

Examiner's Matters and Issues for the Examination

Matter 1: Infrastructure Planning Guidance

1) What evidence is there of the need for infrastructure to support the development proposed in the local authority area in the adopted development plan? Have the infrastructure requirements been correctly identified in a manner consistent with the local plan?

1.1 The provision of infrastructure has been fully considered through the preparation of the Local Plan, which was adopted in 2016. An Infrastructure Delivery Plan (IDP) was prepared to support the Local Plan and was regularly updated throughout the different stages of preparing the plan. The IDP has been informed by infrastructure providers in the borough and identifies their requirements to ensure future service delivery and the provision of facilities that will support the development planned for through the Local Plan. This was considered through the Local Plan examination and was updated in May 2017 to take into account infrastructure that has been provided, or where funding is agreed. This is set out in more detail on page one of the Infrastructure Delivery Plan Schedule (EV01).

2) Has the expected total cost of this infrastructure been robustly estimated? What are the actual and expected sources of funding to meet these costs? What is the funding gap? What contribution is CIL expected to make towards filling this gap?

2.1 The expected total cost of infrastructure has been robustly estimated because the preparation of the IDP has been directly informed by relevant service providers in the borough, including details of expected costs and timing of specific forms of infrastructure, with the IDP providing information on the proposed mechanism for funding and / or providing this.

2.2 The infrastructure funding gap is £91.9million, of which a proportion is likely to be funded through either private funding, partnership funding or unidentified S106 funding. This leaves a forecast funding gap of £67.2million to be funded through CIL. The Infrastructure Funding Gap Analysis document (EV02) provides details of the expected total cost of the required infrastructure to support development outlined in the Adopted Local Plan. This also sets out the total cost of that which is to be provided through each funding sources. This document outlines the following in paragraph 3.6:

Issue / Funding Source	Total Amount (rounded)
Overall Infrastructure Costs	£226.8m
Infrastructure to be provided through future s106	£81.3m
Identified funding	£53.6m
Overall Infrastructure funding shortfall	£91.9m
Funding gap to funded through CIL	£67.2m

- 2.3 Based upon a series of assumptions, outlined in the Appendix to EV02, it is anticipated that CIL will generate £30.7m over the Adopted Local Plan period (to 2029), amounting to approximately 45.6% of the outstanding funding gap. Taking into account the amount expected to be passed to local communities for the Neighbourhood Portion, it is expected that the Borough Council (as Charging Authority) will retain approximately £23.9m, which represents 35.5% of the outstanding funding gap.

Matter 2: General Approach to Rate Setting

- 3) Does the Draft Charging Schedule (DCS) make clear the approach that would be taken to uses not included in the charging schedule in the DCS and is this justified by the viability evidence?

3.1 Yes the Draft Charging Schedule makes it clear that uses not included in the charging schedule are zero rated as Table 2 of the Revised Draft Charging Schedule (EV01) outlines that 'all other forms of development' have a CIL rate of £0. This is an approach which is in line with that taken by other Charging Authorities, such as Bournemouth, Fareham, Wealden Councils. Section 9 of the Viability Study refers to other potential non-residential uses and how they relate to the non-residential uses specifically tested.

3.2 The Viability Assessments undertaken have outlined the evidence base to support and justify the approach taken for uses with a proposed £0/sq m CIL:

- Care homes are tested in section 9 of the Viability Study (EV04). This showed that the development is not able to support a CIL and therefore a rate of £0/sq m is proposed.
- Sheltered housing is tested as part of the case studies in section 5 of the Viability Study (EV04), in accordance with the RHG guidance relating to values and the relatively high proportion of common/circulation space, as well as specific BCIS build costs. This showed that sheltered accommodation could support a CIL although at a lower rate than most other types of housing. In discussion with the Council the rate this type of accommodation was set at £0/sq m along with care homes (see above) and other specialist accommodation.
- Single dwellings were tested as specific case studies in sections 5 and 6 of the Viability Study (EV04). These take into account the higher build costs for 'one-off' developments in BCIS. Even with an allowance for an 'exclusivity' premium, these types of development were not able to support a CIL and therefore a rate of £0/sq m is proposed.
- Wholly flatted schemes were tested in Basingstoke, in section 5 of the Viability Study (EV04), including various parking options. This testing showed that two of the three flatted case studies were not able to support a CIL and therefore a rate of £0/sq m is proposed.
- Offices, industrial/warehouse units, retail, hotel and leisure development were tested in section 9 of the Viability Study (EV04). The testing showed that only out of centre retail/retail warehouses and budget hotels were viable and therefore a £0/sq m CIL rate is proposed for the other uses.

4. Do the maps set out in Appendix 1 of the DCS clearly illustrate where each of the proposed charges are to be applied?
- 4.1 Yes the maps in appendix 1 clearly illustrate where each of the proposed charges are to be applied. Maps A, B and C illustrate the zones for residential rates with Map A giving an overview of the whole borough. Maps B and C illustrate the boundaries for differential rates in Basingstoke and Tadley at a closer scale. Map D illustrates the town centre boundary where the retail rate is zero. In accordance with Regulation 12 of the CIL Regulations, the Borough Council has highlighted different charging zones on a map with an Ordnance Survey base, with gridlines to highlight where the charges apply.
- 4.2 The Borough Council provides an interactive map to highlight where relevant policies in the Adopted Local Plan apply, which is available to view online. It is intended that, once CIL is introduced, that the interactive map is updated to incorporate the various CIL charging zones, in order to complement the PDF version of the Charging Schedule that will be published. This will enable boundaries to be interrogated at a much closer scale.
- 4.3 Taking into account the level of testing undertaken in the Viability Assessments, together with local characteristics and national guidance, the designation of charging areas shown in the Charging Schedule have been devised to avoid an overly complicated approach. Accordingly, the zones are based on either the site specific allocations and defined Settlement Policy Boundaries in the Adopted Local Plan Policies Map or the Parish boundary in respect of the Tadley area. This specific matter is addressed in more detail under Issue 20.
5. In setting CIL rates Charging Authorities must take account of policy requirements set out in the 'relevant plan' which for the purposes of the Examination is the Basingstoke and Deane Local Plan (2011 to 2029). How are the financial implications associated with the policies of the adopted local plan, articulated and accounted for in the valuation assessments? Has this been undertaken in a sufficiently transparent manner?
- 5.1 The costs of policy requirements in the Adopted Local Plan were considered within the Local Plan Policy Viability Implications report, which was published in March 2016 (EV08). This details, policy by policy, any specific costs or issues in respect of financial viability. The following policies were considered to have financial implications:
- CN1 – 40% affordable housing has been factored into the viability testing for all residential sites, with a tenure mix of 70% rent and 30% shared ownership as required by the policy.
 - CN3 viability testing applies additional costs associated with the 15% of homes which must meet part 4M(2) of the Building Regulations for accessibility.
 - CN6 - Work has been undertaken to identify the site-specific infrastructure costs and to include them in the strategic site viability

testing. The Council considers the anticipated residual level of general s106/278 mitigation sought from development will therefore fall to £1,500 per dwelling on average and this figure has been used in the viability assessments.

- EM6 - Case study site areas comply with this policy; and specific allowances have been made in the land budgets for the strategic sites.
- CN1 and CN3 - Viability testing has used dwelling mixes agreed with the Council.
- EP1, SS8 and EP3 - The non-residential viability testing takes account of the spatial policies.

- 5.2 More detailed assessments have been undertaken for the remaining strategic sites, in order to ensure that their specific policy requirements (SS3.8, SS3.9, SS3.10, SS3.11 and SS3.12) can be delivered and that the future introduction of CIL does not impact on this.
- 5.3 In undertaking these tests, consideration has been given to each of the relevant policy requirements to ensure that the associated costs are factored in. In addition to this, a figure of £1,500 has been incorporated for each dwelling, to cover other costs such as the provision of on-site open space and local transport improvements (see para 3.8 of the March 2016 Viability Assessment – document EV04). This represents an average figure for the likely cost, based on research undertaken locally, as described in Appendix Three of the Borough Council’s Response to the Examiner’s Initial Letter (PS02).
- 5.4 This has been undertaken in a transparent manner with general residential development costs and values summarised in section 3 of the Viability Study and set out in more detail in Annex 3 (document EV04). The strategic site characteristics and costs are detailed in section 7 of the Viability Study (document EV04).
6. Is the future approach to the use of section 106 planning obligations as set out in the Draft Regulation 123 list sufficiently clear? Does the Draft Regulation 123 list provide adequate certainty as to those items of infrastructure that CIL will contribute towards, and where section 106 obligations/section 278 agreements will continue to be used? Is there any duplication between the two? What is the relationship with the consultation draft of the Planning Obligations for Infrastructure Supplementary Planning Document?
- 6.1 The draft R123 list (CD07) sets out the infrastructure that is intended to be funded through CIL and therefore planning obligations will not be sought for these items. The draft Regulation 123 list includes a column of exceptions to clarify scenarios where planning obligations will continue to be used to fund infrastructure. Generally the council intends to fund site-specific infrastructure through planning obligations and wider strategic infrastructure through CIL. The council intends to update the Regulation 123 list to include more specific infrastructure projects as they are defined by infrastructure providers.

