

For:
West Berkshire Council

Affordable Housing Viability Study

Final Report

Assessment to October 2019

(Final Issue v9 - July 2020)

DSP18569

Contents

Executive Summary	3
Introduction	8
Methodology	17
Findings & recommendations	56
(Including: Brief Findings Summary – key considerations/options)	77
Zero Carbon – additional testing	79

Appendices appended to the rear of this report as follows:

Appendix I – Development Appraisal Assumptions

Appendix IIa – WBC Residential Results – by Table number

**Table 1a: Residual Land Value Results by Value Level & CIL Rate –
1 Unit Scheme – House**

**Table 1b: Residual Land Value Results by Value Level & CIL Rate –
2 Unit Scheme – Houses**

**Table 1c: Residual Land Value Results by Value Level & CIL Rate –
3 Unit Scheme – Houses**

**Table 1d: Residual Land Value Results by Value Level & CIL Rate –
4 Unit Scheme - Flats**

**Table 1e: Residual Land Value Results by Value Level & CIL Rate –
5 Unit Scheme - Houses**

**Table 1f: Residual Land Value Results by Value Level & CIL Rate –
6 Unit Scheme - Houses**

**Table 1g: Residual Land Value Results by Value Level & CIL Rate –
10 Unit Scheme - Houses**

**Table 1h: Residual Land Value Results by Value Level & CIL Rate –
15 Unit Scheme - Flats**

**Table 1i: Residual Land Value Results by Value Level & CIL Rate –
15 Unit Scheme - Houses**

**Table 1j: Residual Land Value Results by Value Level & CIL Rate –
25 Unit Scheme - Houses**

**Table 1k: Residual Land Value Results by Value Level & CIL Rate –
30 Unit Scheme – Flats (Sheltered)**

**Table 1l: Residual Land Value Results by Value Level & CIL Rate –
50 Unit Scheme – Mixed (Houses & Flats)**

**Table 1m: Residual Land Value Results by Value Level & CIL Rate –
50 Unit Scheme – Flats**

**Table 1n: Residual Land Value Results by Value Level & CIL Rate –
100 Unit Scheme - Mixed**

**Table 1o: Residual Land Value Results by Value Level & CIL Rate –
250 Unit Scheme - Mixed**

**Table 1p: Residual Land Value Results by Value Level & CIL Rate –
1000 Unit Scheme - Mixed**

**Table 1q – Affordable Housing Tenure Sensitivity Testing (15 houses, 50 units –
mixed, 50 flats) – Varied by tenure mix**

**Appendix IIb – WBC Residential Results with Zero Carbon Allowance – Tables content
follows format as per Appendix IIa.**

Appendix III – Market Values & Assumptions Research

Executive Summary

Context and assessment approach

1. West Berkshire Council (WBC) has an adopted Core Strategy (2006 to 2026), alongside a Housing Site Allocations DPD and a number of saved policies from the Local Plan 1991 to 2006, and is in the early stages of reviewing the Plan in order to set out the future direction of development and policies to 2036. The Council also has an adopted Community Infrastructure Levy (CIL) Charging Schedule (effective from 2015) with charging rates of £92.29/m² for residential development in Newbury, Thatcham and the Eastern Urban Area and £153.81/m² elsewhere in the district¹.
2. As part of the preparation of the Local Plan Review, WBC wishes to update and refresh the evidence base. This includes a review of the viability of affordable housing policies. WBC have therefore commissioned Dixon Searle Partnership (DSP) to carry out an Affordable Housing Viability Assessment (AHVA) on behalf of the Council. Following initial reporting for the Council, additional testing was requested and carried out to review the potential viability impact of requesting zero carbon standards as part of residential development.
3. The National Planning Policy Framework (NPPF) introduced a requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. This requirement was introduced in 2012 and has been retained in subsequent versions of the NPPF (2018, as further updated 2019). This study provides advice to the Council on potentially viable affordable housing policies but is not a whole plan viability study (although certain assumptions have needed to be made in respect of other policies within the current Local Plan). Using appropriate assumptions to reflect development costs, the study provides viability appraisals of development typologies representative of sites likely to come forward across the district in the next plan period to 2036.
4. The study tests the potential viability of requiring market-led residential development to provide affordable housing, whilst taking into account the local housing market,

¹ Rates as indexed and chargeable at the time of carrying out this study.

current delivery and the cumulative impact of the Local Plan policies (based currently on the adopted Local Plan policy set).

5. The viability testing has explored the impact of requesting a range of affordable housing proportions (20%, 30% and 40%) across a series of development typologies.

Findings – Overview

6. Affordable housing contributions have a very large influence on the viability of market-led residential development, especially alongside a fixed (non-negotiable) level of CIL charging.
7. Our testing is based on WBC's current policy position of a tenure mix with 70% being social rented and 30% shared ownership. As requested, we have also carried out sensitivity testing that examines a range of different tenure mixes.
8. Overall, the results are considered to be positive, and this is reflective of the WBC experience of delivering planning-led affordable housing using its existing policy set. Nevertheless, it also needs to be acknowledged that across the full range of testing the results can be mixed, and this is highly sensitive to the assumed value level and corresponding site location.
9. There is potential flexibility in the application of the affordable housing tenure and the additional viability scope provided by, for example, substituting a proportion of social rented tenure to affordable rent. This of course needs to be balanced against the need to maintain affordability for the end user.

Recommendations (results summarised in Appendix II)

Sites of <5 dwellings – District wide

10. The results indicate limited viability and we suggest consideration of a nil AH target in these cases. Although there may be particular scenarios / circumstances where this would understate the viability position, on balance we consider it to be an appropriate recommendation in the WBC context.

Sites of 5-9 dwellings – District wide

11. The findings support a continuation of the policy requiring 20% affordable housing on sites of 5 to 9 units. This represents a suitably ambitious target as part of the balance between affordable housing need and viability, acknowledging there may need to be some subsequent consideration of the latter, particularly where schemes come forward on previously developed land (PDL). Where a financial contribution in lieu of on-site AH is necessary, WBC's methodology for calculating payments aligns with the Council's desire for a 'challenging' target. Although we see a positive viability relationship in most cases, our review suggests that there may be significant differences seen between the level (impact) of on-site affordable housing and a currently calculated financial contribution in-lieu - towards off-site provision. There could be merit in reviewing aspects of the calculation methodology to resolve any discrepancy that may occur. However, this could also be dealt with in the course of the particular discussion over the specific detail where necessary.

Sites of 10 or more units (Major Sites)

12. We recommend that WBC considers introducing a threshold of 10+ units as the point at which a higher level of affordable housing proportion could be set (on all types of sites across the district), maintaining the current site size threshold of 0.5 ha, whilst maintaining the approach on sites of 5 to 9 units as above.

PDL Sites of 10+ dwellings (or > 0.5 ha) – District-wide

13. On PDL sites we consider an AH target of 30% to be a suitably ambitious and challenging target whilst again noting the likely need for adaptable policy application in some circumstances.

Greenfield Sites of 10+ dwellings (or > 0.5 ha) – District-wide

14. As above, suggest reducing the current threshold to 10 dwellings. The assessment finds that Greenfield sites have the ability to support a greater level of AH in viability terms. We consider a 40% AH target to be appropriate in these circumstances. (This approach continues the current policy differentiation that has by and large proved workable in West Berkshire).

Self/Custom-build

15. If self-build comes forward as part of a large residential scheme, or as 100% custom/self-build housing, we are of the opinion it should be treated as per market

housing, and an affordable housing requirement should apply. If a self-build scheme were to come forward as an affordable or community-led project, it would be likely to be subject to restrictions relating to subsidy and would be regarded as an exception to policy, thus not required to provide affordable housing.

