



rhondda cynon taf

community infrastructure levy

ardoll seilwaith cymunedol

COMMUNITY INFRASTRUCTURE LEVY

Clarification Note of Council's Viability Evidence

Date 11th April 2014

1.0 Purpose of note

1.1 At the request of the Inspector examining the Council's proposed CIL, the Council has prepared this note to summarise its viability evidence.

1.2 In particular this note provides the context to the additional work undertaken by the District Valuer Services (DVS) in October 2013 (CD6) and explains the relationship of this work with the original study (CD5).

2.0 Original DVS Study

2.1 In conjunction with Caerphilly County Borough Council and Merthyr Tydfil County Borough Council, Rhondda Cynon Taf County Borough Council commissioned the DVS to prepare an economic viability study to support the development of a CIL charge across the three Boroughs.

2.2 This study is submission document CD5 – 'Study into the Economic Viability of Charging Community Infrastructure Levy in Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf County Borough Council's (District Valuer Services 2012)'.

2.3 This study was the primary evidence document during the Preliminary Draft and Draft Charging Schedule consultations and remains the Council's key evidence base.

3.0 Objections to Draft Charging Schedule Consultation

HBF/Savills

3.1 Their objections are set out at submission document REP9. The HBF/Savills representation:-

- comment on the assumptions used in the DVS Study (paragraph 4.4 to 4.27 of REP9)
- includes two sample appraisals for each charging zone for 50 dwellings and 100 dwellings (Appendix 5 and 6 of REP9)
- comment on the impact of CIL on the strategic sites (bullet point 2 of the Executive Summary of REP9)
- identify what HBF/Savills consider appropriate levels of CIL in Zones 2 and 3 (paragraphs 5.1 to 5.4 of REP9).

McCarthy & Stone

3.2 These objections are set out at submission document REP10. They advocate that retirement housing is affected by different viability issues than normal private market housing and as a result should be treated differently under CIL.

4.0 Additional Viability Assessments

4.1 Following the receipt of these representations, the Council instructed the DVS to undertake further work to ensure that in light of this new evidence, it was striking the appropriate balance between funding new infrastructure and supporting new development.

HBF Representation

4.2 Rather than continue to discuss why the DVS assumptions and HBF/Savills assumptions in relation to e.g. the finance debt rate differed, the Council wished to understand what the outcome would be if all of HBF/Savills assumptions were used with the exception of only those which were fundamentally disagreed with.

4.3 Submission document CD6 – ‘Further viability testing and review of proposed CIL in light of representations received by RCTCBC (October 2013)’ - sets out this additional work.

Approach

4.4 The DVS undertook further viability appraisals using 13 of HBF/Savills 16 assumptions. This is set out in detail in the table below.

4.5 Whilst the DVS did not necessarily agree with all the assumptions used by HBF/Savills, in the interests of finding a positive way forward the DVS used the HBF/Savills assumptions to establish how these measured site viability compared with their own results. For this reason, DVS was careful to highlight that the October appraisals within document CD6 were largely re-runs of the Savills appraisals by entitling them “*DVS reproduction of Savills assumptions (07/08/13)*”

4.6 The 3 assumptions the Council believe are not appropriate for establishing the Borough-wide CIL charges relate to externals, sprinklers and section 106 costs. The Council’s position is that external costs could be included at 20% (if construction costs of £70 psf were adopted) rather than 27% and that it is not appropriate to include sprinklers and section 106 as fixed costs, as these are best accounted for by a viability buffer.

4.7 The HBF/Savills representation states that the CIL rates should be:-

| | HBF Recommended CIL Rate |
|---------------|---------------------------------|
| Zone 2 | £11.50 |
| Zone 3 | £45 |

4.8 Re-running the HBF/Savills viability appraisals as set out in their representations (REP9), using their notional 50 dwelling and 100 dwelling sites in Zones 2 and 3; and using all of their assumptions except the two in relation to sprinklers and section 106 and with external costs assumed at 20% rather than 27%, CD6 states the rate using this approach would be set at:-

| | CIL Rate |
|---------------|-----------------|
| Zone 2 | £53-57 |
| Zone 3 | £82-87 |

4.9 Whilst the Council maintains that it's original viability study is the primary viability evidence to be used in assessing it's CIL, in the interests of finding a way forward that reflects the position of the development industry, it wished to ensure the HBF/Savills evidence helps inform the setting of the CIL rates.

4.10 As a result of this testing, the Council determined to reduce the CIL charge in Zone 3 from £100 to £85 and move the Tonyrefail area from Zone 3 to Zone 2. The Council published for consultation on 28th February 2014 its Statement of Modifications which includes these changes.

Strategic Sites

4.11 Similar to the reasoning set out above, the Council wished to consider the HBF/Savills contention that the proposed CIL rates would threaten the delivery of the allocated Strategic Sites.