- 6.2 The draft Regulation 123 list and the emerging Planning Obligations for Infrastructure Supplementary Planning Document (SPD) (BD02) operate in tandem to clearly set out what funding and delivery approach is relevant to each form of infrastructure. There is not any duplication between the two.
- 6.3 Consultation on the draft SPD was undertaken in May - June 2017 and it is intended that the document will be updated to respond to the comments received and will be adopted alongside CIL in order to provide certainty of the approach to be taken to the provision of infrastructure in the borough. The draft SPD is intended to support the council's approach to CIL and it will replace the council's current S106 and Community Infrastructure guidance document.
7. Are the assumptions, and the evidence on which they are based, set out in the Viability Study, appropriate, sufficiently transparent, consistent, robust, and flexible?
- 7.1 For the residential testing, general assumptions are summarised in section 2 of the Viability Study (EV04) and set out in more detail in Annex 3. These assumptions include a map of the different residential value areas and the house prices in each (including per dwelling and £/sq m), as well as the range of development costs taken into account in the testing. PPG requires that greater detail may be necessary for strategic sites and therefore site characteristics and specific infrastructure costs are presented in section 7 of the Viability Study (EV04).
- 7.2 For the non-residential testing, the assumptions are set out for each non-residential use tested in section 9 of the Viability Study (EV04). This includes the characteristics of the case study (size, height, site etc.), as well as the values and development costs.
- 7.3 The residential and non-residential assumptions were assessed through the consultation with the development industry in July 2015. The notes of this consultation are set out in Annex 3 of the Viability Study (EV04).
- 7.4 PPG requires that the viability assessment is based on 'appropriate available evidence' including comparable average market values and a 'broad assessment of costs', and that the evidence should be proportionate. PPG also requires that the assessment is based upon current costs and values (rather than 'uncertain judgements about the future'). Therefore, the following sources of information are used, which combine public official sources with reputable trade databases and specific consultation work:
- Residential values are drawn from Land Registry price paid data for new build sales. 309 new build sales were used (from 2014/2015). Energy Performance Certificates were used to provide floor areas. Both sources of information are public official datasets. Information for affordable housing values has been obtained through a consultation with Registered Providers in November 2016.
 - Residential build costs are drawn from the Building Cost Information Service (BCIS). This provides data for different types of residential development and is a public source, albeit on a subscription basis. The data in the viability assessment uses the 5-year median build costs.

- Assumptions about post-CIL residual residential s106/278 costs are based upon the typical proposed charges that the Council will require for local mitigation.
- Other residential development costs (external works, professional fees, marketing, opening up costs etc.) are based upon professional experience and are in line with comparable studies elsewhere.
- Strategic residential sites at Manydown, the Golf Course, Hounsome Fields, Upper Cufade Farm and East of Basingstoke have had more detailed modelling. In advance of detailed site plans, the assumptions about policy compliant site characteristics (including density and land budgets) as well as infrastructure costs have been prepared by Council officers. This information is presented in section 7 of the Viability Study (EV04) and is based on Council officer discussion with service providers.
- Non-residential values are based upon evidence of commercial deals listed in CoStar Suite. For some uses, there were considerable local transactions upon which to form a view, while for other uses data was collected for a wider area. CoStar is a publicly available source of data albeit on a subscription basis.
- Non-residential build costs are drawn from the Building Cost Information Service (BCIS). This provides data for different types of residential development and is a public source, albeit on a subscription basis. Median values are used.
- Other non-residential development costs (external works, professional fees, marketing etc.) are based upon professional experience and are in line with comparable studies elsewhere.
- Benchmark Land Values have been based on a review of sources such as DCLG, land titles, existing use values, benchmarks in nearby locations and market sales. Importantly, the benchmarks used were examined and found sound as part of the 2015 Local Plan examination hearings.
- All of these assumptions were discussed through the development industry workshop in July 2016, except for the affordable housing assumptions which were refined by the November 2016 RPs consultation.

7.5 The assumptions used are conservative (with prudent value assumptions and generous allowances for costs) and the use of a transparent buffer when proposing CIL rates allows for flexibility in the market and between sites with adequate margins for changes in costs and values. The conservative approach taken and the use of a buffer ensure that flexibility is built into the CIL rates and they will remain effective without undermining the viability of development across the plan area even if individual input values and costs change over time.

8. Are the valuation assessments which underpin the DCS consistent with those undertaken to support the development plan? Is the definition of key terms such as Benchmark Land Value and Residual Land Value clear? Is the use of the standard residual land value approach appropriate in the setting of CIL rates?

8.1 Both the Viability Assessment to consider the Adopted Local Plan (EV08) and those which supports the proposed CIL rates (EV04 and EV03) have been undertaken by consultants Three Dragons on a consistent basis and in

line with the general approach of adopting a Local Plan and implementing CIL to support delivery of the plan. This accords with the principles established in National Planning Practice Framework (NPPF), particularly para 175, which advocates the preparation of CIL and the Local Plan in tandem. A consistent methodology has been used, although values and costs have been updated between the dates that the two studies were undertaken.

- 8.2 The definition of the benchmark land value is stated in section 3 of the Viability Study (EV04), with further detail of the review underpinning the benchmarks in Annex 4. The definition is stated as 'The land value benchmark is an estimate of the lowest cost that a willing landowner would sell land for development'.
- 8.3 The definition of residual land value is also stated in section 3 of the Viability Study (EV04), as part of the Principles and Approach. This rehearses the principles behind the approach and the definition is stated as "Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the costs of undertaking the development. The residual value is then available to pay for the land" and "The residual value of a scheme is then compared with a benchmark land value. If the residual value is less than the benchmark value, then the scheme is unlikely to be brought forward for development and is considered unviable for testing purposes. If the residual value exceeds the benchmark, then it can be considered viable in terms of policy testing." Note that the development costs included in the estimate of the residual value include developer return.
- 8.4 The approach taken follows national guidance in respect of the CIL and, in particular that set out in the Viability Testing Local Plans 2012, which states 'We recommend that the residual land value approach is taken when assessing the viability of plan-level policies'. PPG does not name the specific approach to viability testing, although it does state that "A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken." This clearly includes a residual land value approach.
- 8.5 The approach taken by the Viability Study is to estimate the net residual value for each case study after the benchmark land value has been deducted. The principle is that this net sum is available for planning obligations such as CIL. The net residual value is then divided by the total market floor area (affordable housing is excluded from CIL) to provide a maximum theoretical CIL payment on a per sq m basis. A buffer is then incorporated to avoid proposing a CIL at the margins of viability. This transparent approach to proposing CIL rates is appropriate as it responds to PPG by incorporating all development costs (including the returns to the willing developer and willing land owner), and a straightforward process of identifying a theoretical maximum CIL and the use of a buffer. It follows the approach widely used across the country in setting CIL rates.

9. What are the implications of potential changes, both up and down, to development costs and sales values on the economic viability of development within the Borough and the implementation of the development strategy? Should a separate contingency cost be included?
- 9.1 PPG is clear that for the purposes of viability testing "Current costs and values should be considered when assessing the viability of plan policy", in order to "avoid complicating the assessment with uncertain judgements about the future." On this basis, the Viability Study (EV04) uses current costs and values (as of July 2015) in proposing CIL rates.
- 9.2 Subsequently, and at the request of the examiner, sensitivity testing has been undertaken for a number of the case studies set out in the Viability Assessment as follows:
- 1 ha tile in Basingstoke and Tadley at 35 dwellings per hectare;
 - 1 ha tile in 'Rest of Borough' at 35 dwellings per hectare;
 - 2 small sites in Rest of Borough 4 dwelling and 10 dwellings (at 40% Affordable Housing);
 - Manydown Strategic Site; and
 - The Golf Course site
- 9.3 This takes account of market values, build costs, affordable housing values, finance rates and uplift / fall in values.
- 9.4 It should be noted that the scope of the sensitivity testing was agreed with those who raised concerns about its absence from the Viability Assessments to date.
- 9.5 The results of this are set out in an appendix to this note, but in summary conclude that:
- For all the sensitivity tests, all schemes tested remain viable. This includes the test which assumes a 10% decrease in house prices. However, a fall in prices of this order is an exceptional event and was last experienced in the economic downturn of 2008/09 and thereafter. In these circumstances, the CIL rates would be of little consequence and, in any case, a downturn in value of this order would lead the council to undertake a review of CIL.
 - Generally, the small development case studies and the 1 ha tiles show strong viability, with development in the 'Rest of Borough' particularly strong because of the higher values. Sensitivity testing of the strategic sites replicates results from the original study with generally lower residual values than for the other scheme types (as reported in March 2016 – EV04). Nevertheless, both Manydown and the Golf Course are viable through all of these sensitivity tests and able to support the proposed CIL rates of £50/sq m and £80/sq m respectively.
- 9.6 Neither Planning Policy Guidance and Viability Testing Local Plans 2012 require contingency to be included in area-wide viability studies. Instead practitioners are urged not to set policy on the margins of viability and to make use of a 'buffer' (PPG). The CIL viability testing for Basingstoke and

Deane follows the PPG and Viability Testing Local Plans guidance and this approach has been accepted at CIL examinations (e.g. Teignbridge, East Devon and Taunton).

- 9.7 Logically it is not appropriate to include contingency for an area wide study as it only takes account of cost increases and has no recognition of cost decreases. For example, if costs are always 5% higher than expected then logically that increase becomes part of the BCIS build cost data that is already an input into the assessments. On this basis adding in contingency to build costs merely adds in an additional hidden buffer within the assessment.
- 9.8 It is also useful to consider the basis for the build costs used and the relationship between base build costs and contingency with variation in approach between different CIL viability studies. The CIL Viability Study for Basingstoke and Deane uses an allowance of 15% for external works. We note that where some area wide studies make allowances for contingency, this may be accompanied by lower allowances for other costs – such as 10% for external works instead of the 15% we have allowed. Examples include the CIL viability studies for Horsham and North Dorset (both examined), which have 5% contingency but 10% external works – i.e. the same overall cost allowance.
10. How has the Council provided for a viability cushion or margin? How has this influenced the levels at which CIL is to be set? Is this of an appropriate size to accord with the advice set out in the National Planning Practice Guidance?

