



# Report

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## **CIL Economic Viability Study: Addendum SUEs**

**West Northamptonshire Joint Planning Unit**

17th December 2014

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**For and on behalf of GVA Grimley Ltd**

## Foreword

This Addendum is to be read in conjunction with GVA's 'CIL Economic Viability Assessment' updated report of June 2014.

## 1. Introduction

- 1.1 We have been instructed by West Northamptonshire Joint Planning Unit and Northampton Borough Council to provide additional testing and analysis in respect of the SUEs. In particular, we have been asked to show the effect of the combination of varying the level of S106 payments to include greater sums than were provided for in the original testing.
- 1.2 This will enable the councils to understand further the effects of the proposed charge of £50 per sq m together with S106 planning obligations.

## 2. Assumptions

- 2.1 Our assumptions are in line with the figures used in the original testing. We have adopted the values and costs as at 2012 and enabling costs of £20,000 per dwelling (the mid-cost adopted in our earlier testing).
- 2.2 We have retained the same assumptions as were made in the original testing.

**Table 1: Assumptions**

Assumptions	
No. of dwellings	1,000
Net Residential Area	28.6 ha (70 acres)
Gross Site Area	57 ha (140 acres)
Private Sales Revenue	(1) £1,722 per sq m (£160 per sq ft) (2) £2,045 per sq m (£190 per sq ft) (3) £2,314 per sq m (£215 per sq ft)
Affordable Revenue	£1,238 psm (£115 psf)
Enabling Costs	£20,000,000 (£20,000/dwelling)

Assumptions	
S106 & CIL Contributions	(1) £6,200/dwelling
	(2) £10,200/dwelling
	(3) £15,000/dwelling
	(4) £20,000/dwelling
Build Costs (CSH 3)	£936 psm (£87 psf)
Average dwelling	92.9 sq m (1,000 sq ft)
Contingency	3%
Professional Fees	5%
Interest	7%
Profit	20% of Private GDV
	6% of Costs
CIL per m2	£50

2.3 We have run our analysis at the following levels of affordable housing, 10%, 20%, 30%, 35% & 40%, and, as instructed, we have assessed the residual land value on the basis of four different levels of combined contribution for CIL and S106

- a) £6,200
- b) £10,200
- c) £15,000
- d) £20,000

2.4 The level of CIL payable per dwelling (private & affordable) will vary dependent on the amount of affordable housing, but it is assumed for this purpose that any change in the amount paid in CIL will be balanced by an equivalent change in the S106 Contribution. The average equivalent payment per dwelling, based on our scheme assumptions, are:

**Table 2: Average equivalent CIL payment across the scheme**

	10%	20%	30%	35%	40%
Average overall CIL payment per dwelling (private & affordable)	£4,181	£3,716	£3,252	£3,019	£2,787

2.5 It should be noted that a reduction in the level of the CIL would not necessarily result in an increase in the S106 payment. However, as CIL is to pay for items on the Regulation 123 List, it is possible that, in the event a reduced or Nil CIL rate, the Councils will decide to take items off the Regulation 123 List and to seek direct

contributions through the S106 Agreement or planning conditions; this is subject to the restrictions on pooling S106 contributions.

### 3. Results

3.1 A Base Land Value of £14 million (£250,000 per gross hectare) has been used. We have shown the results colour coded as in our earlier testing on the basis that a residual land value which exceeds £14m is green, those that are up to 20% less than c £11.2 million as marginal (coloured yellow), and those that are below £11.2 million as not viable (coloured red).

3.2 In order to generate a positive result it is necessary, in most cases, to assume that the Base Land Value is reduced i.e. the base price the landowner is willing to accept. The following Table shows the Base Land Value required in order to derive a positive answer in each case i.e. the ability to charge the given level of CIL & S106 combined.

