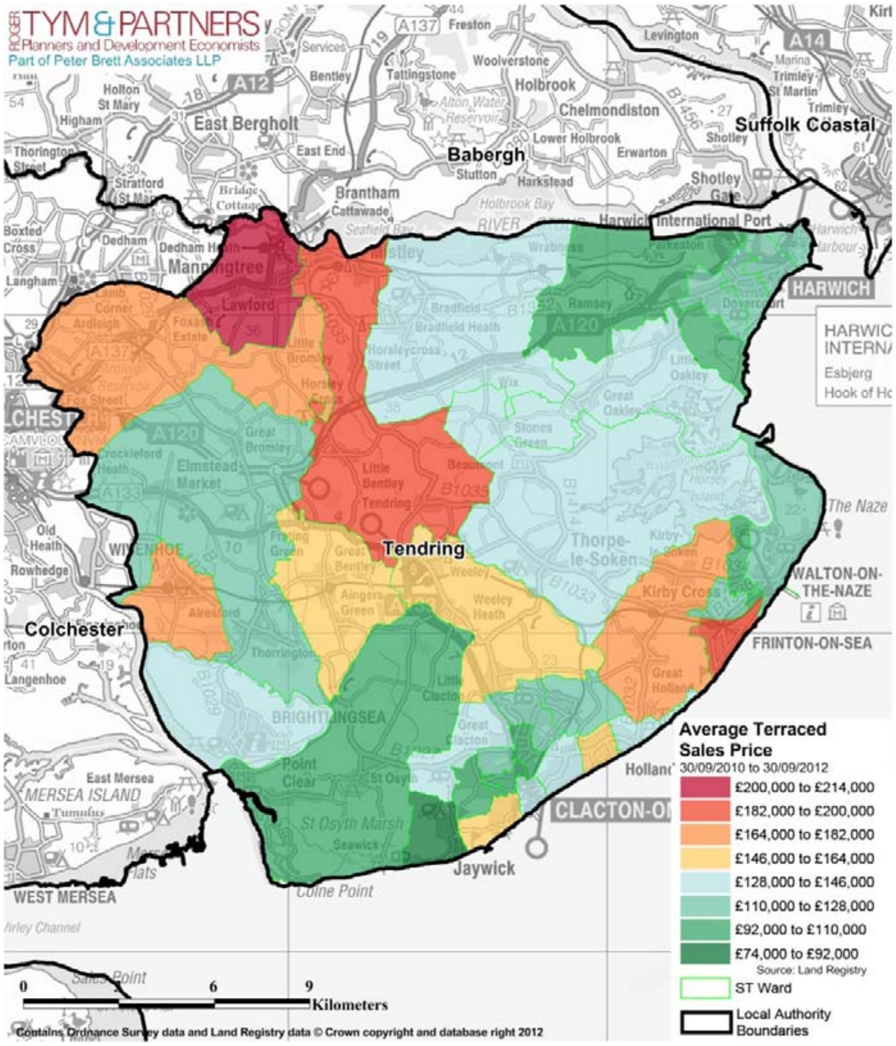


Source: Land Registry, PBA

6.2.8 Figure 6.1c shows that, for terraced properties:

- Within the upper tiers, prices mirror the upper tier pricing for semi-detached properties. i.e. it costs the same amount for a terraced property as it does to purchase a semi-detached property;
- higher prices are concentrated in and around the villages as well as Manningtree and Lawford;
- there are distinct pockets of low prices, around Clacton-on-Sea and Harwich; and
- in Frinton-on-Sea prices continue to fall within the upper sales tier.

Figure 6.1c Average sales price of terraced homes (Sept 2010-Sept 2012)