- 10.1 National Planning Practice Guidance (PPG) and the CIL Regulations, establish clear guidance within which to develop and introduce CIL. Specific guidance in respect of margins is described in a number of places and summarised below:

- Plan makers should not plan to the margin of viability but should allow for a buffer to respond to changing markets and to avoid the need for frequent plan updating. Paragraph: 008 Reference ID: 10-008-20140306

It would be appropriate to ensure that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust Paragraph: 019 Reference ID: 25-019-20140612

- 10.2 Whilst this guidance does not provide a specific amount or figure for a cushion or margin to include, a pragmatic approach is required to ensure sufficient leeway is provided to allow for unexpected costs that may arise as more detail is known about a site and a planning application is developed. Development industry feedback as part of the CIL consultation process included the need to take account of a buffer and 30% was suggested, as was used in setting the CIL rates

10.3 The process of proposing CIL rates for Basingstoke and Deane has been very conservative. The process of developing a CIL rate for general residential development uses a 30% buffer which is applied to the 1 ha tiles. The potential rate suggested by this process is then tested against the small and medium generic case studies, where buffer is again considered. This can be seen in the 'Implications for CIL' in section 4 in the Viability Study (EV04), along with 'Implications for CIL for smaller sites' and the 'Implications for CIL for medium case studies' in section 5 (Basingstoke & Tadley) and 'Implications for CIL for Rest of Borough sites' in section 6. Importantly, the buffer for many of the case studies is over 100% (e.g. the 55-dwelling scheme in Basingstoke and Tadley has a theoretical maximum CIL of £390/sq m yet a rate of £140 is proposed for this area).

10.4 The proposed rates for the strategic sites are also cautious. The table below lists the sites along with the buffer. For context, the table also shows the proposed CIL revenue as a proportion of gross development value (GDV). It can be seen that the buffer is well over 40% in all cases and that the CIL revenue is between 0.8% and 2.2% of revenue, which is almost de minimis and well within the 1.75%- 2.5% rates suggested by the CIL Review Group in A New Approach to Developer Contributions 2016 report.

Site	CIL rate	Buffer	CIL as % of GDV
Manydown	£50	47%	1.4%
Golf Course	£80	55%	2.2%
Hounsome Fields	£30	44%	0.8%
East of Basingstoke	£80	44%	2.2%
Upper Cufaude Farm	£80	55%	2.2%

10.5 For the non-residential testing a buffer of 50% was initially used in the Viability Study (EV04). A larger buffer is often used for non-residential development as developments are less homogenous. As part of the simplification of rates the buffer was increased for out of centre retail/retail warehouses to 60% so that there is a standard rate proposed for both budget hotels and out of centre retail.

11. How have the implications of the Council's draft instalments policy been considered on the economic viability of development?

11.1 The Borough Council's Draft Instalments Policy is set out in document CD08 and provides a means of delaying payment of CIL over a prescribed period, in order to reflect the manner in which finance may become available to fund the required infrastructure, alongside the delivery of the site.

11.2 Although account has been taken of when infrastructure is likely to be needed during the construction period, and when this may need to be increased in size to meet demand (for example the phased provision of a primary school as set out in the final column of Table 7-1 of the 2016 Viability Assessment ECV04), specific account has not been taken of the application of the instalments policy.

11.3 In this respect, future use of the instalments policy would ensure the viability of a specific site, by requiring a proportion of the CIL payment at a later date in the construction period. In addition to this, it should be noted that the strategic sites are likely to come forward in a number of phases, each of which will be subject to individual reserved matters planning applications, with an associated programme of CIL payments, further assisting in improving the viability of a given scheme.

12. What are the arrangements for the monitoring and review of the CIL?

12.1 The Borough Council is intending to review CIL every three years and / or in tandem with the preparation of a future Local Plan. It is intended to provide details of CIL income received through the Authority Monitoring Report and the budget setting process that is undertaken each year. This will highlight the amount received each year, as well as providing details of the overall CIL received, and spent over the longer-term.

12.2 This process will provide an opportunity to consider whether the prevalent CIL rates are appropriate, taking into account issues such as:

- Market signals – such as changing costs and values (including interest rates or the market price of local housing);
- Evidence that sites are not coming forward due to viability issues; and
- Research undertaken with landowners / developers through the work associated with annual housing monitoring.

12.3 Should monitoring indicate that a balance is no longer being struck between funding infrastructure and the effect on economic viability of development in the area, the council will commence a review of CIL sooner. Further consideration is being given to a process for prioritising and spending CIL and a report was presented to the members of the Borough Council's Economic, Planning and Housing Committee at its meeting in April 2017 in order to commence political engagement on a potential approach.

Matter 3: Residential Levy Rates

13. Are the differential local levy rates for new residential accommodation delineated by zone, development type and scale, justified by appropriate available, consistent and transparent viability evidence? Has the Council sought to avoid undue complexity?

13.1 The differential geographical rates are justified by official value data and agreed with the development industry. Land Registry data for house sales shows that house prices vary between different parts of Basingstoke and Deane. Land Registry data was analysed on a ward boundary basis and using this process the value areas illustrated in Figure 3-2 in the Viability Study (EV04) were developed.

13.2 Data from Land Registry on new build sales only was analysed in order to generate estimates of house prices in the two value areas, split by dwelling type. This data was combined with floor area data in the Energy

Performance Certificates to estimate values on a floor area basis. The value areas and the house prices in each area were discussed at the July 2015 workshop and were agreed by the development industry as appropriate for this work. Note that for developments of 1-3 dwellings a conservative 5% 'exclusivity' premium is allowed, and sheltered housing has a separate set of values.

13.3 Build costs do not vary by geography within the borough, and this was also discussed at the July 2015 workshop and agreed by the development industry. However, BCIS states that there are higher build costs for different dwelling types:

- 'One-off' residential developments and these higher costs are used for the modelling of single dwelling schemes. The BCIS 'one-off' build costs are approximately 70% above standard estate housing costs and this accounts for the different viability for single dwellings.
- BCIS also presents separate build costs for sheltered flats, which are higher than general housing flats and this cost difference along with the higher proportion of communal space in sheltered developments (in line with Retirement Housing Group viability guidance) is the reason for the different viability for this type of development.
- BCIS also provides separate build costs for flats split by development height and the appropriate costs were used for modelling the wholly flatted scheme developments, along with allowances for providing circulation space. Modelling also included costs for different parking options. These various flatted costs are the reason for the different viability for this type of development.

13.4 Overall development costs are different for the large scale strategic sites and these are described in section 7 of the Viability Study (EV04). Specific allowances are made for opening up (£200,000 per net ha) as well as a reduced proportion of residential developable site area. Based on infrastructure planning work by the Council the strategic site modelling includes site specific infrastructure costs, and these are detailed in Table 7.1 in the Viability Study (EV04). The site-specific infrastructure costs are in addition to the other development costs (external works, opening up and generic s106/278). These different costs and net to gross adjustments are the reason for the different viability for strategic sites.

13.5 The council has sought to avoid undue complexity in a number of ways including:

- Grouping three strategic sites together in zone 3;
- Delineating strategic sites in line with the allocation boundaries; established through the Adopted Local Plan;
- Only distinguishing between two main value areas – Basingstoke and Tadley and the Rest of Borough;
- Delineating Tadley according to the parish boundary;
- Using a single CIL rate for out of centre retail and hotels;
- Zero rating those developments which cannot viably afford a CIL: and
- Linking the CIL rates proposed in previous charging schedules with the rates now proposed, in order to provide a coherent narrative.

14. Are the site acquisition costs and benchmark land values justified by appropriate available evidence, including consideration of the impact of CIL on land values? Has evidence of recent land transactions been taken into account? If so, should it be?
- 14.1 Standard site acquisition costs of 1.75% ('Agents and Legal costs') plus Stamp Duty Land Tax have been included in the viability testing and are noted in Annex 2 of the Viability Study (EV04). These costs were discussed and agreed at the July 2015 developer workshop.
- 14.2 Benchmark land values have been estimated using premium over existing use, cross checked with DCLG estimates (Land Values for Policy Appraisal 2015) and reviewed against land sales and land titles with transaction information, as well as comparison with benchmark values used in nearby locations. Annex 4 in the Viability Study (EV04) provides details. The benchmarks were discussed as part of the July 2015 development industry workshop. These benchmarks were also part of the viability assessment for the 2015 Local Plan examination and were found sound – the review undertaken for this 2016 Viability Study (EV04) was to check whether there was additional evidence. The limited data from land titles and land sales on CoStar showed a disparate set of values above and below the benchmarks used in the study and did not provide compelling reasons to change the benchmark assumptions, particularly as there was broad agreement with the benchmarks in the development industry workshop.
15. Are the assumptions relating to both generic and site specific S106 and S278 contributions sufficiently realistic and derived from an adequate and transparent evidence base based on past developments and the policy requirements of the adopted development plan?
- 15.1 Appendix 3 of the correspondence to the Examiner of 3 July (PS02) details the approach taken to identify a generic figure for the likely future cost of planning obligations associated with new development, which has been applied to all residential development in the borough. In addition to this, account has been taken of any other generic costs, such as changes in the requirements of the Building Regulations and other costs associated with plan policies, such as the water efficiency requirement of policy EM9, with this factored into the Viability Assessment.
- 15.2 Careful attention has also been paid to the need to identify appropriate and realistic costs for site specific infrastructure, including that required through a site allocations policy in the Adopted Local Plan. Annex 6 of EV04 transparently sets out the S106/S278 costs anticipated for the strategic sites by infrastructure type and also explains the source of those cost assumptions. In each case, advice has been sought from individual service providers, such as the Local Education Authority in order to ensure a robust approach.
- 15.3 It is acknowledged that in some instances, this can be more challenging to identify, given the theoretical and area-wide approach taken, in addition to the point that some costs, such as highways infrastructure may only be

known once a scheme has been worked up and agreement reached with the Local Highways Authority through a detailed Transport Assessment.