Approach

4.12 The DVS undertook additional testing of the Strategic Sites. As set out in paragraphs 10 to 12 of CD6, the DVS undertook this additional testing using;-

- the HBF/Savills assumptions from REP9;
- for the reasons given above, no cost in relation to sprinklers and section 106 costs and with external costs at 20% rather than 27%; and
- the original study assumptions in relation to finance, marketing and developer profit

4.13 It was the original intention that the HBF/Savills assumptions in relation to finance, marketing and developer profit would be used here. However, following discussion with the DVS it was concluded that whilst the HBF/Savills assumptions (whilst not necessarily agreed with) were appropriate for further examining the viability issues affecting 50 dwelling and 100 dwellings sites, they were not considered appropriate to test the viability of more complex Strategic Sites likely to be delivered over a longer timescale.

4.14 The table below sets out the assumptions used.

4.15 The DVS concluded that there was no case for a separate CIL charge for the Strategic Sites.

Further work in relation to McCarthy & Stone evidence

4.16 The Council had not previously examined the viability of sheltered housing development of the nature developed by McCarthy & Stone. It is understood that there are no developments of this type in the County Borough.

4.17 Three notional schemes were tested. The viability underlying these types of development is different to normal market housing and includes both sales

and rental yields. The approach taken by the DVS is set out in appendices j, k and l of CD6.

5.0 Clarification of Relationship between CD5 and CD6

5.1 Submission document CD5 – ‘Study into the Economic Viability of Charging Community Infrastructure Levy in Caerphilly, Merthyr Tydfil and Rhondda Cynon Taf County Borough Council’s (District Valuer Services 2012)’ – is the Council’s primary viability evidence. The Council’s CIL has been developed on the basis of this evidence. The approach to viability testing and the underlying assumptions set out in this study, are those advocated by the DVS.

5.2 Submission document CD6 – ‘Further viability testing and review of proposed CIL in light of representations received by RCTCBC (October 2013) – was prepared at the request of the Council by the DVS following the representations received during the Draft Charging Schedule Consultation.

5.3 The primary purpose of this work was to move the discussion on the Council’s CIL forward from being a continuing discussion of individual assumptions to understanding what would happen if all but three HBF/Savills assumptions and the same notional sites set out in the HBF/Savills viability evidence were tested.

5.4 The changes set out in the Statement of Modifications reflect this additional testing.

Assumptions used in Viability Testing

| Assumption | Original DVS Study Assumptions | Savills Assumptions August 2013 Submission - 50 & 100 dwelling sites tested in Zones 2 & 3 | DVS Assumptions in Additional Testing – 50 & 100 dwelling sites | DVS Assumptions in Additional Testing – Strategic Sites |
|--|--------------------------------|--|---|---|
| Benchmark Land Value (per net acre) | | | | |
| Zone 2 | | £225,000 | £225,000 | £225,000 |
| Zone 3 | | £250,000 | £250,000 | £250,000 |
| Sales Values (per sq ft) | | | | |
| Zone 2 | | £165 | £165 | £165 |
| Zone 3 | | £175 | £175 | £175 |

| | | | | |
|---|--------|--------|--------|--------|
| | | | | |
| Acquisition Costs | | | | |
| Stamp Duty | 5% | 4% | 4% | 7% |
| Agent's Fee | 0.75% | 1% | 1% | 0.75% |
| Legal Fees | 0.75% | 0.5% | 0.5% | 0.75% |
| | | | | |
| Build Costs (BCIS rate per sq ft) | £70 | £70 | £70 | £70 |
| | | | | |
| Externals (% base build cost) | 17.5% | 27% | 20% | 20% |
| | | | | |
| Building Reg Improvements & Fire Sprinklers (per dwelling) | £0 | £3075 | £0 | £0 |
| | | | | |
| Contingency (% base build cost) | 2.5% | 3% | 3% | 2.5% |
| | | | | |
| Sec 106 (per dwelling) | £0 | £1000 | £0 | £0 |
| | | | | |
| Professional Costs (% of cost) | 8% | 8% | 8% | 8% |
| | | | | |
| Marketing Costs | 3.5% | 3% GDV | 3% GDV | 3.5% |
| | | | | |
| Sales Cost (per dwelling) | | | | |
| Legal fee market housing | £750 | £750 | £750 | £750 |
| Legal fee affordable housing | £500 | £500 | £500 | £500 |
| | | | | |
| Finance Debt Rate | 7% | 7% | 7% | 6% |
| | | | | |
| Developer Profit | | | | |
| Market Housing | 17.50% | 20% | 20% | 17.50% |
| Affordable Housing | 4.76% | 6% | 6% | 4.76% |
| | | | | |
| Affordable Housing Grant | Nil | Nil | Nil | Nil |
| | | | | |
| Sales Rate (per month) | 2 | 2 | 2 | 2 |
| | | | | |
| Density (units per net acre) | 14 | 14 | 14 | 14 |