Rural Exception housing

16. By their nature, such sites are not developable for standard market housing, and the existing/alternative use is generally of agricultural, grazing/paddock or amenity land value. Testing indicates that a 100% affordable scheme appears to require input of grant funding or similar to support the likely development costs. This type of scheme does tend to be able to attract grant funding.

17. Where cross-subsidy from market housing is required, the onus is on the developer to demonstrate that this subsidy is required to make a scheme viable. Due to the low existing use value of such sites it is unlikely that any more than a very small proportion of market housing will be required to make a site viable, even when no capital grant is available.

Zero Carbon

18. Following initial reporting for the Council, additional testing was requested and carried out to review the viability impact of requesting zero carbon standards as part of residential development. The first phase (summarised in Appendix IIb) tested a 7% addition to cost, assuming a high proportion of on-site renewable measures. The second phase (Appendix IIc) was carried out following further review of current evidence and tested a reduced assumption of 3% to 5% on cost taking into account a general decarbonisation of the energy network over time, any current sustainability measures that are already part of council policy, as well as potential economies of scale over time. It also assumed that zero-carbon standard would be met through a combination of on-site renewables and carbon off-setting.

Recommendations assuming Zero Carbon achieved through on-site renewables provision only (7% increase on cost)

< 5 dwellings

19. Likely nil scope for AH (as per base).

5-9 dwellings

The results indicate that affordable housing target would need to be reduced from 20% to 10% AH, applying the WBC AH financial contributions methodology.

>10 dwellings

20. The results indicate that affordable housing target would need to reduce from 30% to 20% for PDL sites and from 40% to 30% for Greenfield site types.

Recommendations assuming Zero Carbon achieved through a combination of on-site renewables and off-setting (4% increase on cost)

< 5 dwellings

21. Likely nil scope for AH (as per base);

5-9 dwellings

22. Maintain the 20% AH recommendation, applying the WBC AH financial contributions methodology.

>10 dwellings

23. Maintain the 30% AH target recommendation on PDL sites and 40% for Greenfield site types. As above the same contextual themes apply in terms of the desire for a suitably challenging AH target, alongside the need for flexible application of the AH tenure.
24. This report is intended to assist WBC in developing affordable housing policy in advance of the wider Local Plan Review. The study provides evidence for the Council on potentially viable affordable housing policies and is based on viability appraisals of development typologies representative of sites likely to come forward across the district over the next plan period to 2036. Once new Local Plan policies are decided, viability need have to be revisited to ensure that the cumulative effect of policy requirements alongside affordable housing policies does not negatively impact upon housing delivery.

Executive Summary ends

1. Introduction

1.1 Background to the Viability Assessment

- 1.1.1 West Berkshire Council's current Core Strategy (2006 to 2026) was adopted in 2012 and forms the West Berkshire Development Plan along with the Housing Site Allocations DPD and a number of saved policies from the Local Plan 1991 to 2006. The Core Strategy sets out the planning framework for the district to 2026, and includes the Council's planning policy on affordable housing provision. The Council is currently in the early stages of reviewing its Local Plan to 2036. The Council also has an adopted Community Infrastructure Levy (CIL) Charging Schedule (effective from 1 April 2015) which identifies differential charging rates for residential development in Newbury, Thatcham and the Eastern Urban Area at £75/m², and the remaining areas of the district at £125/m². These rates have been indexed in accordance with the CIL Regulations – and therefore at the time of writing are £92.29/m² and £153.81/m² respectively. The Council's Planning Obligations Supplementary Planning Document (SPD) sets out the approach for securing contributions and requiring obligations from development, alongside the CIL.
- 1.1.2 The Council (WBC) is looking to update and refresh the evidence base to inform the Local Plan Review (LPR) to 2036. As a key piece of evidence in supporting the emerging affordable housing (AH) policies, the Council has commissioned Dixon Searle Partnership (DSP) to carry out an Affordable Housing Viability Assessment (AHVA). As part of the LPR, the Council is reviewing future levels of need for new homes, employment and other land uses up to 2036. It will also consider what the associated infrastructure needs will be. It should be noted however that this report is not a whole plan viability study although other policies contained within the adopted Local Plan have necessarily needed to be included within the affordable housing viability testing, to ensure that the affordable housing requirements are deliverable with the wider policy costs also taken account of.
- 1.1.3 The Local Plan must be prepared in accordance with the requirements set out in the National Planning Policy Framework (NPPF) and the accompanying national Planning Practice Guidance (PPG). Viability testing is an important part of the plan-making process. The NPPF introduced a clear requirement to assess viability of the delivery of

Local Plans and the impact on development of policies contained within them. The Planning Practice Guidance and other publications provide the steer on implementing this requirement. The PPG also contains the Government's guidance on Planning Obligations and on the CIL.

- 1.1.4 This study provides the appropriate viability evidence for affordable housing policy development which contributes to a suite of documents used to inform and support the Local Plan Review.
- 1.1.5 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure that the proposed policies, sites and the scale of development identified in the plan are deliverable as a whole - to ensure a sound plan through the examination process.
- 1.1.6 In light of the above, the Council has therefore commissioned this AHVA in order to help inform the updating and any necessary further development of new AH policies. At the current stage of the Council's review work, this is done through varying AH tests based on an assessment of the cost impacts of WBC's current planning policies considered alongside national policy and expected development costs cumulatively. Using appropriate assumptions to reflect development costs, the study provides viability appraisals of development typologies representative of sites likely to come forward across the district in the next plan period to 2036.
- 1.1.7 Ultimately this assessment will contribute to informing policy development so that the Council can select a suitable approach on planning-led affordable housing on the basis of having a high-level assurance that the proposed sites and the scale of development identified in the plan would not be subject to a level of affordable housing that may threaten the viability of development overall.
- 1.1.8 In summary, the objective of this study is to assess the viability of different development typologies/scenarios that are considered representative of the type of sites/development coming forward in West Berkshire; and testing site size thresholds for and proportions of affordable homes, whilst taking into account the local housing market, current delivery and the cumulative impact of the Local Plan policies (based currently on the adopted LP policy set).

1.2 West Berkshire Profile

1.2.1. West Berkshire is located in the South East, within a 1 hour drive of London and all the other major south east urban centres. It covers an area of 272 square miles. The area has a population of approximately 158,500², with the main settlements being Newbury, Thatcham and the Eastern Urban Area, along with the rural service centres of Burghfield Common, Hungerford, Lambourn, Mortimer, Pangbourne and Theale. The district is bordered by Oxfordshire, Reading, Wokingham, Hampshire and Wiltshire. West Berkshire also contains extensive rural areas and is largely rural in character, with the North Wessex Downs Area of Outstanding Natural Beauty (AONB) covering 74% of the district.

1.3 Housing Need in West Berkshire

1.3.1. The 2016 Berkshire Strategic Housing Market Assessment (SHMA) identified an Objectively Assessed Need (OAN) for an additional 665 homes per year in West Berkshire to 2036, including a net need of 189 new affordable homes per year. As at 1 April 2018, there were 1,610 households on the Council's housing needs register. Then in 2018 an OAN Sensitivity Testing Report was published which updated the SHMA 2016 OAN figure, and identified an OAN of 600 dwellings per annum, including a net need for 180 new affordable dwellings per annum. However, due to changes in national policy and guidance (NPPF as further updated 2019), the national position on the identification of housing need has shifted with the introduction of a new 'Standard Methodology' to calculate Local Housing Need (LHN). Given the inputs into the standard methodology calculation are variable, the LHN figure is subject to continual adjustment until the Local Plan is submitted for examination.