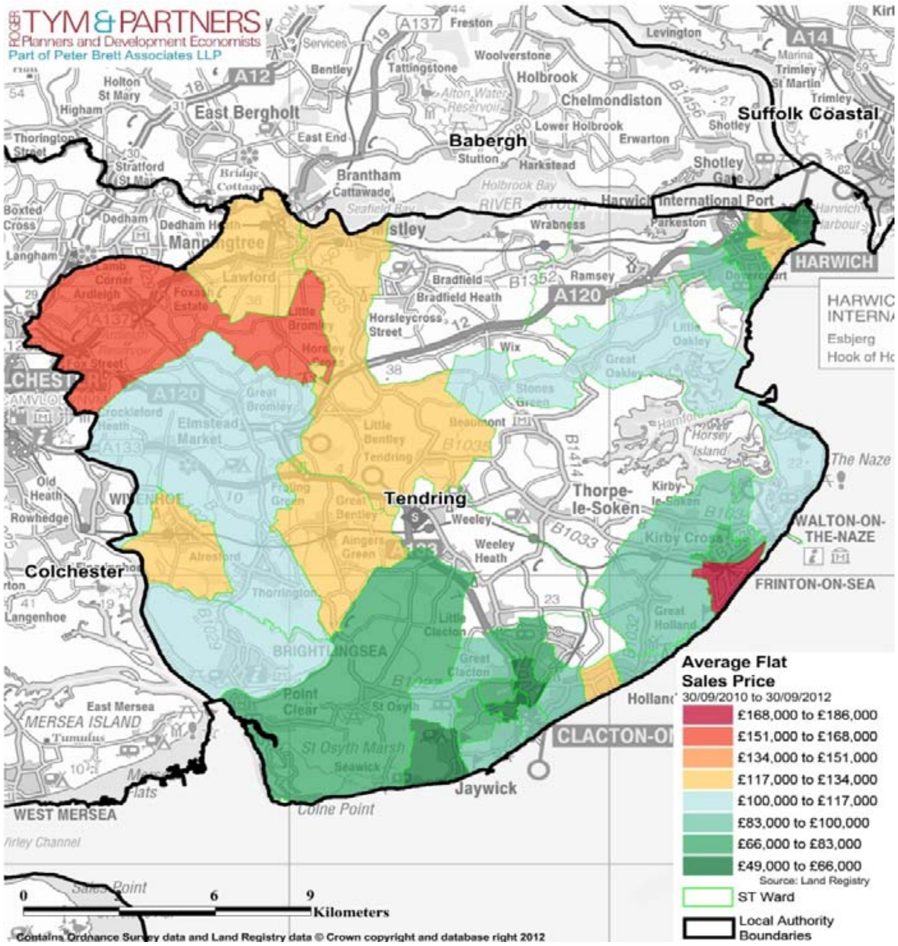


Source: Land Registry, PBA

6.2.9 Figure 6.1d shows that, for flatted properties:

- prices are at much higher in Manningtree, Lawford and Frinton-on-Sea;
- prices are noticeably lower than other dwelling types, particularly around Clacton-on-Sea;
- sales are concentrated around the main urban areas of Tendring with the more rural areas experiencing no transactions during this period for flats. This suggests that the market for flats outside of the main centres is limited as the bulk of the stock is typically found in central locations.

Figure 6.1d Average sales price of flatted properties (Sept 2010-Sept 2012)



Source: Land Registry, RTP

6.2.10 When looking across all property types, it is noticeable that there is a consistent picture of where the hotspots and 'coldspots' are. This suggests that, whilst there are some geographical differences, there is insufficient justification for creating more than one charging zone.

New build values

6.2.11 We talked to a range of sources on residential markets, including local agents and local housebuilders active in the Tendring area.

6.2.12 On average, new build properties are achieving the following:

- 2 bed apartment - circa £120,000
- 2 bed house – circa £135,000
- 3 bed house – between £160,000 and £200,000
- 4 bed house – between £220,000 and £240,000

Development appraisals

6.2.13 The above process only generates a broad hypothesis. In order to finalise the charge, we have to test the hypothesis through development appraisals.

6.2.14 Development appraisals are necessary to set a CIL, because the data used so far is only a proxy for viability testing, rather than a viability test in itself. Only development appraisals can properly combine the receipts and costs of development to arrive at an overall picture of viability. To explain:

- First, development appraisals use sales prices which relate to the last six months only, and relate to new dwellings specifically. To arrive at these prices we consulted with developers and agents who have been selling new housing over the last six months. By contrast, Land Registry prices presented cover the last two years and second-hand as well as new houses.
- Secondly, the results of the development appraisal (which shows the price that a developer can afford to pay for land) can be compared with prevailing benchmark land values (in effect, what the landowner will accept in order to sell the land). Benchmark values have an important bearing on the amount of CIL assumed to be available.

6.2.15 The appraisals confirmed that a single, district-wide approach was robust. We now discuss the findings of the appraisals in further detail.

6.3 Viability appraisal

6.3.1 In this section, we use development appraisals to advise on the possible levels at which CIL may be levied, ensuring that the bulk of development remains viable.

Scenarios tested

6.3.2 We have produced indicative development appraisals of hypothetical schemes, comprising:

- 15 units (70% family housing & 30% aspirational housing)
- 50 units (70% family housing & 30% aspirational housing)
- 100 units (70% family housing & 30% aspirational housing)
- 300 units (60% family housing, 30% aspirational housing & 10% flats)

6.3.3 Specifically, the choices of schemes to model were arrived at based on:

- schemes that were commonly delivered in the recent past;
- the provisional Site Allocations identified in the Local Plan Submission Draft as shown in Table 3.1.
- developer preference to bring forward sites in lot sizes of 50 units. In the case of the urban extensions, it is envisaged that these would also be delivered in 50 unit phases.

6.3.4 Benchmark land values were arrived at through consultations with developers and local agents and Land Registry data. Land values have an important bearing in achieving viable development as it is a significant (generally upfront) cost to the development. Land value is ultimately determined by negotiations between a willing landowner and a willing developer. A landowner will only sell if the offer price matches their own aspiration for the site.

6.3.5 This is the most difficult element of the appraisal assessment as it depends on a number of factors such as:

- The seller's need to sell the land and realise some income
- Historic prices paid/use for the land
- Price aspirations often based on what others historically have achieved in the area
- Availability of land – supply and competition for the land
- Size of plot and location
- Infrastructure and site remediation costs
- Development density
- End sale values, effective demand and the developer's attitude to risk
- Section 106 and other policy requirements that impact on the cost.

6.3.6 There is a shortage of transactional evidence available in the market, which makes it difficult to determine an appropriate benchmark land value. As such we have had to take into account transactions over a much longer period as well as considering historic changes in residential land values as provided by the Valuation Office Agency and Nationwide.

6.3.7 We also tested different affordable housing thresholds to understand the impact of lowering the draft affordable housing policy of 25%, on the potential charging levy. These assumed alternative affordable housing offers of 0%,10% and 20%.

Findings

6.3.1 Tables 6.2a - d summarise the residential development appraisals, based on the affordable policies described above. Individual detailed appraisals are at Appendix 1 below.

6.3.2 Our objective in these summary tables is to show, for each notional development scenario, how much money might be theoretically available for a CIL charge. The tables calculate the betterment, or overage produced by each scheme – which is the difference between the residual land value of the scheme and its benchmark land value, assuming at this stage that no district-level CIL is payable. This overage equals the maximum level of CIL per square metre that the scheme may be able to carry, while still remaining viable. Given the uncertainties surrounding viability appraisal, it is of course an approximate number, surrounded by a wide margin of uncertainty. We take account of this uncertainty in our recommendations.