- 15.4 To address this point, assumptions have been made about the likely cost of the improvements needed, based on experience from elsewhere, with these costs discussed with representatives of the Local Highways Authority to ensure robustness. A similar approach has been taken with requirements such as the cost of providing a subsidised bus service in the early part of the delivery of a large site.

Zones 1-3 (Hounsome Fields, Manydown, Golf Course, East of Basingstoke and Upper Cufaude Farm)

16. Is the methodology used to calculate the economic viability of future large scale developments adequately transparent and replicable to enable robust and proportionate sensitivity testing?

- 16.1 The key testing inputs and outputs are transparent and presented within the Viability Study report (EV04) as follows:

- The methodology for calculating the viability of the large sites follows the standard approach set out in section 2 of the Viability Study (EV04)
- The testing uses the general development assumptions summarised in section 3 (also detailed in Annex 3) and the site-specific characteristics and costs in section 7.
- Residual values for the strategic sites are reported in section 7 and detailed in Annex 7.

- 16.2 Screenshots of the viability models are published as part of the examination library as set out below:

- Hounsome Fields – EV04.24
- Manydown – EV03.01, EV04.19 – EV04.22
- Golf Course – EV04.26
- East of Basingstoke – EV04.25
- Upper Cufaude Farm – EV04.23

- 16.3 The viability testing is replicable as it has used a defined set of assumptions and the Three Dragons Toolkit. Based on the inputs presented in the report the viability testing could be replicated using other viability models if others so wished.

- 16.4 Some sensitivity testing is already within the Viability Study (EV04). This includes:

- Different affordable housing tenures in section 4 (1 ha tiles)
- Different Benchmark Land Values in section 4 (1 ha tiles)
- Different Benchmark Land Values in section 5 (generic case studies)
- Different parking costs for flatted development in section 5 (generic case studies)
- Different Benchmark Land Values in section 7 (Golf Course)

- 16.5 Further sensitivity testing has been undertaken to inform the CIL examination. This is summarised in section 9 above and reported in more detail in the Annex to this document.
17. Are the assumptions used appropriate, including contractor and developer profit; finance costs; professional, legal and marketing fees; opening up costs; Stamp Duty; housing size, density, mix, tenure; and sales values?
- 17.1 The assumptions used for the testing use established industry standards and information sources as follows:
- 17.2 The assumptions used for contractor and developer profit; finance costs; professional, legal and marketing fees have been developed through a series of viability studies in Basingstoke and Deane and were confirmed as part of the development industry workshop in July 2015. These assumptions are relatively standard across many area wide viability studies. The different rates of return relate to risk, which is the basis for the lower rate of 6% of cost for the affordable housing (which is pre-sold to RPs) compared to the higher risk individual market sales where the return is 20% of value. 20% is generous and within a relatively stable market lower rates of return are often acceptable. Finance costs are at 6% as discussed as part of the July 2015 development industry workshop and reflect the continued low finance rates. It is important to note that the requirement to test at current values means that any inflation element in a headline finance rate should not be included, and also that some volume house builders currently have access to finance rates significantly below 6%. Professional fees vary between 8% for larger schemes to 12% for smaller schemes and these are also generous – we are aware of recent site-specific viability appraisals where professional fees are lower. Stamp duty is included at the prevailing rates at the time of the study.
- 17.3 Allowances for opening up costs have been made for larger sites in recognition of the likelihood of higher costs. These range from £50,000/net ha for the 55-dwelling case study (Basingstoke & Tadley and Rest of Borough), £100,000/net ha for the 100-dwelling case study (Basingstoke & Tadley and Rest of Borough) and £200,000/net ha for the strategic sites. The opening up costs are in addition to the allowances for external works, generic s106/278 and, for the strategic sites, the specific infrastructure costs.
- 17.4 The market housing mix and size is informed by recent developments in Basingstoke and Deane and the National Space Standards. The affordable housing mix has been informed by the Council in terms of housing need and the affordable dwellings sought for different affordable tenures. The viability testing is at a range of densities to encompass different site characteristics – the 1 ha tiles systematically test densities between 20 dph and 45 dph in section 4 of the Viability Study (EV04), while the generic case studies range from 30 dph to 180 dph (sections 5 and 6). The strategic sites are tested at 30 dph except for the Golf Course at 35 dph, in line with the expected development on these sites (section 7).

- 17.5 In selecting the final set of mixes and sizes care has been taken to ensure that the quantum of built floorspace per ha is within industry standards (3,400 – 3,900 sq m built floorspace per net ha (based on industry standard 15,000-16,000 sqft/acre and the VOA 2015 Land Values for Policy Appraisal 3,400 sq m/net ha). The dwelling sizes and mixes at 30 dph provide 2,898 sq m built floorspace per net ha (including market and affordable housing) and 3,209 sq m at 35 dph). This is well within industry and VOA standards. Therefore, the overall mix and size of dwellings in the viability assessment takes a cautious approach to the quantity of development on this site and a well-designed scheme may be able to maximise values by adding more floorspace.
- 17.6 Affordable housing has been modelled at 40% in line with the current adopted Local Plan policy. This is split 70% rented and 30% shared ownership. For the case studies, the rented tenure is modelled with affordable rent (as this is the typical rented tenure provided in Basingstoke and Deane) but the 1 ha tiles include some social rent as a sensitivity test.
- 17.7 The strategic sites are modelled with 5% self-build plots. Cautious assumptions about values for these are used as there is little local market evidence so far.
- 17.8 Sales values are based upon Land Registry price paid data for new build only. This is a standard official source of information. Floor areas from Energy Performance Certificates are used to estimate £/sq m values. Prices on a per dwelling and £/sq m basis were confirmed at the July 2015 development industry workshop. Affordable housing values were confirmed through separate consultation with housing associations in November 2015.
18. Are the costs associated with the site specific policies of the development plan, relating to the strategic sites, including where relevant, the provision of Gypsy and Traveller sites, suitably robust and appropriately set?
- 18.1 The costs for meeting policy requirements on the strategic sites are appropriate because they have been specifically assessed for each site, and are robust because they are based upon discussion with service providers. Specifically, the costs have been developed in order to comply with the site-specific policy requirements as well as the general policy requirements (such as 40% affordable housing and the required accessibility provision). Council officers have prepared policy compliant land budgets and worked with service providers to generate costs and timing for site specific infrastructure. The specific net and gross site areas, along with the costs and timing of the infrastructure requirements are detailed in Table 7.1 in the Viability Study (EV04).
- 18.3 In respect of the provision of the site for Gypsies and Travellers, this is assumed to be a cost-neutral requirement. This is based on the view that the land for this requirement will have a commercial value, and that funding may be available through the Homes and Communities Agency (e.g. funding is available for traveller pitches within the current 2015-18 HCA Affordable Homes Programme).

19. What is the economic evidence to justify the Benchmark Land Values for the Golf Course and the Country Park. If higher Benchmark Level Values are appropriate, what is the evidence to support the higher figures?
- 19.1 In line with the rest of the strategic sites, the Golf Course is viability tested against the standard Basingstoke and Deane £400,000 per gross ha benchmark land value. This benchmark reflects the greenfield character of these sites, the relatively low existing use values and the high proportions of undevelopable site area in large scale urban extensions. The benchmark also reflects the higher costs associated with large scale development, as discussed above.
- 19.2 As part of the consultation work during the Viability Study programme, the Golf Course site promoters helpfully made available a valuation for the site, on a confidential basis. The valuation provided separate figures for the land and the two dwellings on site. In broad terms, while the land (excluding the dwellings) is worth more than agricultural land, the differential is not sufficient to warrant adopting a higher benchmark, as the current standard strategic benchmark remains a significant uplift from current use. Further detail on this matter can be discussed if the site promoters elect to make the values public.
- 19.3 However, in response to the request to consider a higher benchmark, a sensitivity test was undertaken using the £700,000/ha intermediate land value benchmark and the £1,000,000/ha standard urban sites benchmark. This indicates that at £700,000/ha the site remains viable and able to support a theoretical maximum CIL of £44/sq m (compared to the £80/sq m proposed rate). Against the £1.0m/ha benchmark the site is not viable and is unable to support a CIL. However, the £1.0m/ha benchmark is appropriate for sites with a high net to gross developable area, unlike the Golf Course, which has 62% net developable area. If the benchmark is applied to the residual value per *net* developable area, then the site remains viable and able to support a theoretical maximum CIL of £139/sq m, considerably in excess of the £80/sq m rate proposed.
- 19.4 Overall the characteristics of large scale development and the current use value of the site confirm that the standard strategic benchmark is appropriate.
- 19.5 In respect of the Manydown Country Park site, it is considered to be appropriate to attach a value associated with an agricultural use, rather than the BLV for a strategic site (£400,000 ha). This is on the basis that the country park falls outside of the defined Settlement Policy Boundary in the Adopted Local Plan and is identified on the relevant Policies Map for this purpose. This status means that the site is in the countryside where paragraph 4.70 of the Local Plan states that 'Within the countryside it is the intention to maintain the existing open nature of the borough's countryside, prevent the coalescence of settlements and resist the encroachment of development into rural areas'.
- 19.5 In addition to the negative stance towards development in this countryside location, it should be noted that the land covered by the country park

designation has a restrictive covenant attached to it which prevents it from being brought forward for development. The Lease is specific that the transfer of this land (after the exercising of the option to purchase) is subject to a restrictive covenant that it is not to be used other than for the purpose of agriculture or forestry or as public open space or for recreational purposes or for landscaping purposes.