1.4 Delivery via current affordable housing planning policy

1.4.1 The Council's adopted Core Strategy sets out an affordable housing policy (Policy CS6 – Provision of Affordable Housing), which includes the following:

'On development sites of 15 dwellings or more (or 0.5 hectares or more) 30% provision will be sought on previously developed land, and 40% on greenfield land;

² ONS, 2017 estimate

*On development sites of less than 15 dwellings a sliding scale approach will be used to calculate affordable housing provision, as follows: -
30% provision on sites of 10 – 14 dwellings; and
20% provision on sites of 5 – 9 dwellings.'*

1.4.2 The information provided to us for context by the Council, and as published within the Council's Annual Monitoring Report (AMR), points to a strong track record of AH delivery based on the policies in place. An analysis of AH delivery indicates that policy compliant provision via policy CS6 (Provision of Affordable Housing) of the adopted West Berkshire Core Strategy (2006-2026) has been achieved on most sites in West Berkshire over the past 6 years. Only 3 sites out of 44 within the past 6 years which have provided over 15 new dwellings have failed to meet the full policy requirement due to viability considerations. All sites providing 10 to 14 units have met the full requirement. Although many sites of 5 to 9 units have met the policy requirement, approximately half of these sites have failed to provide on-site affordable housing. Some have however provided an AH financial contribution, whilst some have provided a reduced or zero level of affordable housing for viability reasons. In particular we understand that the most recent two years have seen a high proportion of small sites failing to provide a fully policy compliant level of provision.

1.5 Future delivery

1.5.1 The Local Plan Review proposes a strategy which builds on the existing settlement pattern, with Newbury and Thatcham being the focus for development. At this early stage of review, it is not possible to be certain of the distribution of development in terms of site type (e.g. greenfield/previously developed land (PDL)). Most new allocations are likely to be on greenfield sites; however, a significant amount of development is also expected to come forward on windfall sites (of which in previous years have been 80% on PDL). We must therefore review the results of our appraisals in the context of development continuing to be on a mix of site types, rather than assuming that the deliverability of the plan will be entirely dependent on one or other site type coming forward. Ultimately, the type and mix of sites feeding into the overall delivery may well influence the final framing of policies.

1.6 Policy & Guidance

1.6.1 In July 2018, the revised NPPF (July 2018) was published alongside updated Planning Practice Guidance (in particular in relation to viability both at plan making and decision taking stages of the planning process). This has been taken into account in this study (as now further updated in 2019, again with the accompanying Planning Practice Guidance).

1.6.2 Previously the NPPF (2012) set out the overall approach to the preparation of Development Plans. It provided specific guidance on ensuring viability and deliverability. In particular, paragraphs 173-174 stated:

'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for Affordable Housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable.'

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for Affordable Housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'.

1.6.3 The requirement to consider viability now stems from the National Planning Policy Framework (NPPF) 2018 (last updated 19 February 2019) which says on 'Preparing and reviewing plans' at para 31: *'The preparation and review of all policies should be underpinned by relevant and up-to-date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals.'*

1.6.4 NPPF para 34 on 'Development contributions' states: *'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.'*

1.6.5 The updated national Planning Practice Guidance (PPG) also published in July 2018 on 'Viability'³ (and again subsequently updated) provides more comprehensive information on considering viability in plan making, with CIL viability assessment following the same principles. Paragraph 001 of the guidance on Viability states (with reference to paragraph 34 of the NPPF):

'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure).'

These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types of site or types of development... Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan'.

³ The PPG was most recently updated on 1 September 2019, however the section on Viability remains unchanged.

1.6.6 In addition, relevant information is contained in the publication ‘Viability Testing Local Plans – Advice for planning practitioners’ published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the ‘Harman’ report). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.

1.6.7 This viability assessment has therefore been produced in the context of and with regard to the NPPF, PPG and other guidance applicable to studies of this nature.

1.7 Purpose of this Report

1.7.1 Responding to the importance of viability testing as part of the plan-making process, to meet the requirements of the NPPF, this Viability Study was commissioned with an objective to provide recommendations on affordable housing policies moving forward, after reviewing the delivery that the current policies have supported. Affordable housing requirements typically have the greatest impact on housing development viability relative to the other influences that are created by local authority policy, hence the current review focuses on this in determining the impact on development viability of the adopted local plan policies for the remainder of the plan period up to 2036. This level of impact arises from the affordable homes costing broadly the same to develop as the market sale dwellings, but producing a much lower level of value (development revenue) in order to be affordable to the residents.

1.7.2 The assessment involves (as above) the review of the financial viability of site typologies representing a range of typical site types likely to come forward over the plan period. The results provide the viability evidence base to inform and support the affordable housing policies within the LPR. Additionally, because no single policy impact can be considered in isolation, this also more widely informs and contributes to assessing and supporting the broader policy set and therefore the deliverability of the plan overall.

1.7.3 Consistent with the guidance, this approach does not require a detailed viability appraisal of every site anticipated to come forward over the plan period, but rather

the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every policy or potential policies that are likely to have a close bearing on development costs.

- 1.7.4 To this end, the study requires the policies and proposals in the Local Plan to be brought together to consider their cumulative impact on development viability and therefore what this means for AH policy in terms of overall requirements and thresholds; including whether those should be varied in different circumstances locally. At this stage, in terms of policies likely to have a material cost and therefore viability impact, the Council, given it is undertaking a review, does not expect the new Plan policies to differ significantly from the existing, which have therefore been used to build the appraisal assumptions.
- 1.7.5 The assessment applies a sensitivity testing approach to considering affordable housing policy costs, including reviewing a potential range of affordable housing proportions, tested at different thresholds and considering the effect of changes in the tenure mix of affordable housing. We have also looked at rural exception sites and self-build housing.
- 1.7.6 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging this, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics, however, this study does provide a sufficiently robust and proportionate assessment for the purposes of strategic plan making, in compliance with national policy and guidance.
- 1.7.7 The approach used to inform the study applies the well-recognised methodology of residual land valuation. 'Viability' in the sense of this assessment means the financial health of development, so that the assessment centres around the strength of the relationship that is available between the completed development (sale) value and the development costs; and how the strength of this relationship varies across a range of development types, host site types and locations – all bearing in mind the types of sites and schemes expected to come forward to support the Local Plan overall, and the local characteristics.

- 1.7.8 The study process produces a large range of results relating to the exploration of a range of potential affordable housing percentage targets as well as other variables. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the Council's approach through the policy setting process.
- 1.7.9 A key element of the viability overview process is the comparison of the residual land value (RLV) results generated by the development appraisals and the potential level of land value that may need to be reached to ensure that development sites continue to come forward - so that development across the area is not put at risk owing to unrealistic policy burdens in combination with other development cost factors. These comparisons ('Viability Tests') are necessarily indicative but are linked to an appropriate site value or benchmark. The results sets have been tabulated in summary form and those are included in Appendices IIa and IIb (residential results from a review of general residential typologies).
- 1.7.10 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons may be highly variable in practice. It is acknowledged in a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested.
- 1.7.11 This report then sets out findings and recommendations, together with any options, relating to the viability of affordable housing in West Berkshire, whilst also continuing to allow for WBC's currently charged CIL rates (i.e. with indexation fully applied) as part of the cumulative costs of development that need to be factored in.
- 1.7.12 Following the presentation of our emerging findings, WBC has asked DSP to carry out further scenario testing to assess the impact of a potential policy requirement for residential development to achieve a net zero carbon standard. This report includes findings and recommendations on this.