6.3.3 Reading the tables from left to right, successive columns are as follows:

- Scenario – defines the scheme

- Number and type of units (in this case, all houses and no flats)
- Net site area
- Floorspace gross chargeable – the accommodation within the scheme liable to CIL, equal to the floorspace of market housing (affordable housing is not liable).
- Residual value - £ per hectare. The residual value is produced by an indicative appraisal using Argus software. The method and assumptions used in this appraisal are described in the report. Briefly, the residual site value is the difference between the value of the completed development and the cost of that development, and developer's profit.
- Residual value per sqm – the residual land value of the site, divided by the chargeable floorspace.
- Benchmark land value – the estimated minimum a developer would typically need to pay to secure a site of this kind, expressed in £ per ha.
- Benchmark land value per sqm - the benchmark land value of the site, divided by its chargeable floorspace.
- Overage per ha – the difference between the Residual land value and the benchmark land value. As noted earlier, this overage is an estimate of the CIL 'ceiling' – the maximum CIL that could be charged consistent with the development being financially viable, expressed per ha.
- Overage per sqm gross chargeable. Calculated by deducting the benchmark land value per sqm from the residual value per gross chargeable sqm to produce the overage per sqm. Again, this 'overage' is an estimate of the CIL 'ceiling', this time expressed as a rate per sqm. Given the uncertainties surrounding viability appraisal, it is of course an approximate indicator, which should be used cautiously.