**Table 3: Low Private Sales at £160 per sq ft**

Affordable Housing	GVA Base Land Value	S106 & CIL per unit			
		£6,200	£10,200	£15,000	£20,000
10%	£14m	Nominal	Nominal	Nil	Nil
20%	£14m	Nil			
30%	£14m	Nil			
35%	£14m	Nil			
40%	£14m	Nil			

**Table 4: Mid Private Sales at £190 per sq ft**

Affordable Housing	GVA Base Land Value	S106 & CIL per unit			
		£6,200	£10,200	£15,000	£20,000
10%	£14m	£14m	£11m	£8m	£4m
20%	£14m	£10m	£7m	£4m	Nominal
30%	£14m	£6m	£3m	Nominal	Nominal
35%	£14m	£4m	£2m	Nominal	Nil
40%	£14m	£3m	Nominal	Nil	

**Table 5: High Private Sales at £215 per sq ft**

Affordable Housing	GVA Base Land Value	S106 & CIL per unit			
		£6,200	£10,200	£15,000	£20,000
10%	£14m	£26m	£23m	£20m	£16m
20%	£14m	£21m	£18m	£15m	£11m
30%	£14m	£16m	£13m	£10m	£6m
35%	£14m	£14m	£11m	£7m	£3m
40%	£14m	£11m	£8m	£4m	Nominal

3.3 The alternative way to consider the setting of the CIL charge is by reference to its impact on the Gross Development Value or on Costs. It is in this context that we have advised that in our judgement a CIL at £50 per sq m is affordable. The Table below shows the proposed figure as a percentage of value and costs, excluding land, profit and finance.

**Table 6: CIL @ £50 psm as a percentage of Sales and Costs**

Affordable Housing	GDV (private & affordable)			Build Costs
	Low Value	Mid Value	High Value	
10%	2.7%	2.3%	2.0%	4.4%
20%	2.5%	2.1%	1.9%	4.0%
30%	2.2%	1.9%	1.8%	3.5%
35%	2.1%	1.8%	1.7%	3.3%
40%	2.0%	1.7%	1.6%	3.0%

3.4 It should be noted that the testing has assumed a combined total for CIL and S106 payments, and that a reduced CIL payment, for example as a result of a higher level of affordable housing, is offset by a higher S106 contribution. If this is the case in practice, then a Nil CIL would not aid viability, except to the extent that the timing of payments may differ.

3.5 These high level appraisals suggest that many of the SUEs could be unviable, regardless of the level of CIL, but we note that in practice the Councils have received applications, accompanied by viability assessments, which suggest that in reality the schemes are able to afford both S106 contributions and a level of affordable housing. We have not seen any of the viability assessments that have been provided to the Councils as part of the planning applications for the SUEs. We assume that in those cases where they have been provided and shown a viable scheme this is due to the adoption of

a) a sales value higher than c £190 per sq ft, and/or

- b) a lower Enabling Costs, and/or
- c) lower build costs, and/or
- d) a lower Base Land Value, and/or
- e) the appraisal has adopted growth assumptions for values and costs i.e. used projected costs and values not present day.

3.6 We have direct experience of all of the above being used elsewhere to show that large schemes are potentially viable and deliverable.

3.7 It is noted that the original testing was subject to criticism that the assumed contributions of £2,000 and £6,000 were too low. Clearly by adopting a higher combination of CIL and S106 payments, the challenge to the viability and delivery of these large sites is greater. Whilst, there may be cases where CIL and S106 payments are not substitutes, we imagine that if the Councils are unable to charge a CIL then they will consider carefully what other options they have to recover some or all of the costs from landowners for strategic infrastructure, noting the restrictions on pooling.

## 4. Conclusion

4.1 Not surprisingly, the additional testing has shown that if the combined cost of S106 and CIL contributions is increased then there is a consequent reduction in viability. It is not however the intention of CIL to increase the overall level of obligations from the SUEs. The reason for the introduction of CIL is to secure necessary contributions towards strategic infrastructure, and which may no longer be secured through S106 obligations in the light of the pooling restrictions.

4.2 It is noted that where higher sales values can be secured then viable land values are achieved even with increased combined S106 / CIL contributions. The original viability appraisal concluded that, if the Councils sought to impose a single CIL on SUEs, then a charge of £50 per sqm could be justified. The additional testing does not change this conclusion or our original recommendation.