2 Methodology

2.1 Residual valuation principles

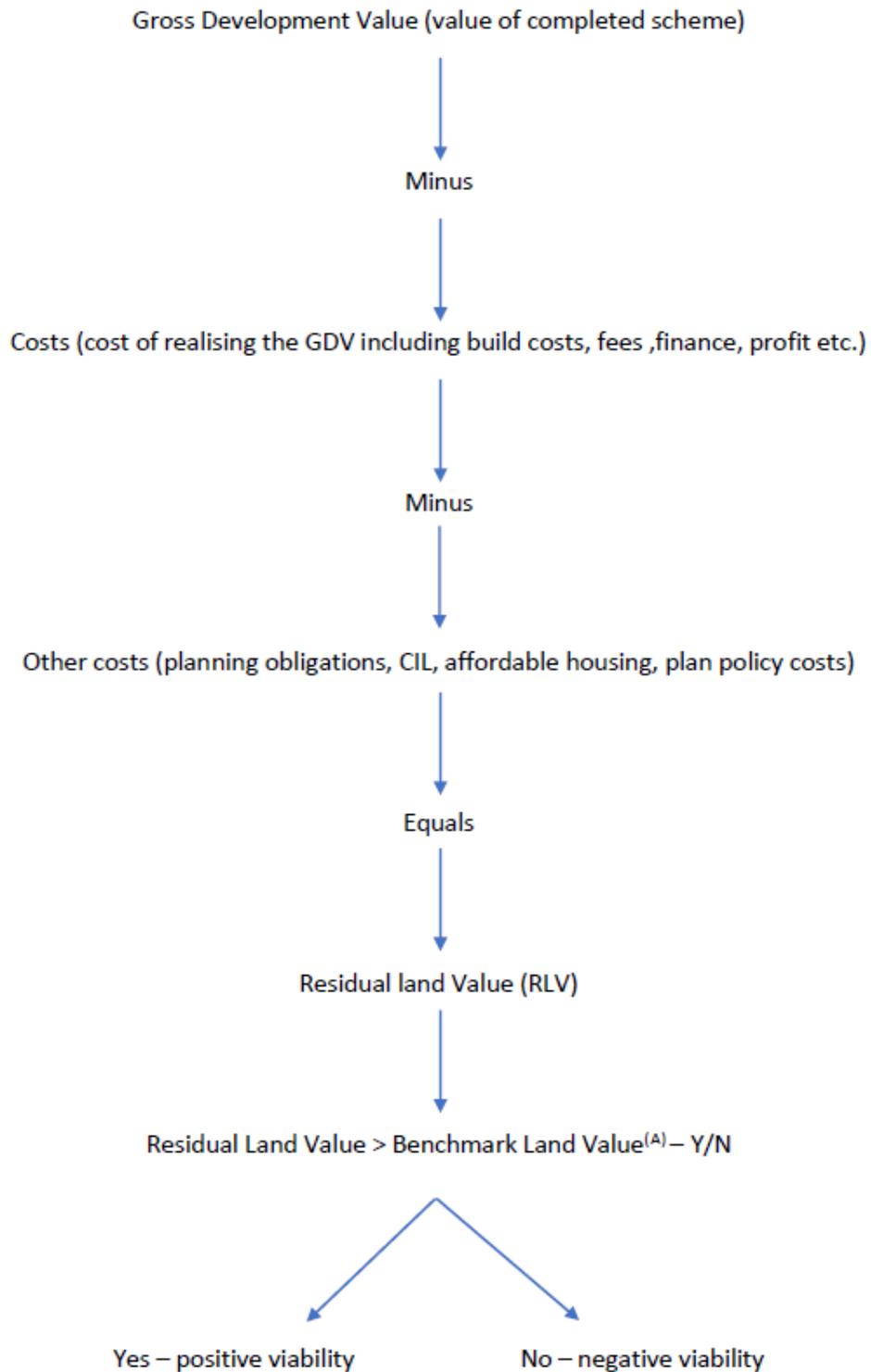
- 2.1.1 This assessment has been carried out in the context of the NPPF (July 2018, as updated 19 February 2019) as well as the PPG (most recently updated in September 2019). The NPPF as now updated remains very high level in regard to viability directly, but retains the well-established principle on ‘development contributions’ that: ‘*Such policies should not undermine the deliverability of the plan.*’ The PPG provides useful guidance on plan preparation in regard to viability and contributions. Although this guidance is still relatively new at the point of preparing this assessment, DSP considers that its approach to and experience of LP and other strategic viability assessments remains appropriate – this project has been approached consistently with this new guidance, aided by checking and continually considering the detail and new developments / any other guidance or emerging decisions etc. as work has progressed.
- 2.1.2 Collectively this study investigates the potential viability and, therefore, deliverability of WBC’s affordable housing policies - including a review of various potential affordable housing options (target percentages) and the thresholds above which affordable housing may be sought. We have also sensitivity-tested different tenure mixes, for example reviewing the effect on viability of allowing a proportion of affordable rented tenure as a potential alternative to WBC’s base position of requiring social rented homes. A social housing provider will be able to pay more to a developer to purchase an affordable rented property than a social rented property, due to the higher rental stream. Therefore, including affordable rented units in place of social rented units will allow for a higher quantum of rented affordable housing whilst achieving the same level of viability.
- 2.1.3 There will be a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on discussions with Council officers. This study considers how the cost of these potential obligations interact and therefore estimates the collective impact on viability of a range of policy options. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all

necessary costs and obligations, once the private dwelling mix is established. From this base viability point, the assessment process then notionally “allocates” AH dwellings and varies their tenure to see how the overall scheme viability is impacted.

- 2.1.4 Prior to fixing assumptions, necessarily at a point in time, and running appraisals (as outlined in the following paragraphs) we undertake an extensive information review, property market research and a development industry stakeholders’ survey. As a part of this, a review of the potential policy proposals enables us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above typical costs (for example utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS)). Appendix I to this document also provides a quick reference guide to the assumptions used and includes a policy review schedule indicating the view taken with respect to the potential policies so far as those are known at the time of this assessment.
- 2.1.5 Residual Valuation supports the most established and accepted route for assessing development viability at a strategic level, including for affordable housing viability as in this case. The approach and principles used are consistent with those relied on for whole plan and CIL viability assessment. This is as also recommended by the above noted “Harman Report” on viability testing local plans; further guidance that we have also taken account of in the last several years of conducting similar assessments. Figure 1 sets out the residual valuation principles in simplified form:

See Figure 1 on the following page.

Figure 1: Simplified Residual Land Valuation Principles



(A) Also known as Threshold Land Value

- 2.1.6 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).
- 2.1.7 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark against which to compare the resulting residual value. The RICS⁴ and Harman⁵ reports differ in their approach to Benchmark Land Value (BLV). Our latest work (both on strategic projects and for DM stage viability) has for some time reflected the move towards a clearer “EUV plus” based approach to the all-important consideration of land values – for the assessment of ‘benchmark land values’.
- 2.1.8 Undertaken as it has been, this assessment now responds to not only the former NPPF and need to consider viability but is also consistent with the latest NPPF and accompanying PPG on Viability, with the NPPF no longer containing any reference to competitive returns to a willing landowner and willing developer. This is discussed further later in relation to Benchmark Land Values.
- 2.1.9 The NPPF and associated PPG on Viability indicate that a balance will be required between the role of strategic level viability work such as this assessment and the application decision making stage (development management). The national requirements appear to be moving more towards a greater level of detail in strategic (LP) assessments, leaving less to be explored / debated at DM stage. However, it appears that there is still a significant recognition that planning application stage / site-specific viability reviews will unavoidably or at least realistically still be likely to play a significant role.
- 2.1.10 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local markets through extensive research on local values, costs and types of provision, etc. At various project stages we consulted with the Council’s officers and

⁴ RICS: Financial Viability in Planning (2012)

⁵ Local Housing Delivery Group – “Viability Testing Local Plans” (June 2012)

sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions to ensure an appropriate basis for appraisal modelling. This included issuing a questionnaire/pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for engagement and for provision of information to help inform the assessment. On the whole, the process is informed as far as practically possible by the review of available information and making an overview from that. This approach reflects the expectations of the guidance.