- 19.6 Given these two key considerations, it is considered appropriate to attach an agricultural value to this area of land, which amounts to £2m. Furthermore, it should be noted that valuation work undertaken on behalf of the Borough Council as Local Planning Authority / Charging Authority, indicates that should this be valued as a country park, then a figure of £965,000 is appropriate, which reflects the revenue costs associated with managing and maintaining a country park. This is based on the value of the land transacting elsewhere for recreational or country park purposes. Therefore by assuming a benchmark land value of £2million for the country park as its existing use value, represents a cautious approach to viability testing.

Zones 4 and 5 (Basingstoke and Tadley and Rest of Borough)

20. Is there sufficient fine grained evidence to differentiate between the boundary of zones 4 and 5? For example, is there economic viability evidence to differentiate between Pamber and Baughurst?
- 20.1 The proposed CIL rates for the borough have been formulated on the basis of the evidence set out in the Viability Assessments published to date, which take into account a series of assumptions, themselves informed by detailed research on costs and values.
- 20.2 In establishing these assumptions, the Borough Council has been mindful of the need to avoid undue complexity where possible. In this respect, it has sought to minimise the number of charging zones, whilst taking into account local characteristics and the ability of sites to support a CIL charge without impacting on the ability to deliver development.
- 20.3 The initial work on different values was undertaken as part of the 2013 Viability Assessment, using house price data from Land Registry and confirmed through discussion at the developers' workshop in 2013. This is highlighted in Annex Three of the 2013 Viability Assessment, which summarises sales values for 1,371 transactions over a three year period.
- 20.4 These differences were replicated in the 2016 study, when research indicated the same variation in values between the urban areas and the 'rest of borough'. For example, the value of a 3-bed semi is 15% higher in the Rest of Borough value area than in Basingstoke and Tadley, and a 4-bed detached value is 17% higher. This level of difference is sufficient to warrant having two value zones. Again, the value areas and prices were confirmed through discussion with the development industry in July 2015.
- 20.5 In order to translate this in to a geographical area, and to ensure that the approach taken is pragmatic, and avoids undue complexity, the Parish

boundary for Tadley has been used to identify the charging zone. No compelling evidence has been made available to suggest that the boundary should be different.

21. Overall, to what extent do the residential rates strike an appropriate balance between helping to fund the new infrastructure required and the potential effect on the economic viability of new residential accommodation across the five geographical zones?
 - 21.1 As set out in the Infrastructure Funding Gap Analyses (EV02), and in line with the response to Issue Two, there remains a substantial funding gap, taking into account the provision and funding of infrastructure from other means, besides CIL.
 - 21.2 The viability testing that has been undertaken and subsequent rate setting process has sought to maximise the level of CIL that can be achieved, whilst ensuring that policy compliant development is delivered and that the proposed rates strike the required appropriate balance.
 - 21.3 Although guidance does not provide specific detail on how to achieve the 'balance', the approach taken by the Borough Council is to ensure that there is an appropriate buffer, in order to allow for un-expected costs in bringing forward a site. The buffers that have been established are set out in the response to Issue 10, which notes that the analysis uses a minimum buffer of 30% for the 1 ha tiles and higher buffers for the case studies. The strategic sites have buffers between 44% and 55%. Importantly, the proposed CIL only represents between 0.8% and 2.2% of gross development value on the strategic sites, which is a very small proportion and considerably less than the developer return.
22. What impact has the Court of Appeal judgement of 11 May 2016 had on the economic viability of housing and the amount of overage available for CIL in the residential charging zones? Has the judgement had any specific impact with reference to the differential rates proposed, based on housing type, and numbers of dwellings?
 - 22.1 The Viability Study (EV04) was undertaken prior to the Court of Appeal judgement and indicated that small scale development (under 11 dwellings) is viable and able to provide policy compliant affordable housing and CIL at the proposed rates. The exception to this is single dwellings, which have higher build costs and are not able to support a CIL. Neither the Court of Appeal judgement nor the original 28 November 2014 Written Ministerial Statement provided any viability evidence and therefore the assessment of small scale development viability in Basingstoke and Deane remains unchanged. However, if small scale development in Basingstoke and Deane is not required to provide affordable housing then viability will be strengthened and a higher CIL could potentially be supported.

Other Housing

23. Is it possible to justify the setting of differential rates for specialist housing, flats and single dwellings by economic viability evidence? How would the

imposition of such rates impact on the need to fund the infrastructure required and the economic viability of other housing and the implementation of the objectives of the Basingstoke and Deane Local Plan? In particular, is the exclusion of 100% flatted dwellings from the zero rating charge, where they form part of a larger site, justified by economic viability evidence?

- 23.1 The setting of differential rates for specialist housing, flats and single dwellings is based upon the different viability for these types of development.
- Wholly flatted schemes were tested in Basingstoke, in section 5 of the Viability Study (EV04), including various parking options. As well as the costs of the parking provision, the assessment took into account the specific build costs for flats and an allowance for circulation space. This testing showed that two of the three flatted case studies were not able to support a CIL and therefore a rate of £0/sq m is proposed.
 - Sheltered housing is tested as part of the case studies in section 5 of the Viability Study (EV04), in accordance with the RHG guidance relating to values and the relatively high proportion of common/circulation space, as well as specific BCIS build costs. This showed that sheltered accommodation could support a CIL although at a lower rate than most other types of housing. In discussion with the Council the rate this type of accommodation was set at £0/sq m along with care homes (see above) and other specialist accommodation.
 - Single dwellings were tested as specific case studies in sections 5 and 6 of the Viability Study (EV04). These take into account the higher build costs for 'one-off' developments in BCIS. Even with an allowance for an 'exclusivity' premium, these types of development were not able to support a CIL and therefore a rate of £0/sq m is proposed.
- 23.2 In terms of housing land supply, the Borough Council does not expect that a significant quantum of future provision will consist of high-density flatted schemes, other than a limited amount that may come forward as a part of the wider Basing View regeneration schemes (which is set out in more detail of Policy SS8 of the Adopted Local Plan (BD01). Equally, whilst some sheltered and extra-care developments may come forward in the borough, these are not expected to make a significant contribution to the provision of homes in the future, with only a very limited impact on the ability to secure infrastructure.
- 23.3 The impact of a £0/sq m rate for single dwellings is unlikely to have a significant effect on the funding available for infrastructure as it is likely that most single dwelling developments will come forward as self-build and therefore would not pay CIL in any case.
- 23.4 The exclusion of flatted development from the £0/sq m zone when developed as part of a wider development could potentially have an impact on scheme viability if a development was proposed with a small proportion of houses and a larger proportion of flats, all of which would therefore be

liable to pay CIL. However, with the exception of wholly flatted schemes in central Basingstoke it is likely that *market* flats will form a small minority of development - the dwelling mix discussed with the development industry has no market flats likely on schemes below 35 dph, and only 4% flats on schemes at 35 dph. Even when flats are included as part of the mix, the 1 ha tile testing indicates that schemes at 45dph (which have 20% flats) are viable and able to support the proposed CIL rates. Feedback from the development industry as part of the workshop indicated that market flats are not typically part of current schemes. Therefore, while there is a potential viability impact, the balance of probabilities suggests that if flats are included within schemes viability may still be strong enough to support CIL and the specific circumstances where development may be jeopardised are unlikely to take place.

Matter 4: Retail Levy Rates

24. Is there adequate economic justification to support two separate differential rates for A1 retail warehousing/ comparison shopping outside and within Basingstoke town centre so that they are justified by appropriate available viability evidence¹²? Has the Council sought to avoid undue complexity?

24.1 The viability testing included three town centre comparison schemes in different value areas and an out of centre scheme with two development cost scenarios. The town centre testing benefited from detailed feedback from the July 2015 developer workshop in terms of the values to use and the likely potential sites (and therefore benchmark values). Through this process it is clear that even for the highest value town centre comparison retail, the likely existing use value means that development is not able to support a CIL. For the out of centre scheme based on agreed values and under a standard cost scenario based on BCIS, viability is strong enough to support a theoretical maximum CIL of £50/sq m with a buffer. This clear difference in viability suggests that a separate CIL rate is warranted. We note that out of centre comparison retail is more viable than town centre retail in many locations and therefore this situation would not be considered unusual.

24.2 The Council has sought to avoid undue complexity by reducing the proposed CIL rate for out of centre retail from £50/sq m to £40/sq m in order to use a common rate with the proposed hotel CIL charge.

25. What role does retail warehousing / comparison shopping have in delivering the development strategy for Basingstoke and Deane?

25.1 The Adopted Local Plan identifies no specific additional sites for the provision of retail floorspace over and above the identified town and district centre boundaries, as outlined on the Policies Map and supported by Policy EP3. The policy recognises that new local and district centres may come forward as a part of larger developments identified in Policy S3, and that a sequential approach should be undertaken for proposals outside of the identified centres, on a case by case basis. There are no specific requirements identified for additional retail warehousing or comparison shopping floorspace.

26. Overall, do the rates strike an appropriate balance between helping to fund the new infrastructure required and the potential effect on the economic viability of new retail warehousing and comparison shopping outside of Basingstoke and across the Borough?