Figure 6.1 Map showing boundaries of possible CIL zones

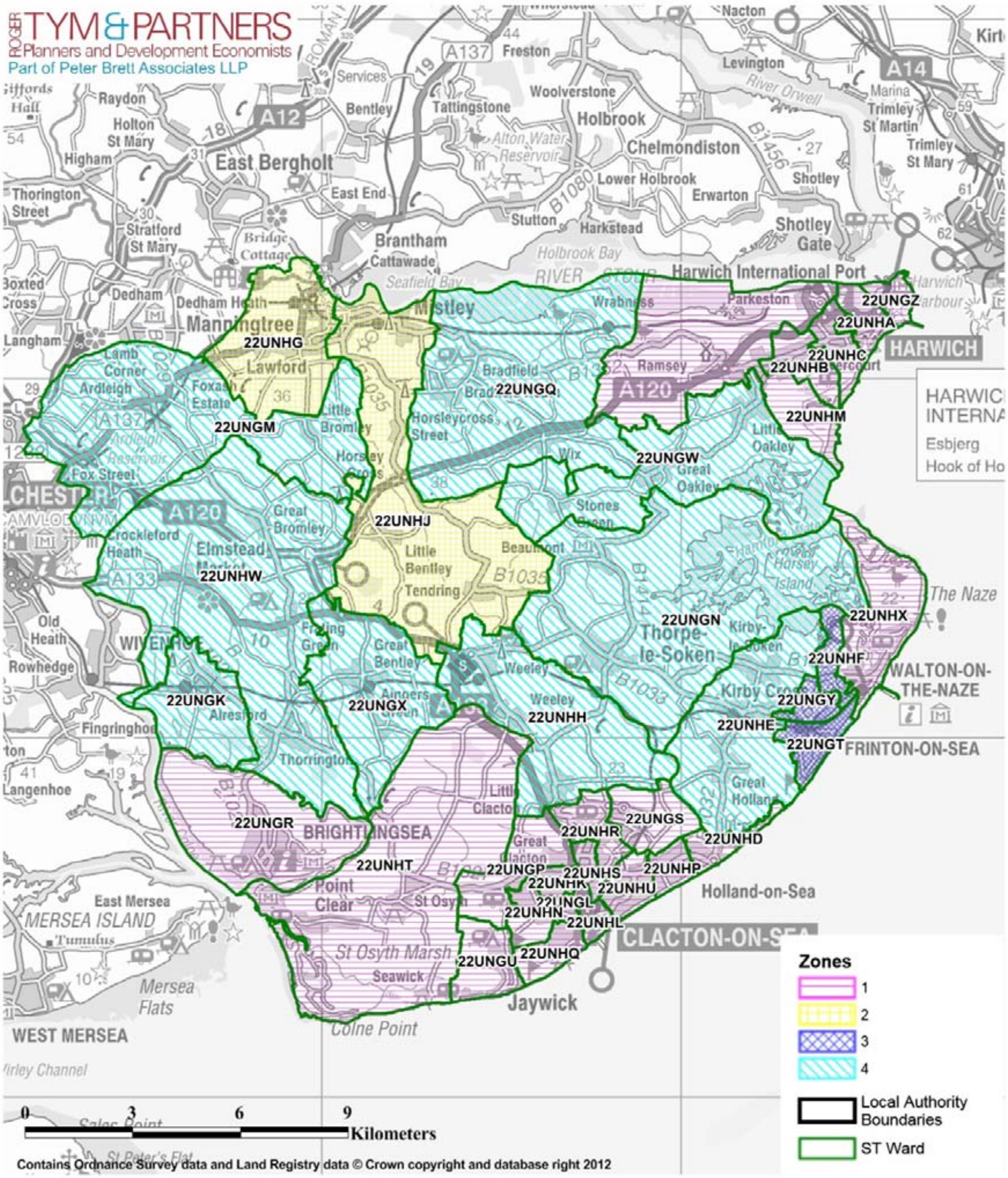


Table 6.2a Summary Viability Assessment, Residential with 25% Affordable Housing

Ref	Net site area ha	No of dwellings	Density	Chargeable Floor Space per sq.m	Residual Land Value		Benchmark		CIL Overage	
					Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Zone 1 - Clacton-on-Sea/Harwich/Walton-on-Naze/Brightlingsea										
Scenario 1	0.50	15	30	1,431	£248,701	£87	£494,000	£173	-£245,299	-£86
Scenario 2	1.67	50	30	3,600	£242,149	£85	£494,000	£173	-£251,851	-£88
Scenario 3	3.33	100	30	9,540	£233,748	£82	£494,000	£173	-£260,252	-£91
Scenario 4	10.00	300	30	27,236	£284,453	£101	£494,000	£175	-£209,547	-£74
Zone 2 - Manningtree/Lawford										
Scenario 1	0.50	15	30	1,431	£796,209	£278	£865,000	£302	-£68,791	-£24
Scenario 2	1.67	50	30	3,600	£776,048	£271	£865,000	£302	-£88,952	-£31
Scenario 3	3.33	100	30	9,540	£750,200	£262	£865,000	£302	-£114,800	-£40
Scenario 4	10.00	300	30	27,236	£777,763	£276	£865,000	£307	-£87,237	-£31
Zone 3 - Frinton-on-Sea										
Scenario 1	0.50	15	30	1,431	£1,341,182	£469	£1,235,000	£432	£106,182	£37
Scenario 2	1.67	50	30	3,600	£1,307,476	£457	£1,235,000	£432	£72,476	£25
Scenario 3	3.33	100	30	9,540	£1,264,260	£442	£1,235,000	£432	£29,260	£10
Scenario 4	10.00	300	30	27,236	£1,268,790	£450	£1,235,000	£438	£33,790	£12
Zone 4 - Rural Villages										
Scenario 1	0.50	15	30	1,431	£1,341,182	£469	£1,235,000	£432	£106,182	£37
Scenario 2	1.67	50	30	3,600	£1,307,476	£457	£1,235,000	£432	£72,476	£25

Table 6.2b: Summary Viability Assessments, Residential with 20% Affordable Housing

Ref	Net site area ha	No of dwellings	Density	Chargeable Floor Space per sq.m	Residual Land Value		Benchmark		CIL Overage	
					Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Zone 1 - Clacton-on-Sea/Harwich/Walton-on-Naze/Brightlingsea										
Scenario 1	0.50	15	30	1,526	£334,231	£109	£494,000	£162	-£159,769	-£52
Scenario 2	1.67	50	30	3,840	£325,553	£107	£494,000	£162	-£168,447	-£55
Scenario 3	3.33	100	30	10,176	£314,426	£103	£494,000	£162	-£179,574	-£59
Scenario 4	10.00	300	30	29,052	£361,050	£120	£494,000	£164	-£132,950	-£44
Zone 2 - Manningtree/Lawford										
Scenario 1	0.50	15	30	1,526	£898,473	£294	£865,000	£283	£33,473	£11
Scenario 2	1.67	50	30	3,840	£875,770	£287	£865,000	£283	£10,770	£4
Scenario 3	3.33	100	30	10,176	£846,663	£277	£865,000	£283	-£18,337	-£6
Scenario 4	10.00	300	30	29,052	£869,205	£289	£865,000	£288	£4,205	£1
Zone 3 - Frinton-on-Sea										
Scenario 1	0.50	15	30	1,526	£1,460,102	£478	£1,235,000	£405	£225,102	£74
Scenario 2	1.67	50	30	3,840	£1,423,440	£466	£1,235,000	£405	£188,440	£62
Scenario 3	3.33	100	30	10,176	£1,376,436	£451	£1,235,000	£405	£141,436	£46
Scenario 4	10.00	300	30	29,052	£1,375,008	£457	£1,235,000	£411	£140,008	£47
Zone 4 - Rural Villages										
Scenario 1	0.50	15	30	1,526	£1,460,102	£478	£1,235,000	£405	£225,102	£74
Scenario 2	1.67	50	30	3,840	£1,423,440	£466	£1,235,000	£405	£188,440	£62

Table 6.2c: Summary Viability Assessments, Residential with 10% Affordable Housing

Ref	Net site area ha	No of dwellings	Density	Chargeable Floor Space per sq.m	Residual Land Value		Benchmark		CIL Overage	
					Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Zone 1 - Clacton-on-Sea/Harwich/Walton-on-Naze/Brightlingsea										
Scenario 1	0.50	15	30	1,717	£505,289	£147	£494,000	£144	£11,289	£3
Scenario 2	1.67	50	30	4,320	£492,359	£143	£494,000	£144	-£1,641	-£0
Scenario 3	3.33	100	30	11,448	£475,782	£139	£494,000	£144	-£18,218	-£5
Scenario 4	10.00	300	30	32,684	£514,244	£152	£494,000	£146	£20,244	£6
Zone 2 - Manningtree/Lawford										
Scenario 1	0.50	15	30	1,717	£1,103,000	£321	£865,000	£252	£238,000	£69
Scenario 2	1.67	50	30	4,320	£1,075,214	£313	£865,000	£252	£210,214	£61
Scenario 3	3.33	100	30	11,448	£1,039,589	£303	£865,000	£252	£174,589	£51
Scenario 4	10.00	300	30	32,684	£1,052,089	£311	£865,000	£256	£187,089	£55
Zone 3 - Frinton-on-Sea										
Scenario 1	0.50	15	30	1,717	£1,697,944	£494	£1,235,000	£360	£462,944	£135
Scenario 2	1.67	50	30	4,320	£1,655,370	£482	£1,235,000	£360	£420,370	£122
Scenario 3	3.33	100	30	11,448	£1,600,786	£466	£1,235,000	£360	£365,786	£107
Scenario 4	10.00	300	30	32,684	£1,587,444	£469	£1,235,000	£365	£352,444	£104
Zone 4 - Rural Villages										
Scenario 1	0.50	15	30	1,717	£1,697,944	£494	£1,235,000	£360	£462,944	£135
Scenario 2	1.67	50	30	4,320	£1,655,370	£482	£1,235,000	£360	£420,370	£122