2.2 Scheme Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of development, whilst including base testing and further sensitivity testing on the policies considered likely to have an impact on development viability. The scenarios were settled and discussed with the Council following a review of the information it provided. The WBC information review scope included the following: -

- Adopted Core Strategy;
- Housing Site Allocation Development Plan Document
- West Berkshire District Local Plan 1991 – 2006 Saved Policies
- Supplementary Planning Documents (SPD) (including on Planning Obligations SPD, Quality Design – West Berkshire SPD and Delivering Investment from Sustainable Development SPD);
- CIL charging schedule;
- 2016 Berkshire (including South Bucks) SHMA; and OAN Sensitivity Testing Report – Western Berkshire HMA (2018)
- Information on the emerging HELAA and pattern book approach to densities;
- 2013 SHLAA;
- Annual monitoring information;
- Five Year Housing Land Supply;
- Details of the review of electoral arrangements; and

- Information on recent planning applications in which viability has been called into question.

2.2.2 We have also discussed with WBC officers the Council's delivery experience on the ground, including the wider context for that and the progress against the adopted Local Plan - including affordable housing completions, permissions granted, and also priorities identified by Members for housing/affordable housing delivery.

Residential Development Scenarios

2.2.3 The site typologies modelled as part of this assessment reflect a range of different types of development that are thought likely to be brought forward through the planning process across West Berkshire. This enables viability to be tested with reference to the potential housing supply characteristics based also on experience of development to date.

2.2.4 Each of the development typologies was also tested over a range of value levels (VLs) representing varying residential values as seen currently across West Berkshire by scheme location / type. This approach also allows us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.2.5 The scheme mixes are by their nature hypothetical – many other types and variations may be seen in reality, including larger or smaller dwelling types in different combinations, according to particular site characteristics, local markets and requirements.

See Figure 2 on following page.

Figure 2: Residential Scheme Types (Tested Typologies)

Scheme Size Appraised	Type	Overall Dwelling Mix
1	House	1 x 4BH (Large)
2	Houses	1 x 3BH, 1 x 4BH
3	Houses	1 x 2BH, 1 x 3BH, 1 x 4BH
4	Flats	2 x 1BF, 2 x 2BF
5	Houses	2 x 2BH, 2 x 3BH 1 x 4BH
6	Houses	2 x 2BH, 3 x 3BH 4 x 4BH
5	Houses	2 x 2BH, 3 x 3BH 1 x 4BH
6	Houses	2 x 2BH, 3 x 3BH 1 x 4BH
10	Houses	4 x 2BH, 4 x 3BH, 2 x 4BH
15	Flats	7 x 1BF, 8 x 2BF
15	Houses	5 x 2BH, 7 x 3BH, 3 x 4BH
25	Houses	9 x 2BH, 11 x 3BH, 5 x 4BH
30	Flats (Sheltered)	12 x 1BF, 18 x 2BF
50	Mixed	10 x 1BF, 7 x 2BF, 8 x 2BH, 18 x 3BH, 7 x 4BH
50	Flats	23 x 1BF, 27 x 2BF
100	Mixed	20 x 1BF, 15 x 2BF, 15 x 2BH, 35 x 3BH, 15 x 4BH
250	Mixed	50 x 1BF, 37 x 2BF, 38 x 2BH, 88 x 3BH, 37 x 4BH
1000	Mixed	200 x 1BF, 150 x 2BF, 150 x 2BH, 350 x 3BH, 150 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

2.2.6 The assumed dwelling mixes are based on the recommendations contained within the Strategic Housing Market Assessment (SHMA)⁶ for Berkshire. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made within the typology (test scenario), given the effects of numbers rounding and also the limited flexibility within small scheme numbers particularly.

⁶ GL Hearn – Berkshire Strategic Housing Market Assessment (Final report, February 2016)

- 2.2.7 On this basis, we have also taken a view on the typical mix of housing for each development size and type, based on our experience together with input from WBC officers, ensuring a suitably realistic and robust approach. DSP has also worked with the Council for several years providing ad hoc assistance with audit style reviews of planning applicants' viability submissions, in a variety of scenarios, albeit that, as above, a relatively small number of cases have been through that process overall.
- 2.2.8 The scenarios reflect a range of different types of development that are likely to come forward through the planning process across the district so as to ensure that viability has been tested with reference to the potential housing supply characteristics. As discussed earlier in the report, the scenarios refer to the HELAA and discussions with officers at WBC regarding the type of sites predicted to be developed over the plan period, as well as evidence of past delivery. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the area by scheme location / type, whilst also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.
- 2.2.9 The dwelling sizes assumed for the purposes of this study are as follows (see figure 3 below):

Figure 3: Residential Unit Sizes

Dwelling type	Dwelling size assumption (sq. m)	
	Affordable	Private (market)
1-bed flat	50	50
2-bed flat	70	70
2-bed house	79	79
3-bed house	93	100
4-bed house	112	130

Source: based on Nationally Described Space Standards

- 2.2.10 For retirement/sheltered housing, units were assumed to be larger 1 and 2 bed flats of 55 sq. m and 75 sq. m respectively.

- 2.2.11 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location but given the nature of this study we have assumed a 'high-level' approach, again also in accordance with relevant guidance. Unit sizes in the study are based on nationally described space standards for market and affordable housing. Additionally, in the case of retirement/sheltered housing, sizes are based on DSP's own experience of reviewing retirement schemes at planning application stage, and with reference to the Retirement Housing Group CIL viability appraisal issues report (Feb 2016).
- 2.2.12 Since there is a relationship between dwelling size, value and build costs, it is the level of value and build cost that is most important factor for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) (see paragraph 2.2.8 and 2.3.5) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to assess, compare and price schemes. It provides a more relevant context for considering the potential viability scope, and also relates well given the statutory basis for collecting CIL.
- 2.2.13 The dwelling sizes indicated are expressed in terms of the gross internal floor areas (GIAs) of the assumed dwellings; with an allowance also made for an assumed 85% net:gross ratio within flatted developments, except sheltered housing where a lower ratio, i.e. more communal space, is assumed (a base 25% non-saleable floor space). We consider they are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. There are house types within the existing housing stock (particularly the very large detached homes) which may not follow the pattern indicated by our £/m² value levels, however we have disregarded these for the purposes of our study because they are not the typical type of property which will come forward as new build housing. At this overview level we do not differentiate between the value per sq. m for flats and houses although in reality there tends to be an inverse relationship between the size of the property and its value when expressed in terms of a rate per unit area. The range of prices expressed in £s per square metre (£/sq. m or £/m²) is therefore the key measure used in considering the research, working up the range of value levels for testing, and in reviewing the results.

2.2.14 As stated above, we have referred to the densities set out in the ‘2013 Pattern Book approach’ for West Berkshire. However, the Pattern Book states that more detailed design may lead to densities which differ from those in the table. We also note that existing policy CS4 takes a broader approach to density. We based our approach on the draft WBC Pattern Book (which, during the course of this study was completed and Revision A published in September 2019). In discussion with WBC Planning Officers, we have ensured that our assumptions around density are reflective of predicted development in West Berkshire. We have taken a balanced view of both pattern book densities and the details of recent developments locally, combined with our experience and assessment of the locations in which development is most likely to come forward. The following table sets out our assumed densities.