26.1. As with all forms of development expected to come forward in the borough, viability testing has been undertaken to consider the scope to introduce a CIL charge to contribute to the provision of infrastructure, whilst not impacting on the ability to deliver development. The testing has concluded that some forms of commercial development, including convenience floorspace is unable to support a CIL charge. However, it has highlighted that a rate of £40 could be levied on new retail warehousing and comparison shopping, with a buffer of around 60% against the theoretical maximum level of CIL that could be achieved.

Matter 5: Hotel Levy Rates

27. Is there adequate economic justification to support differential rates between budget and mainstream hotels so that they are justified by appropriate available viability evidence? Is this evidence consistent with that used within the viability assessments for other uses within the Borough? Has the Council sought to avoid undue complexity?

27.1 The viability testing is focused on the types of development expected to come forward in Basingstoke and Deane under the current Local Plan, and this includes new hotel provision on Basing View (see below). A review of the hotel development market and discussion at the Development Industry workshop strongly indicates that any hotel development in Basingstoke is likely to be a budget hotel rather than a full-service hotel, and therefore a budget hotel development was viability tested. Full service hotel development is not tested as it is not expected to come forward in Basingstoke.

27.2 The development industry was able to provide some detailed feedback on budget hotel development as part of the July 2015 workshop, and combined with other data such as values from CoStar and costs from BCIS the evidence for the assessment is comparable with the other non-residential testing.

27.3 The Council has sought to avoid undue complexity by reducing the proposed CIL rate for out of centre retail from £50/sq m to £40/sq m in order to use a common rate with the proposed hotel CIL charge.

28. What role do budget hotels have in delivering the development strategy for Basingstoke and Deane?

28.1 The Adopted Local Plan makes no specific allocation for the provision of a budget hotel in the policies set out in the plan, with the exception of policy SS8 in relation to Basing View, which specifies the type of development that would be expected on each general area, as a part of the regeneration

taking place. This sets out that in the 'Midtown' area (identified as Area B) that:

'...the area will be developed primarily for office uses and will include a hotel, small scale complementary retail, leisure and restaurant uses with a new urban open space in a central location to act as a focal point for the development'.

- 28.2 This policy is supplemented by EP3 of the Local Plan in relation to Town, District and Local Centres, and requires that proposals for main town centres uses outside of defined centres must follow a sequential approach.
- 28.3 It should be noted that the Borough Council approved a planning application for a new budget hotel of 88 bedrooms in Basingstoke in 2011, and previously extensions to similar facilities, indicating the demand for this form of accommodation and viability in the developments. Given the outcome of the testing that has been undertaken, the scope for further demand in the future and the need to help support infrastructure, it is appropriate to secure the payment of CIL through these forms of development.
29. Overall, do the rates strike an appropriate balance between helping to fund the new infrastructure required and the potential effect on the economic viability of new budget hotels across the Borough?
- 29.1 As with all forms of development expected to come forward in the borough, viability testing has been undertaken to consider the scope to introduce a CIL charge to contribute to the provision of infrastructure, whilst not impacting on the ability to deliver development. The testing has concluded that some forms of commercial development, including budget hotels are unable to support a CIL charge. However, it has highlighted that a rate of £40 could be levied on new budget hotels with a buffer of around 50% against the theoretical maximum level of CIL that could be achieved, and these funds would be used towards the council's infrastructure funding gap.

Annex One - Sensitivity Tests Briefing Note

August 2017

Introduction

1. To assist the CIL Examination the Council was asked to undertake additional sensitivity tests to consider the impact of potential different cost and value scenarios. The basis of the sensitivity tests has been developed in consultation with representatives from the Golf Course and Manydown strategic sites, who were asked to comment on an initial draft note of the proposed sensitivity testing. The tests undertaken reflected comments from those consulted which related to generic testing issues.

Context

2. Correspondence with the examiner about the issue of sensitivity testing - extract from examiner's letter of 20 June 2017 -

"The Council has set differential rates for housing based on both the scale of housing and its geographical distribution. Whilst I note some testing has been done, I could not identify the detailed evidence to underpin this differentiation. Nor, have I been able to find sensitivity data for increases in finance costs, and both falls and uplifts in sales values."

3. Extract from Council's response of 3 July 2017 -

"Sensitivity testing has not specifically been undertaken. However, the allowances for a 'buffer' take into account some changes on costs and values that may arise. The council's viability consultants, Three Dragons, advise that since the July 2015 workshop, house prices overall in Basingstoke and Deane have increased by 18.7% (Land Registry House Price Index)¹ and that build costs have increased by 10%-11% (BCIS). Sensitivity testing could be undertaken on this data and could also consider forecast changes in the future, if you feel that this would be helpful in examining the Borough Council's approach."

Available guidance on sensitivity testing for area wide viability studies

4. There are various options for sensitivity testing that can be followed and Planning Practice Guidance does not prescribe how sensitivity testing, if undertaken, should be dealt with.
5. In the context of the treatment of viability over time, the Harman Guide² states, "Forecasting things like house prices or costs is notoriously difficult over the shorter term, and subject to wider inaccuracies over the medium and longer term. The best a council can realistically seek to do is to make some very cautious and transparent assumptions with sensitivity testing of

¹ New build house prices Jan 2016 – March 2017 have increased by 22% over the values used in the 2016 report

² Local Housing Delivery Group, chaired by Sir John Harman, Viability Testing Local Plans – Advice for planning practitioners • June 2012, Page 26

the robustness of those assumptions. In so doing, it is important that variations against baseline costs, as well as values, are tested and based, where appropriate, on construction cost and other indices. However, local planning authorities should ensure that the requirements of the NPPFare not prejudiced by unrealistic forecasting assumptions beyond the first five year period of the Local Plan”

Additional sensitivity testing undertaken

6. The sensitivity testing has been undertaken on a sample of six scheme types from the Three Dragons Viability Study of March 2016 as being representative of different development types in the borough and which, together, can illustrate the impact of potential changes in costs and values on scheme viability. The five schemes types are:
 - 1 ha tile in Basingstoke and Tadley at 35 dph
 - 1 ha tile in 'Rest of Borough' at 35 dph
 - Two small sites in Rest of Borough (at 40% AH)
 - 4 dwellings
 - 10 dwellings
 - Manydown Strategic Site – using the additional Country Park and transport costs included in the published Update Notes of February 2017
 - The Golf Course site
7. The detail of the sensitivity test responds to the suggestions made in the CIL consultation representations. Values and costs for the testing are first brought up to date, as noted in the Council's response of 3 July (see above). Note that as well as build costs, opening up and s106 costs were increased as well. The sensitivity tests undertaken are then based upon the updated values and costs, and include:
 - Forecast changes to values and costs
 - A higher finance rate
 - Increase/decrease in sales values
8. Details of these tests are discussed below.

Market Values

9. The Office for Budget Responsibility expects house prices to continue to rise ahead of both earnings and consumer prices (CPI), with a nominal increase of around 4% per annum through to 2021/22. This is broadly consistent with forecasts published by commercial property researchers. The sensitivity testing therefore uses a 4% per annum forecast of growth in house prices for the duration of the development.

Affordable housing values

10. Rent levels will not be altered as government rent setting policy remains uncertain. Revenue from shared ownership schemes will reflect market value increases.

Build costs

11. BCIS forecasts indicate increases of just under 3% pa to Q1 2019, then increasing to about 4.8% pa for the two years to Q1 2022. For simplicity, we use an annual average increase of 4% as a broad average, noting that this figure is higher than produced by various commercial organisations with increases per annum of nearer 2.5%. Taking the higher 4% per annum increase is a precautionary approach, which builds in a significant cushion against potential cost increases.

Finance rates

12. The examiner has asked that sensitivity testing is undertaken for an increase in finance costs. We recognise that finance costs do vary between developer and schemes and that the underlying interest rate of the Bank of England (currently at 0.25%) does not reflect borrowing costs for development. We have therefore included a 7% interest rate as a sensitivity test.

Separate testing for uplift/falls in values

13. The examiner has asked for separate testing of falls and uplifts in sales values. The sensitivity tests use changes in market values of +/- 5% and +/- 10%. One of the development industry consultees has requested that we also undertake sensitivity tests for build costs and so we have included +/- 5% and +/- 10% changes in build costs as part of these sensitivity tests.
14. We note that the last time house prices fell by 10% or more was during the early period of the last recession, when the UK house price index moved from 99.67 in September 2007 to 90.03 in September 2008 (-10%). This change in prices was accompanied by a fall in sales of 57% in monthly sales volumes (from 119,193 in September 2007 to 43,308 in September 2008)³. This suggests that if a similar value decrease happens again, the wider housing market impacts will be severe and the level of CIL rates in the borough will play a relatively minor role in housing deliverability.