Table 6.2d: Summary Viability Assessment, Residential with no Affordable Housing

Ref	Net site area ha	No of dwellings	Density	Chargeable Floor Space per sq.m	Residual Land Value		Benchmark		CIL Overage	
					Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
Zone 1 - Clacton-on-Sea/Harwich/Walton-on-Naze/Brightlingsea										
Scenario 1	0.50	15	30	1,717	£746,232	£196	£494,000	£129	£252,232	£66
Scenario 2	1.67	50	30	4,320	£727,314	£191	£494,000	£129	£233,314	£61
Scenario 3	3.33	100	30	11,448	£703,058	£184	£494,000	£129	£209,058	£55
Scenario 4	10.00	300	30	32,684	£729,550	£194	£494,000	£131	£235,550	£63
Zone 2 - Manningtree/Lawford										
Scenario 1	0.50	15	30	1,717	£1,377,412	£361	£865,000	£227	£512,412	£134
Scenario 2	1.67	50	30	4,320	£1,342,805	£352	£865,000	£227	£477,805	£125
Scenario 3	3.33	100	30	11,448	£1,298,435	£340	£865,000	£227	£433,435	£114
Scenario 4	10.00	300	30	32,684	£1,297,084	£345	£865,000	£230	£432,084826	£115
Zone 3 - Frinton-on-Sea										
Scenario 1	0.50	15	30	1,717	£2,005,669	£526	£1,235,000	£324	£770,669	£202
Scenario 2	1.67	50	30	4,320	£1,955,447	£512	£1,235,000	£324	£720,447	£189
Scenario 3	3.33	100	30	11,448	£1,891,057	£496	£1,235,000	£324	£656,057	£172
Scenario 4	10.00	300	30	32,684	£1,861,991	£495	£1,235,000	£329	£626,991	£167
Zone 4 - Rural Villages										
Scenario 1	0.50	15	30	1,717	£2,005,669	£526	£1,235,000	£324	£770,669	£202
Scenario 2	1.67	50	30	4,320	£1,955,447	£512	£1,235,000	£324	£720,447	£189

6.3.4 Table 6.2a shows that with 25% affordable housing the notional development scenarios are either on the margins of viability or in some case are not viable. This is particularly apparent in Zone 1 (Clacton/Harwich/Walton-on-the-Naze/Brightlingsea) and Zone 2 (Manningtree/Lawford). Viability improves in Zone 3 (Frinton-on-Sea) and Zone 4 (Rural Villages), with schemes generating enough overage to justify a small charge for CIL.

6.3.5 As the amount of affordable housing is reduced, more of the hypothetical schemes across the district are able to sustain a CIL charge. However, Table 6.2d shows that the residential schemes in Zone 1 can only sustain a CIL charge if no affordable housing is provided. In all instances the 300 unit development scenario cannot support a charge.

6.3.6 If the Council does not wish to alter their proposed affordable housing policy of 25%, then it is difficult to justify a CIL charge on all residential schemes. A small CIL charge could be imposed on new residential development in Zones 3 and 4, but we would recommend that the rate set is low - in our opinion, this should be no greater than £15 per square metre. We would also point out that the Council, through its provisional site allocations, anticipates the amount of residential development in these locations to be small in totality, i.e. just over 400 new homes. We would advise the Council to give some consideration to this total receipt – potentially less than £1m - versus their ability to increase this amount by charging CIL on more schemes by lowering the affordable housing requirement.

6.4 Possible charge ranges

6.4.1 As discussed earlier, Government guidance indicates that charges should be below the viability ceiling, which is estimated in the last column of Tables 6.2a-d. We wish to ensure that all development scenarios remain viable in each charging band.

6.4.2 The main reason for avoiding the maximum rate is that our estimates are surrounded by a degree of uncertainty. As noted earlier, while our appraisals relate to typical, or average, developments at the present time, in real life viability will vary widely across individual schemes and over time.

6.4.3 If charging rates were equal to the ceiling, there would be a high probability, or risk, that a large proportion of development would be rendered unviable by the charge.

6.4.4 The greater the gap between the ceiling and the charge, the smaller will be that risk. How great a risk is acceptable, is of course a matter of judgment. We have used our own professional judgment to arrive at our recommendations.

6.4.5 Table 6.3 below sets out our recommended charge for each of the zones, depending on the amount of affordable housing required.

Table 6.3: Summary of Recommended CIL Rates by Zone

	Affordable Housing Requirement			
CIL (£ psm)	**25%**	**20%**	**10%**	**0%**
Zone 1: Clacton-on-Sea/Harwich/ Walton-on-Naze/Brightlingsea	£0	£0	£0	£20
Zone 2: Manningtree/Lawford	£0	£0	£20	£40
Zone 3: Frinton-on-Sea	£15	£20	£40	£60
Zone 4: Rural Villages	£15	£20	£40	£60

6.4.6 Our assessment has revealed that the key issue on the viability testing relates to the affordable housing policy across the district. This suggests that if current affordable housing policy remains in place then there is little potential to raise CIL against the majority of future residential development. If development is not redirected to the higher value areas, then we would recommend some reduction to the current affordable housing requirement is made if the Council wish to implement a CIL levy.