Figure 4: Development Densities

Scheme Size Appraised	Type	Site type	DSP Density
1	Houses	PDL	30
2	Houses	PDL	30
3	Houses	PDL	30
4	Flats	PDL	75
5	Houses	PDL/Greenfield	30
6	Houses	PDL/Greenfield	30
10	Houses	PDL/Greenfield	35
15	Flats	PDL	75
15	Houses	PDL/Greenfield	35
25	Houses	PDL/Greenfield	40
30	Flats (Sheltered)	PDL	125
50	Mixed	Greenfield	55
50	Flats	PDL, town centre, small site	115
100	Mixed	PDL, town centre, large site	90
250	Mixed	Greenfield	40
1000	Mixed	Greenfield	40

2.3 Gross Development Value (Scheme Value)

Market housing (sale) values

- 2.3.1 In order to determine likely values for development across West Berkshire, a range of resources has been considered. As well as reviewing the Council's existing evidence base, we also carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we considered existing information contained within previous research documents including previous viability studies; from sources such as the Land Registry, and a range of property websites, considering both new build and re-sale properties. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.
- 2.3.2 A framework needs to be established for gathering and reviewing property values data. The residential market review has been based on a mixture of approaches to attempt to properly reflect the variation in residential property values occurring across the district. This included breaking the area down in to settlements and spatial areas as set out within the Core Strategy (Eastern Area, North Wessex Downs AONB, Newbury and Thatcham, and East Kennet Valley). Appendix III provides more detail on the approach.
- 2.3.3 This provides comprehensive research and analysis of both re-sale and new build sold data, and currently available re-sale and new build property across the area, together with Zoopla current area statistics. This data has been gathered for an overview of the value patterns seen across West Berkshire in order to inform assumption-setting prior to the appraisal modelling phase. It was particularly important to collect the residential values data by settlement areas as the strength of values varies by location as is seen in many cases. This data could then either be aggregated or disaggregated based on the relevant policy areas and CIL Zones enabling further analysis of the value patterns and whether those established geographical bases continue to appropriately reflect the relativities and variation seen; or inform any policy adjustments/other differentials moving ahead.

- 2.3.4 This method of data analysis provided the best, and most reflective, appropriate framework for gathering information and then for reviewing the implications of the variations seen, linked to the likely provision of development across the district.
- 2.3.5 For the residential scheme types modelled in this study, and based on the research undertaken, a range of (sales) value levels (VLs) have been applied to each development scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of West Berkshire District, the VLs covered typical residential market values (average prices across a scheme) over the range £3,000/sq. m (approx. £279/sq. ft.) to £5,000/sq. m (approx. £465/sq. ft.). Most new build properties fall within value levels range 4 to 6 (£3,750/sq. m to £4,250/sq. m), as shown in figure 5, below.
- 2.3.6 For the purposes of this strategic study, an overview needs to be made. Localised variation is seen, as is often the case in our experience – including variable values within small areas and potentially even within sites. At a local level, value patterns can often be indistinct. Overall, whilst a range of VLs can be seen in many areas of West Berkshire - i.e. it is common to see both higher and lower value areas in each locality settlement – there are general differences in the typical values seen when moving between different parts of the area – as above. Our approach, however, is to take a high-level view of the overall strength of values and the corresponding value patterns – relativities and their influence on viability, as above. The VLs do not constrain the consideration of values. They do not represent cut-offs, so that higher values beyond the stated range could be seen, and this scale of values also enables interpolation between points or across a range when considering what the results mean. For the purposes of this study and reflecting national policy and guidance we consider the approach to be appropriate and robust for the purpose.
- 2.3.7 Figure 5 below sets out the identified range of VLs. On an indicative only basis, this information also associates these with settlements / locations in West Berkshire supporting values most represented by them (for new-build housing). Again as above, although necessarily high-level indications, the patterns illustrated below broadly correspond with the existing CIL Zones i.e. overall, lower values are typically seen in

Newbury/Thatcham and the Eastern Urban areas, compared with the typically higher values seen in other locations (AONB and East Kennet Valley).

Figure 5: New Build Values Assumptions Summary

Market Value (MV) - Private	VL1	VL2	VL3	VL4	VL5	VL6	VL7	VL8	VL9
Indicative Relevance of VLs by CIL Spatial Zone	<< Lowest end re-sale values	Lower end new build values		Typical new build values range			Upper-end new build values		>> Highest-end new build values / bespoke design / high-end re-sale values
				AONB					
			East Kennet Valley						
		Eastern Urban Area							
		Newbury & Thatcham							
1-bed flat	£150,000	£162,500	£175,000	£187,500	£200,000	£212,500	£225,000	£237,500	£250,000
2-bed flat	£210,000	£227,500	£245,000	£262,500	£280,000	£297,500	£315,000	£332,500	£350,000
2-bed house	£237,000	£256,750	£276,500	£296,250	£316,000	£335,750	£355,500	£375,250	£395,000
3-bed house	£300,000	£325,000	£350,000	£375,000	£400,000	£425,000	£450,000	£475,000	£500,000
4-bed house	£390,000	£422,500	£455,000	£487,500	£520,000	£552,500	£585,000	£617,500	£650,000
MV (£ / m ²)	£3,000	£3,250	£3,500	£3,750	£4,000	£4,250	£4,500	£4,750	£5,000

- 2.3.8 In this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future development strategy.
- 2.3.9 As noted above, in setting the Council's CIL it was considered necessary to differentiate between Newbury/Thatcham together with the Eastern Urban Area (with a current indexed rate of £92/sq. m) and the rest of the district area (£154/sq. m), and this has been taken into account in our review of AH viability. Indexation will take place each year, as per the CIL Regulations, using the BCIS All-in Tender Price Index.
- 2.3.10 We also consider the additional viability pressures likely to be associated with town/urban centre development; and whether consideration should be given by the Council to any other form of differentiation – including within the overall affordable housing policy approach, but bearing in mind the Council's desire to ensure any policy approach is straightforward to implement and does not create unintended consequences affecting the type of development that is brought forward.
- 2.3.11 It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to West Berkshire. However, these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between the settlements and localities, given the varying characteristics of the district; as set out in these sections and as is suitable for the consideration of Local Plan affordable housing policy viability and deliverability.

2.4 Affordable housing

- 2.4.1 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing. As this study seeks to test the viability of potential WBC Local Plan policies holistically, we have tested and reviewed a range of potential affordable housing policy targets from 0% to 40% depending on likely

applicability by scheme size – it was not considered necessary to test this full range across all scenarios.

2.4.2 The NPPF (2018) at para. 63 stated:

‘Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount’

2.4.3 This was most recently updated in September 2019 to state the following [DSP’s underlining]:

Paragraph 023 (Guidance on Planning Obligations) with reference to NPPF paragraph 63

‘For housing development, major development is defined in the National Planning Policy Framework as development where 10 or more homes will be provided, or the site has an area of 0.5 hectares or more. For non-residential development it means additional floorspace of 1,000 square metres or more, or a site of 1 hectare or more, or as otherwise provided in the Town and Country Planning (Development Management Procedure) (England) Order 2015.

In designated rural areas local planning authorities may instead choose to set their own lower threshold in plans and seek affordable housing contributions from developments above that threshold. Designated rural areas applies to rural areas described under section 157(1) of the Housing Act 1985, which includes National Parks and Areas of Outstanding Natural Beauty.

2.4.4 In carrying out this viability assessment, as requested by WBC, we have undertaken a review of affordable housing policy across a range of potential thresholds in order to inform the Council’s decision-making process from a viability perspective only. We have assessed the viability of affordable housing contributions (payments in lieu of on-site AH) on all developments from a single unit up to 10 units. More detail on the affordable housing assumptions is provided below and at Appendix I.