Sensitivity Testing Results

15. The results of the sensitivity tests are set out below. These tests are grouped by each case study sampled for these tests, starting from the base scenario with updated values and costs. The testing uses a discounted cashflow for the 10-dwelling scheme, Manydown and the Golf Course. For the other case studies sensitivity test 2 is not relevant as the modelling assumes all costs and values are in the same year. Figures are presented

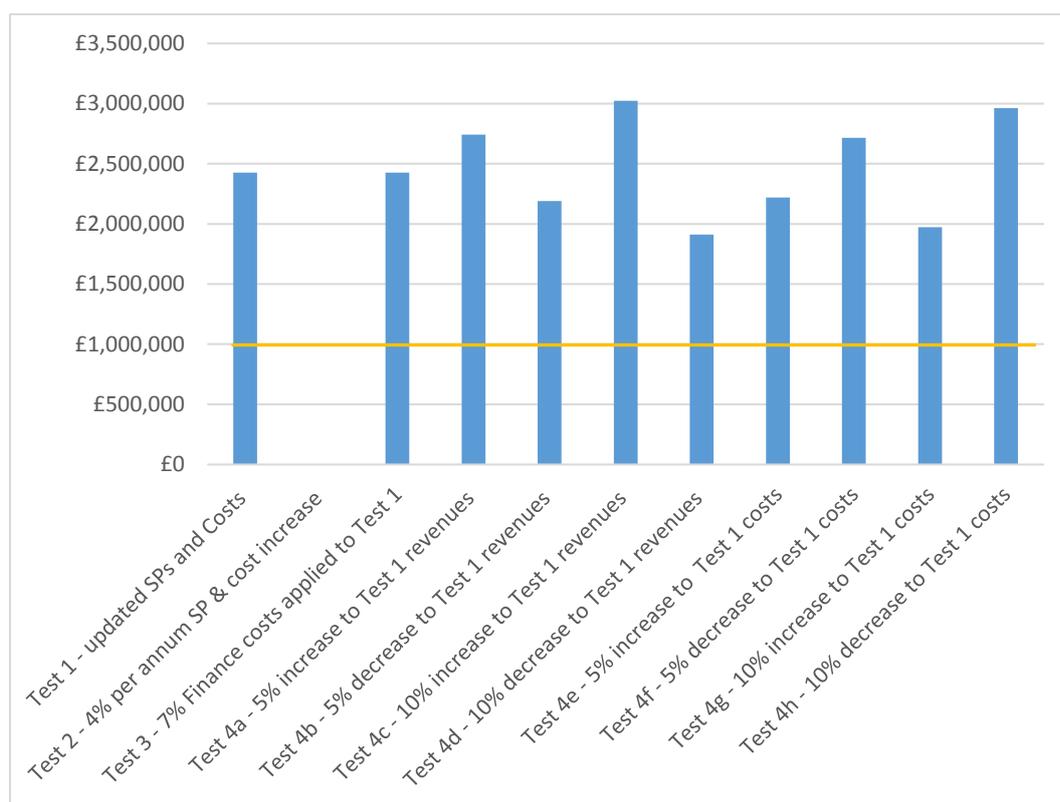
³ <http://landregistry.data.gov.uk/app/ukhpi/explore>

as scheme residual values per ha, and the resulting theoretical maximum CIL (i.e. prior to adjustment for any buffer).

1 ha tile in Basingstoke and Tadley at 35 dph

16. All of the sensitivity tests produce residual values well above the benchmark:
 - The change in finance rate makes little difference as the development is over a single year
 - The +/- 5% and +/-10% changes in revenues have expected impacts on the viability headroom, with viability weakening as values decrease/costs increase, and viability strengthening as values increase and costs decrease.
 - The weakest viability in these sensitivity tests is when a 10% decrease in values is applied but even with a 10% decline in values, residual values are well above the benchmark and allow for a maximum CIL rate of at least £519/sq m.
 - Theoretical maximum CIL rates vary between £519 to £882/sq m.
17. The testing for this 1 ha tile is only over one year and so does not include a discount cash flow so Test 2 (4% increase in values and 4% increase in costs per annum) is not applied.

Figure 1 - 1 ha tile in Basingstoke and Tadley at 35 dph



1 ha tile in Basingstoke and Tadley at 35 dph		
Test	Residual Value £/Ha	Potential CIL in £/sq m
Test 1 - updated SPs and Costs	£2,426,000	£621
Test 2 - 4% per annum SP & cost increase		
Test 3 - 7% Finance costs applied to Test 1	£2,426,000	£621
Test 4a - 5% increase to Test 1 revenues	£2,743,000	£760
Test 4b - 5% decrease to Test 1 revenues	£2,190,000	£519
Test 4c - 10% increase to Test 1 revenues	£3,025,000	£882
Test 4d - 10% decrease to Test 1 revenues	£1,912,000	£397
Test 4e - 5% increase to Test 1 costs	£2,220,000	£532
Test 4f - 5% decrease to Test 1 costs	£2,715,000	£747
Test 4g - 10% increase to Test 1 costs	£1,973,000	£424
Test 4h - 10% decrease to Test 1 costs	£2,963,000	£855
Site area ha - 1		
Dwellings - 35		
Benchmark Land Value/ha - £1m		
<i>Note - SP = selling prices</i>		

1 ha tile in 'Rest of Borough' at 35 dph

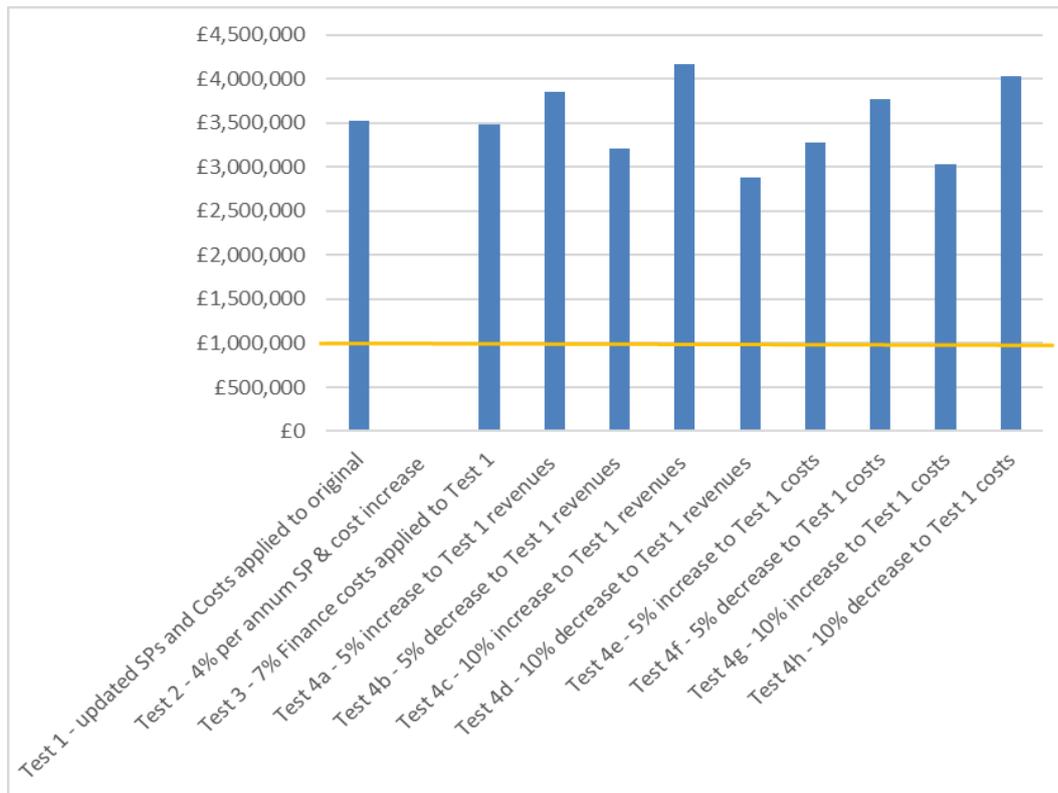
18. All of the sensitivity tests are well above the benchmark:

- The change in finance rate makes little difference as the development is over a single year

- Again, the +/- 5% and +/-10% changes in revenues have expected impacts on the viability headroom. The weakest viability in these sensitivity tests is when a 10% decrease in values is applied but even with a 10% decline in values, residual values are well above the benchmark and allow for a maximum CIL rate of at least £819/sq m.
- Theoretical maximum CIL rates vary between £819 to £1,383/sq m.

19. Again, the testing for this 1 ha tile is only over one year and so does not include a discount cash flow so Test 2 (4% increase in values and 4% increase in costs per annum) is not applied.

Figure 2 - 1 ha tile in Rest of Borough' at 35 dph



1 ha tile in Rest of Borough' at 35 dph

Test	Residual Value £/Ha	Potential CIL in £/sq m
Test 1 - updated SPs and Costs	£3,529,000	1,102
Test 2 - 4% per annum SP & cost increase		
Test 3 - 7% Finance costs applied to Test 1	£3,488,000	£1,084
Test 4a - 5% increase to Test 1 revenues	£3,849,000	£1,241
Test 4b - 5% decrease to Test 1 revenues	£3,204,000	£960
Test 4c - 10% increase to Test 1 revenues	£4,174,000	£1,383
Test 4d - 10% decrease to Test 1 revenues	£2,880,000	£819
Test 4e - 5% increase to Test 1 costs	£3,281,000	£994
Test 4f - 5% decrease to Test 1 costs	£3,778,000	£1,211
Test 4g - 10% increase to Test 1 costs	£3,033,000	£886
Test 4h - 10% decrease to Test 1 costs	£4,027,000	£1,319

Site area ha - 1
 Dwellings - 35
 Benchmark Land Value/ha - £1m
 Note - SP = selling prices

Rest of Borough 4 dwellings

20. All of the sensitivity tests are well above the benchmark:
- The change in finance rate makes little difference as the development is over a single year
 - Again, the +/- 5% and +/-10% changes in revenues have expected impacts on the viability headroom. The weakest viability in these sensitivity tests is when a 10% decrease in values is applied but even with a 10% decline in values, residual values are well above the benchmark and allow for a maximum CIL rate of at least £767/sq m.
 - Theoretical maximum CIL rates vary between £767 to £1,302/sq m.
21. The testing for this case study is only over one year and so does not include a discount cash flow so Test 2 (4% increase in values and 4% increase in costs per annum) is not applied.