7 Commercial B-class uses

7.1 Market overview

7.1.1 The bulk of the supply of B-class uses is concentrated in and around Clacton-on-Sea and Manningtree. The market is dominated by secondary accommodation and there is a limited amount of purpose built office space. Some new industrial units have been built by Coastwind Ltd at Gorse Lane Industrial Estate which is Clacton-on-Sea's main employment area.

7.2 Viability analysis

7.2.1 We have produced indicative commercial development appraisals of hypothetical schemes. These include:

- A typical 2-3 storey, office business park-style scheme, extending to 465 sq m.
- A 3,500 sq m industrial scheme, which could either be let as a single unit or subdivided into smaller units.

7.2.2 The appraisals presented at Table 7.1 conclude that B-class development does not generate any overage that could be captured by CIL. In general we anticipate that commercial development will be limited in the short to medium term.

7.2.3 Current lending conditions also make it difficult for the private sector to raise the necessary funding to develop an entirely speculative scheme. The banks currently require around half the scheme to be pre-let which coupled with the relatively low returns is halting development.

7.3 Possible charge ranges

7.3.1 We conclude that based on our research, commercial uses are currently not viable. We therefore recommend that a CIL charge should not be set for this type of development.

Table 7.1: Summary Viability Assessment - Offices

No. of Units	Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
			Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
1	0.08	465	-5,872,425	-£12,629	£617,500	£1,328	-£5,254,925	-£11,301

Table 7.2: Summary Viability Assessment - Industrial

No. of Units	Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
			Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
1	1	3,500	-£962,596	-£275	£247,000	£71	-£715,596	-£204

8 Retail

8.1 Defining retail categories

8.1.1 In this analysis of retail viability, we make an important distinction between convenience and comparison units. These distinctions are based on the definitions provided at Annex B of PPS4,[31] which we have slightly reworded to fit the present context (the Annex B definition discussion applies to goods, but we wish to define the sales units in which those goods are sold).

8.1.2 In March 2012, PPS4 was superseded by the National Planning Policy Framework (NPPF). The NPPF does not define different categories of retail goods. This does not cause difficulties for this study, because the definitions provided below do not rely on PPS4. We do not rely on PPS4 to support a particular policy stance, or use it to justify a particular definition. Instead, we use PPS4 as analytical support to help us clearly distinguish between particular types of retailing commonly observable in the marketplace, and to provide reassurance that these distinctions are not ours alone.

8.1.3 A *convenience unit* is a shop or store selling mainly everyday essential items, including food, drinks, newspapers/magazines and confectionery.

8.1.4 A *comparison unit* is a shop or store selling mainly goods which are not everyday essential items. Such items include clothing, footwear, household and recreational goods.

8.1.5 Some stores sell a mixture of convenience and comparison goods. In those instances, a store should be categorised as being having convenience or comparison status according to its main use (our definition above defines convenience and comparison units as shops or stores selling *mainly* these types of items). We have used this phrasing carefully, and in this have taken the lead from the way that PPS4 defines superstores.[32]

8.1.6 Additional precision on the types of goods sold in convenience and comparison stores can be taken from Appendix A of the PPS4 companion document *Practice guidance on need, impact and the sequential approach*.[33] It is worth noting that this document remains in use following the introduction of the NPPF.

[31] DCLG (2009) *Planning Policy Statement 4: Planning for Sustainable Economic Growth*
[32] DCLG (2009) *Planning Policy Statement 4: Planning for Sustainable Economic Growth* (27) Annex B provides the following definition. Superstores: Self-service stores selling **mainly** food, or food and non-food goods, usually with more than 2,500 square metres trading floorspace, with supporting car parking.
[33] DCLG (2009) *Practice guidance on need, impact and the sequential approach.* Appendix A lists Convenience goods as follows: food and non-alcoholic beverages, Tobacco, Alcoholic beverages (off-trade), newspapers and periodicals, non-durable household goods. Appendix A lists Comparison goods as follows: Clothing materials & garments, Shoes & other footwear, Materials for maintenance & repair of dwellings, Furniture & furnishings; carpets & other floor coverings, Household textiles, Major household appliances, whether electric or not, Small electric household appliances, Tools & miscellaneous accessories, Glassware, tableware & household utensils, Medical goods & other pharmaceutical products, Therapeutic appliances & equipment, Bicycles, Recording media, Games, toys & hobbies; sport & camping equipment; musical instruments, Gardens, plants & flowers, Pets & related products, Books & stationery, Audio-visual, photographic and information processing equipment, Appliances for personal care, Jewellery, watches & clocks, Other personal effects.

8.2 Market overview

Comparison retailing

8.2.1 Work by Deloitte on the future for retailing is pessimistic, suggesting that 'reductions in store numbers of 30-40% are foreseeable over the next 3-5 years.'[34] The effects are seen to be increased vacancy rates, decreasing prime rents, and increasingly flexible rental terms, including shorter rental terms, lease free periods, shorter break clauses and monthly, as opposed to quarterly, rents[35]. Other reports describe a similar picture[36].

8.2.2 Within the category of comparison retailing, it is possible to make a useful distinction between town centre high-street type retailing and edge of town centre shed-type retailing.

Town centre high-street type retailing

8.2.3 With the exception of Central London, town centre (high street) comparison retailing in the UK is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. There have been a number of insolvencies, and the traditional high-street operators are frequently struggling, particularly in secondary retail locations such as those in Tendring's town centres. Colliers retail market report (Autumn 2011) states that:

> *'Secondary retail locations will continue to suffer as a result of the growing consumer trend of fewer shopping trips and the focus on the large retail destinations and online. Furthermore, daily/weekly shopping that would once have taken place in the local town centre is increasingly shifting to supermarkets, which now provide a wide range of comparison goods and services alongside the traditional convenience offer. Put simply, many towns do not need the same number of shops that historical trends justified and, thus, unless this outdated retail stock is converted into another use, the vitality of these town centres will continue to diminish'.*

8.2.4 Developers in the sector have therefore being going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.

Edge-of-town warehouse operations and retail parks

8.2.5 Tendring tends not to have major out-of-town developments. Instead, there is more likely, if anything, to be edge-of-town, small warehouse operations.