- 2.4.5 For the affordable housing assumed on-site, we have assumed that approximately 70% is social rented tenure and 30% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the assumed overall scheme mixes and affordable housing proportion in each scenario). Where possible, with numbers rounding, the overall mix of dwellings includes a 10% proportion assumed to be affordable home ownership in accordance with the NPPF (Paragraph 64) on the larger site typologies. The smaller site typologies have been based on the mix identified in the SHMA but we have also included sample additional sensitivity testing for this 10% proportion, having a positive viability impact relatively – see further detail below. The affordable home ownership element is assumed in the form of shared ownership tenure at this stage. Therefore, on larger sites the WBC AH tenure mix including 30% means that bespoke assumptions are not needed to reflect this – it becomes part of the 'intermediate' tenure assumed to make up 30% of the AH content.
- 2.4.6 For sites of 4 dwellings or fewer we have assumed at this stage that a financial contribution would be required in-lieu of on-site provision. For sites of 5 to 9 units we have tested the scenarios assuming both a financial contribution and on-site provision (not together, but as potential alternatives).

Financial contributions

- 2.4.7 As well as reviewing the viability of on-site affordable housing provision, we have tested the off-site financial contributions route, using WBC's calculation methodology which aims to be equivalent to the policy of 20% on-site provision. However, the calculated off-site financial contribution level has been found not to be proportionate to the equivalent number of dwellings in some cases.

Tenure mix

- 2.4.8 We have carried out sensitivity testing on variations to the tenure mix, applying four different affordable housing mixes in addition to the base position of 70% social rent and 30% shared ownership. As requested by WBC, this includes a mix to test tenures which have recently been introduced in the NPPF, for example Discounted Market

Sale. We have not tested this across all appraisals, but have run some 'sensitivity test' appraisals at the more typical new build value levels to indicate the potential impact on viability of these tenures, as set out below:

- 70% social rent, 30% Discounted Market Sale
- 70% Affordable Rent / 30% Shared Ownership
- 50% social rent / 20% Affordable Rent / 30% Shared Ownership
- 35% social rent / 35% Affordable Rent / 30% Shared Ownership

2.4.9 In reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) or similar needs information, including any available more specific data, ensuring that properties meet local needs at the time of the application. In practice many tenure mix variations could be possible; as well as many differing rent levels derived from the affordable rented (AR) tenure approach - as affected by local markets and by affordability. The same applies to the intermediate (currently assumed as shared ownership) affordable housing element in that the setting of the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) or other affordable housing provider's retained equity, and the interaction of these two would usually be scheme specific considerations. Shared ownership (SO) is sometimes referred to as a form of 'low cost home ownership' (LCHO) or affordable home ownership (AHO), as described in the NPPF, which indicates an aspiration for 10% of homes on a site to be AHO. Assumptions need to be made for the study purpose. We have also made assumptions regarding Discounted Market Sale (DMS) – again, there are variations on the type of product provided and how it is marketed, and being a relatively new product there is very little precedent or standard method of provision. In our sensitivity test, we have assumed a 20% discount on the market value for DMS units.

Value of affordable housing/transfer price

2.4.10 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently Homes England (HE) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent

subsidy input unless additionality can be proven. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant or other public subsidy / equivalent.

- 2.4.11 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the ‘payment to developer’, ‘RP payment price’, ‘transfer payment’ or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site-specific viability issues (including specific work on SPDs, Affordable Rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of rental income after deduction for management and maintenance costs, voids allowances and the like). We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to 80% of market rent.
- 2.4.12 In broad terms, the transfer price of an affordable housing unit sold to a Registered Provider assumed in this study varies between approximately 25% and 65% of market value (MV) dependent on tenure, unit type and value level (see Appendix I for full details). Our assumptions on social rent levels were based on the actual rents charged on properties let in the previous six months in West Berkshire, reviewing the average and median amount charged for properties of each size across the district and taking a view (verified by the Council’s housing team) on the social rent levels which would represent a typical affordable home. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The LHA rate for the Newbury Broad Rental Market Area (BRMA) for the varying unit types was used as our cap for the affordable rental assumptions.
- 2.4.13 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the provider’s (e.g. RP’s) own development strategies, and therefore could well vary significantly from case to case

when looking at site specifics. The RP may have access to other sources of funding, such as those related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.5 Development Costs – General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. This means using some constants as the affordable housing assumptions are varied. As with the scheme scenario building, an overview of the various available data sources is required.

2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings and scheme examples, professional experience and other research.

2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting policy and ensuring that the policy requirement is not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased using the Newbury location factor (an adjustment of the base figure indexed for Newbury) and averaged across the area. Costs assumed for each development type are provided in Appendix I. For the purposes of this exercise we

have made an additional cost allowance for housing schemes of 4-9 units and a deduction for flatted schemes of 10 units or less – adjustments based on advice provided by the BCIS within a report commissioned by the Federation of Small Businesses (FSB)⁷. The build cost assumptions are set out fully in Appendix I. Figure 6 below summarises the base build costs (excluding externals but including FSB report based adjustments where applicable):

Figure 6: Build Cost Data (BCIS Median, Newbury location factor relevant at time of research)

Development Type		BCIS Build Cost (£/sq. m)*
Residential C3	Build Costs Mixed Developments - generally (£/sq. m)	£1,364
	Build Costs Estate Housing - Schemes from 5-9 only (£/sq. m)	£1,522
	Build Costs Estate Housing – generally (£/sq. m)	£1,335
	Build Costs 'One-off' Detached Housing (3 units or less)	£1,964
	Build Costs Flats - generally (£/sq. m) (15 and 50 Flats)	£1,555
	Build Costs Flats – 4 Flats only (£/sq. m)	£1,629
	Build Costs (Sheltered Housing - Generally) (£/sq.m)	£1,640

*excludes external works, contingencies and any FSB cost allowance on small sites (these are added to the above base build costs)

2.6.2 Unless stated, the above build cost levels do not include for external works / site costs, contingencies or professional fees (added separately). An allowance for plot and site works has been allowed for on a variable basis within the appraisal depending on the scheme type (typically between 5% and 20% of base build cost). These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above

⁷ RICS BCIS Report for The Federation of Small Businesses – Housing development: the economies of small sites - the effect of project size on the cost of housing construction (August 2015)

for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

- 2.6.3 For this strategic test of viability, it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic by not looking as favourably as possible (for viability) at all assumption areas.
- 2.6.4 Other than an additional 2% sustainability allowance (see 2.7 below), given the WBC anticipated positions put to DSP, further allowances have not been added to the total build cost in respect of meeting optional (enhanced) technical housing standards (for example on enhanced accessibility over base Building Regulations (Part M4(1))). The Council has also asked DSP to consider the impact of achieving zero carbon standard, which will be discussed later in this report.
- 2.6.5 An allowance of 5% of build cost has also been added in all cases, to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates). This is a relatively standard assumption in our recent experience and appropriate for the purpose.
- 2.6.6 The interaction of costs and values levels will need to be considered again at any future review stages on Local Plan/affordable housing viability. In this context it is important to bear in mind that the base build cost levels may vary over time.

2.6.7 At the time of this final report version issue, the latest available BCIS briefing (April 2020) stated the below on build cost influences and trends. (Note: Subsequent to the research, appraisal and main reporting phases of this work in 2019, in terms of very latest circumstances, the economic situation is rapidly changing and continues to be uncertain due to the impact of the corona virus pandemic and the UK's exit from the EU).