Figure 3 – 4 dwellings in Rest of Borough'



4 dwellings in Rest of Borough		
Test	Residual Value £/Ha	Potential CIL in £/sq m
Test 1 - updated SPs and Costs	£3,237,500	£1,029
Test 2 - 4% per annum SP & cost increase		
Test 3 - 7% Finance costs applied to Test 1	£3,200,000	£1,011
Test 4a - 5% increase to Test 1 revenues	£3,531,250	£1,164
Test 4b - 5% decrease to Test 1 revenues	£2,975,000	£908
Test 4c - 10% increase to Test 1 revenues	£3,831,250	£1,302
Test 4d - 10% decrease to Test 1 revenues	£2,668,750	£767
Test 4e - 5% increase to Test 1 costs	£3,018,750	£928
Test 4f - 5% decrease to Test 1 costs	£3,456,250	£1,129
Test 4g - 10% increase to Test 1 costs	£2,825,000	£839
Test 4h - 10% decrease to Test 1 costs	£3,675,000	£1,230
Site area ha – 0.16 Dwellings - 4 Benchmark Land Value/ha - £1m <i>Note – SP = selling prices</i>		

Rest of Borough 10 dwellings

22. All of the sensitivity tests are well above the benchmark:

- Again, the +/- 5% and +/-10% changes in revenues have expected impacts on the viability headroom. The weakest viability in these sensitivity tests is when a 10% decrease in values is applied but even with a 10% decline in values, residual values are well above the benchmark and allow for a maximum CIL rate of at least £790/sq m.
- Theoretical maximum CIL rates vary between £790 to £1,316/sq m.

Figure 4 – 10 dwellings in Rest of Borough'



10 dwellings in Rest of Borough		
Test	Residual Value £/Ha	Potential CIL in £/sq m
Test 1 - updated SPs and Costs	£3,866,238	£1,053
Test 2 - 4% per annum SP & cost increase	£4,268,769	£1,201
Test 3 - 7% Finance costs applied to Test 1	£3,812,169	£1,034
Test 4a - 5% increase to Test 1 revenues	£4,222,000	£1,184
Test 4b - 5% decrease to Test 1 revenues	£3,507,790	£922
Test 4c - 10% increase to Test 1 revenues	£4,580,721	£1,316
Test 4d - 10% decrease to Test 1 revenues	£3,148,800	£790
Test 4e - 5% increase to Test 1 costs	£3,595,124	£954
Test 4f - 5% decrease to Test 1 costs	£4,137,352	£1,153
Test 4g - 10% increase to Test 1 costs	£3,323,945	£854
Test 4h - 10% decrease to Test 1 costs	£4,408,466	£1,253
Site area ha - 0.29		
Dwellings - 10		
Benchmark Land Value/ha - £1m		
Note - SP = selling prices		

Manydown Strategic Site

23. All of the sensitivity tests are well above the benchmark:

- Again, the +/- 5% and +/-10% changes in revenues have expected impacts on the viability headroom. The weakest viability in these sensitivity tests is when a 10% decrease in values is applied but even

with a 10% decline in values, residual values are well above the benchmark and allow for a maximum CIL rate of at least £93/sq m.

- Theoretical maximum CIL rates vary between £93 to £313/sq m.

24. Note that these tests use the additional Country Park and transport costs included in the published Update Notes of February 2017.

Figure 5 – Manydown Strategic Site



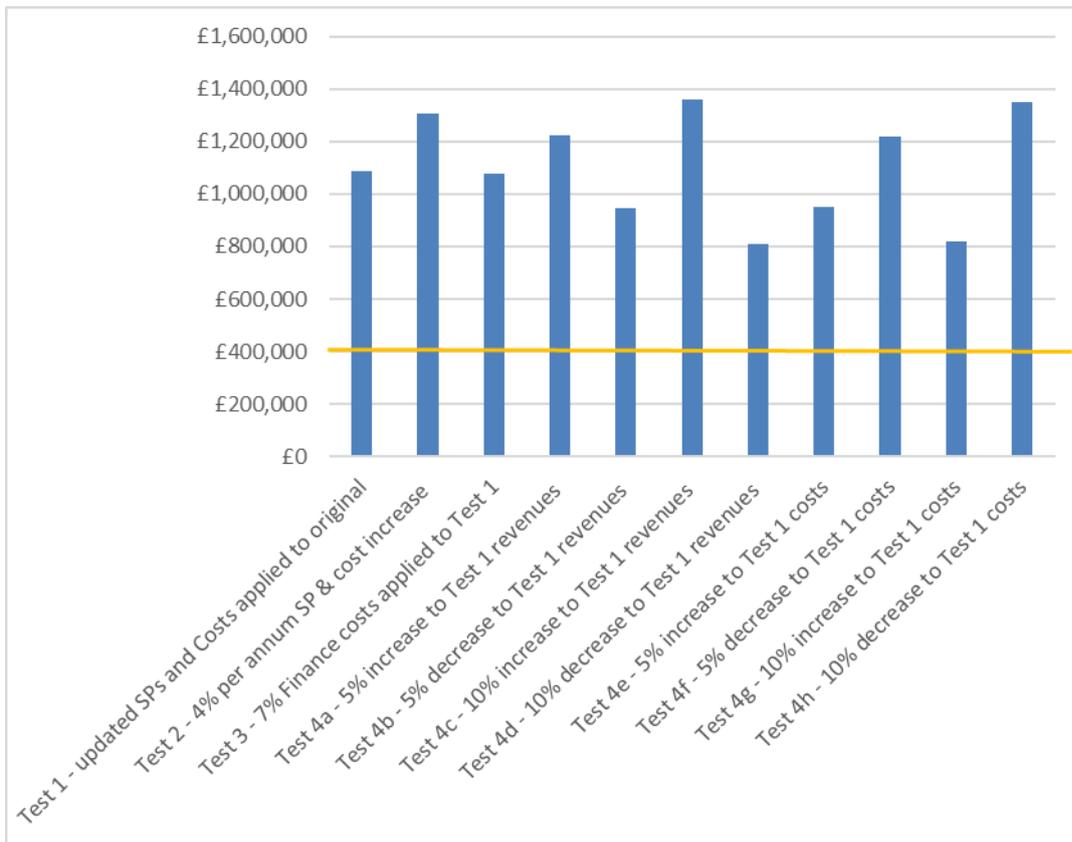
Manydown		
Test	Residual Value £/Ha	Potential CIL in £/sq m
Test 1 - updated SPs and Costs	£820,659	£203
Test 2 - 4% per annum SP & cost increase	£1,063,723	£321
Test 3 - 7% Finance costs applied to Test 1	£815,951	£201
Test 4a - 5% increase to Test 1 revenues	£933,053	£258
Test 4b - 5% decrease to Test 1 revenues	£705,661	£148
Test 4c - 10% increase to Test 1 revenues	£1,046,954	£313
Test 4d - 10% decrease to Test 1 revenues	£592,710	£93
Test 4e - 5% increase to Test 1 costs	£707,091	£148
Test 4f - 5% decrease to Test 1 costs	£933,303	£258
Test 4g - 10% increase to Test 1 costs	£592,728	£93
Test 4h - 10% decrease to Test 1 costs	£1,045,481	£312
Site area ha – 183.56		
Dwellings – 3,400		
Benchmark Land Value/ha - £0.4m		
Note – SP = selling prices		

The Golf Course site

25. All of the sensitivity tests are well above the benchmark:

- Again, the +/- 5% and +/-10% changes in revenues have expected impacts on the viability headroom. The weakest viability in these sensitivity tests is when a 10% decrease in values is applied but even with a 10% decline in values, residual values are well above the benchmark and allow for a maximum CIL rate of at least £183/sq m.
- Theoretical maximum CIL rates vary between £183 to £426/sq m.

Figure 6 – Golf Course Strategic Site



Golf Course		
Test	Residual Value £/Ha	Potential CIL
Test 1 - updated SPs and Costs	£1,085,578	£305
Test 2 - 4% per annum SP & cost increase	£1,307,838	£404
Test 3 - 7% Finance costs applied to Test 1	£1,076,086	£301
Test 4a - 5% increase to Test 1 revenues	£1,220,986	£365
Test 4b - 5% decrease to Test 1 revenues	£946,229	£243
Test 4c - 10% increase to Test 1 revenues	£1,357,248	£426
Test 4d - 10% decrease to Test 1 revenues	£811,055	£183
Test 4e - 5% increase to Test 1 costs	£952,076	£245
Test 4f - 5% decrease to Test 1 costs	£1,218,443	£364
Test 4g - 10% increase to Test 1 costs	£817,910	£186
Test 4h - 10% decrease to Test 1 costs	£1,349,512	£422
Site area ha – 46.95 Dwellings – 1,000 Benchmark Land Value/ha - £0.4m <i>Note – SP = selling prices</i>		

Summary

For all the sensitivity tests, all schemes tested remain viable. This includes the test which assumes a 10% decrease in house prices. As noted earlier, a fall in prices of this order, is an exceptional event and was last experienced in the economic downturn of 2008/09 and thereafter. In these circumstances, the CIL rates would be of little consequence and, in any case, a downturn in value of this order would lead the council to undertake a review of CIL.

Generally, the small development case studies and the 1 ha tiles show strong viability, with development in the 'Rest of Borough' particularly strong because of the higher values. Sensitivity testing of the strategic sites replicates results from the original study with generally lower residual values than for the other scheme types (as reported in March 2016 – EV04). Nevertheless, both Manydown and the Golf Course are viable through all of these sensitivity tests and able to support the proposed CIL rates of £50/sq m and £80/sq m respectively.