8.2.6 Nationally, this type of warehouse operation (and larger retail parks) is performing better than in-town retailing. This is reflected in historical performance. The Portas report states that 'Shoppers have been flocking out of town. This shows up starkly in the statistics – in the

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[34] Deloitte (2012) *The changing face of retail: The store of the future* (2) see https://www.deloitte.com/view/en_GB/uk/industries/consumer-business/28098047f3685310VgnVCM3000001c56f00aRCRD.htm
[35] Ibid (9)
[36] Financial Times December 29 2011 *UK retail insolvencies expected to soar*

last decade the amount of out-of-town retail floorspace has risen by 30% while that in-town has fallen by 14%.'[37]

8.2.7 While the long term trend suggests that out-of-town (and online) shopping is doing considerably better than in-town retail The sector has had difficulties, with the failure of retailers such as Focus DIY and Allied Carpets, but the market is gradually reabsorbing vacant space. Colliers research reports that across the retail warehouse sector as a whole, vacancy rates improved slowly from 5.8% to 3.5% from 2010 to 2011.[38]

8.2.8 Much depends on the specifics of any scheme. Colliers report that when well located, high quality sites 'come to the market competition is fierce', but this is not a consistent picture.[39] Colliers research states that 'added value can usually only be achieved by the construction of new rentalised space or substantial sub-division, creating a number of new smaller units that attract much higher rents per square foot'.[40]

Convenience retail

8.2.9 Convenience retailing operates in a very different market segment to comparison retailing.

8.2.10 The convenience retail sector continues to perform well, with operators seeking to continually expand market share by the development of new store formats and the securing of prime locations both in town and out of town. IGD (international food and grocery analysts) state that the UK convenience sector is projected to increase sales by 5.8% per year to £42.6bn in 2015.[41] Local Data Company analysis shows that Tesco, Morrisons and Waitrose are all opening, or planning to open, new stores. Morrisons in particular has announced plans to open 300 'M Local' convenience stores across the UK by 2015.[42] These levels of activity nationally suggest that there may be planning applications for this type of retail floorspace in future.

8.2.11 Within convenience retail, viability is remarkably insensitive to precise location. Data from CBRE shows that grocery viability is similar in locations throughout the UK with a premium being paid for schemes in London. There is very little investment adjustment (around 1% on yield) between major supermarket developments based on the transactional evidence for leases of similar length and terms

8.2.12 Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions.

Charging zones

8.2.13 The analysis above suggests that a separate charging zone for convenience retail is not necessary, given that viability is not sensitive to precise location. However, we looked at

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[37] Portas, M (2011) *The Portas Review* (10)
[38] Colliers (2011) *Midsummer Retail Report* (30)
[39] Colliers (2011) *Midsummer Retail Report* (30)
[40] Colliers (2011) *Midsummer Retail Report* (30)
[41] http://www.globalcstorefocus.com/cgi-bin/newsletter.pl?edition=201101&this_page=5
[42] Local Data Company newsletter 'A Week On The High Street' Monday 6th February - Friday 10th February 2012

different types of schemes which would be appropriate for town centres and edge-of-centre locations.

8.2.14 The situation for comparison retail is more equivocal. Different locations determine the type of comparison retail development likely; for example, it is fundamentally contrary to national and local planning policy for a retail warehouse with car park to be developed in the retail core area of, say, Clacton-on-Sea.

8.2.15 We therefore investigated the difference in viability between in-town comparison retail in Tendring's town centres and edge-of-centre comparison retail. When investigating viability with interviewees, it was not necessary to precisely define the boundaries of town centres and edge of centre developments with reference to a map. This was implicit, given the type of development we were investigating.

8.2.16 As we show below, the results of our viability testing determined our recommendations on the way that the District Council structure the retail charge.

8.3 Viability analysis

Scenarios modelled

8.3.1 We have produced indicative development appraisals of hypothetical schemes, comprising:

Comparison retailing:

- a 465 sq m in-town high street scheme,
- a 929 sq m edge of town/out of town centre retail park type scheme.

Convenience retailing:

- a larger edge of town/out of town centre grocery store of 4,000 sq m;
- an in-town Metro-style grocery store of 465 sq m scheme.

8.3.2 Table 8.1 to 8.4 summarise the development appraisals for each type of retail development, at this stage assuming that no CIL is chargeable. The appraisals themselves are at Appendix 1.

Comparison retailing

Modelling the in-town high street comparison retail scheme

8.3.3 It is difficult to model the viability of town centre retail development, as values are usually more sensitive to location, footfall patterns and sizes of unit than office or residential development. These patterns can lead to large variations in values – even on the same street. Our response is therefore to adopt 'overall' rental values to understand the broad potential range of comparison retail viability across Tendring's town centres.

8.3.4 The results of our viability assessment are summarised in Table 8.1. This shows that in-town high street comparison retail is marginally viable. We would caution setting a CIL charge as this sector of the retail market is a particular fragile. Investment in secondary town centres has been poor and many are struggling as a result of the economic downtown. Any additional costs that retail businesses and investors have to bear through the planning system could lead to centres such as Clacton-on-Sea declining further.

Modelling the edge-of-centre retail park scheme

8.3.5 Our approach was to look at how an edge-of-centre retail park type scheme might work using a cost of land typical for Tendring. There is no requirement to undertake different scenarios based on different locations around Tendring, because:

- land is not the most significant cost of these developments, which reduces the influence of location on viability;
- the planning system controls the location of these developments to areas which typically have roughly comparable land prices, which again reduces the influence of location on viability; and
- occupier covenant (i.e. the financial strength of the occupier company) is frequently the most important component of viability in these developments. This factor is not spatially determined.

8.3.6 The results of our viability assessment are summarised in Table 8.2. The theoretical maximum CIL charge is shown on the far right column of the table.

8.3.7 Viability modelling suggests that this type of development is not viable.

8.4 Possible charge ranges

Convenience retailing

8.4.1 We have undertaken viability testing on convenience retailing. In the scenarios tested, we have concluded the following:

- Comparison retailing
  - High street retailing is only marginally viable
  - Retail warehousing is unviable
- Convenience retailing:
  - Larger out-of-centre supermarkets can bear a reasonably high charge, between £85 and £100 per square metre
  - In-town convenience retail stores can also bear a reasonably high charge, , between £85 and £100 per square metre

8.4.2 Tables 8.3 to 8.4 summarise our appraisals. The theoretical maximum CIL charge is shown on the far right column of the tables below.

Table 8.1: Summary Viability Assessment - 465 sq m in-town high street comparison retail scheme

Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
		Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
0.08	465	£2,846,540	£490	£2,600,000	£447	£246,590	£42

Table 8.2: Summary Viability Assessment - 929 sq m edge of town/out of town centre comparison retail warehouse scheme

Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
		Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
1	929	-42,837	-£46	£1,605,500	£1,728.20	-£1,648,337	-£1,774

Table 8.3: Summary Viability Assessment - 4,000 sq m edge of town/out of town centre convenience retail store

Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
		Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
0.80	4,000	£3,926,798	£785	£2,600,000	£520	£1,326,798	£265

Table 8.4 Summary Viability Assessment - 465 sq m in-town convenience retail store

Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
		Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
0.10	465	£3,663,616	£788	£2,600,000	£559	£1,063,616	£229

9 Care Homes

9.1.1 Tendring District Council considers that it may see applications for care homes in the near future and asked that the study investigate the viability of this development.

9.1.2 **Defining the sector**

9.1.3 We have defined this sector as follows.[43]

- Residential care homes (now generally referred to simply as care homes) are residential settings where a number of older people live, usually in single rooms, and have access to on-site care services. People have their own bedrooms but share all communal facilities including lounges, dining rooms. Meals are provided. A home registered simply as a care home will provide personal care only - help with washing, dressing and giving medication. Some care homes are registered to meet a specific care need, for example dementia or terminal illness.

- What used to be called nursing homes are now called care homes with nursing. These settings will provide the same personal care but also have a qualified nurse on duty twenty-four hours a day to carry out nursing tasks. These homes are for people who are physically or mentally frail or people who need regular attention from a nurse.44 Homes registered for nursing care may accept people who just have personal care needs but who may need nursing care in the future.

9.1.4 These uses fall under the C2 (residential institutions) use class.

9.1.5 We are carefully distinguishing this type of provision from retirement flats and quasi-retirement accommodation sometimes known as assisted living apartments. The term assisted living or 'extra care housing' is used to describe developments that comprise self-contained homes with design features and support services available to enable self- care and independent living. These types of development are included in the C3 category and are chargeable under the residential rate.

9.2 Market overview

9.2.1 Nationally, the care home market remains difficult following the banking crisis. Any new care home development is currently limited to the national corporate operators and even then only four or five have funding in place to build new schemes. Acquisitions are highly selective with operators preferring sites in affluent locations where the service users are able to self fund their care.

9.3 Viability analysis

9.3.1 Table 9.1 below summarises our appraisal. The theoretical maximum CIL charge is shown on the far right column of the tables below. This shows that the viability of care home uses is at the margins of viability.

[43] Definition derived from the Elderly Accommodation Counsel http://www.housingcare.org/jargon-residential-care-homes.aspx and *Guidance /Technical Paper on Older People's Housing and the Private Sector* provided by WDC staff to the consultant team 2 May 2012.
[44] http://www.firststopcareadvice.org.uk/jargon-care-home.aspx

9.4 Possible charge ranges

9.4.1 We cannot confidently recommend a CIL charge without commissioning separate, detailed research from specialist valuers. It will be for the District Council to decide whether this research is worthwhile; whether or not to commission this work will depend on an estimate of the amount of revenue a charge might raise.

9.4.2 In the absence of this research, we recommend that a CIL charge should not be set for care homes and care homes with nursing.

Table 9.1: Summary Viability Assessment, Care Home

Site Area Ha	Total GIA sq m	Residual Land Value		Benchmark Land Value		CIL Overage	
		Per Ha	Per £psm	Per Ha	Per £psm	Per Ha	Per £psm
0.50	3,000	488,957	£81	£2,600,000	£433	-£2,111,043	-£352

10 Summary

10.1.1 In this section we make recommendations on a Preliminary Draft Charging Schedule.

10.1.2 The table below sets out the recommended charges, assuming current affordable housing policy is reduced to 10%.

Table 10.1: Possible charging rates for Tendring CIL – 10% affordable housing

Development	CIL charge (£ per sqm)
Residential:	
Zone 1	£0
Zone 2	£20
Zone 3	£40
Zone 4	£40
Offices	£0
Industrial	£0
Retail:	
Comparison	£85 - £100
Convenience	£85 - £100
Care Home	£0