“With the effect of Covid19 expected to have a short sharp shock on new work output from March 2020 until August 2020, it is not anticipated that tender prices will fall in 2020, rather they will remain pretty flat, rising by 0.6% in the year to 4th quarter 2020. With the end of the Brexit transitional period in December 2020, continued uncertainty is expected, particularly in the private commercial sector, as a result of it being unlikely that any major agreements will have been made with the EU. As a result, tender prices are only expected to rise by 2.4% over the second year of the forecast period. With strong growth over the remainder of the forecast period, tender prices are forecast to rise by 4.6%, 5.0%, and 4.7% respectively over each of the three years, albeit that total new work output will be around 6% lower in 2024 than our January 2020 forecast. Upward pressure on site rates will also put upward pressure on tender prices during 2021 and 2022.

Scenarios

The Covid19 crisis has overshadowed the UK leaving the EU but it is still happening. Even though the UK has left the EU with an agreement, there will still be a large number of unknowns to be sorted out during a very short transitional period, due to end at the end of 2020. While almost any outcome is still possible, BCIS will continue to produce forecasts based on three scenarios: a central scenario, an upside scenario and a downside scenario. These reflect the different outcomes from the exit negotiations from the EU and are still equally likely. The uncertainty of the results of the Covid19 crisis and the Brexit negotiations will undoubtedly lead to BCIS revising its assumptions again as more is known.

In all scenarios, it is assumed that there will be no change of UK government over the forecast period and that there is political stability in the rest of the world. A gradual rise in interest rates puts pressure on consumer spending. BCIS has looked at two alternative scenarios.

An upside scenario is based on the following assumptions. The effects of the Covid19

crisis is assumed to be a little less harsh than the central scenario. The UK left the EU on 31 January and a transitional period follows, ending at the end of December 2020. During the transitional period, the UK continues to make payments to the EU (which will be deducted from the final 'divorce bill'). Negotiations run a lot smoother than with the central scenario, providing investors with greater clarity at an earlier stage. It is assumed that by midway through the forecast period, any trade agreements with the EU will be close to those before the EU Referendum, and those with the rest of the world will boost the UK economy. Sterling exchange rates are expected to remain depressed until the middle of the forecast period, then return to preEU Referendum levels, with a consequential reduction in imported materials prices. Free movement of labour continues to the end of the transitional period, with an exemption on movement of European operatives in the construction industry thereafter. It is assumed that it remains desirable for EU workers to work in the UK, and that demand for construction operatives in the EU remains unchanged. The economy picks up over the second half of the forecast period as confidence returns. A downside scenario assumes that the effect of the Covid19 crisis will impact on new work output by an additional three months compared with the central scenario. In addition, there will be a 'no deal' at the end of the Brexit transitional period in December 2020. It is assumed that following the transitional period, World Trade Organisation tariffs will apply to construction materials imported from the EU, any subsequent trade agreements with the EU are a lot less favourable than before the EU Referendum and there are restrictions on the movement of labour. It is assumed that sterling exchange rates fall towards parity, only improving towards the end of the forecast period, which also adversely affects the price of imported materials and the desire of EU construction workers to work in the UK. The UK starts paying a 'divorce bill' from 1st quarter 2021. The economy goes into recession in 2020 as a result of the Covid12 crisis with a bounce back to some extent in 2021, but then returns to recession, only recovering at the end of the forecast period."

"Upside forecast: over the forecast period (4th quarter 2019 to 4th quarter 2024)

- *new work construction output will rise by 29%*
- *costs will rise by 17% and*
- *tender prices will rise by 24%.*

Downside forecast: over the forecast period (4th quarter 2019 to 4th quarter 2024)

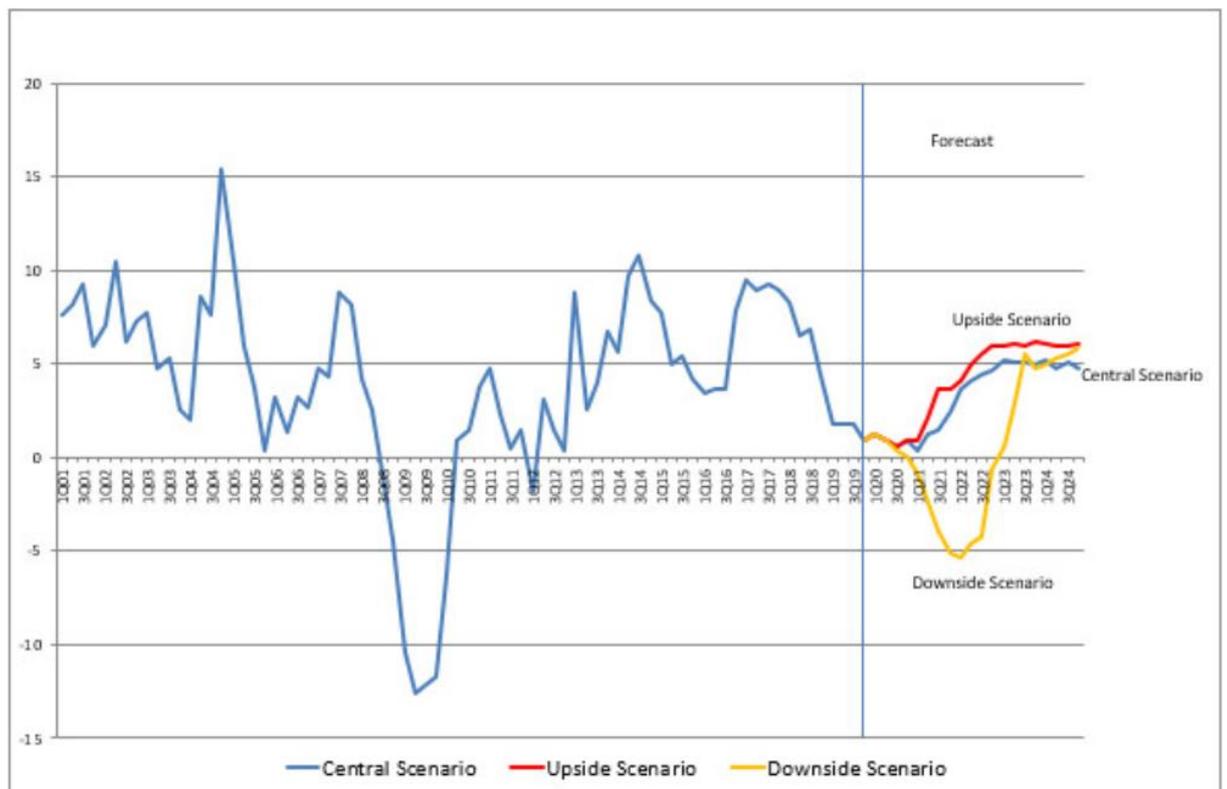
- *new work construction output will fall by 6%*
- *costs will rise by 21%*

- *tender prices will rise by 4%.”*

BCIS All-in TPI – Annual Percentage Change

	Percentage change				
	4Q2019 to 4Q2020	4Q2020 to 4Q2021	4Q2021 to 4Q2022	4Q2022 to 4Q2023	4Q2023 to 4Q2024
Central scenario					
TPI	+0.6	+2.4	+4.6	+5.0	+4.7
GBCI	+1.4	+4.1	+3.7	+3.3	+3.2
New work output *	-14.6 (2020)	+19.1 (2021)	+6.4 (2022)	+5.9 (2023)	+7.4 (2024)
Upside scenario					
TPI	+0.6	+3.3	+6.0	+6.2	+6.1
GBCI	+1.7	+3.3	+3.4	+3.8	+3.4
New work output *	-13.2 (2020)	+18.9 (2021)	+7.2 (2022)	+7.1 (2023)	+8.5 (2024)
Downside scenario					
TPI	-0.3	-5.1	-0.6	+4.8	+5.8
GBCI	+1.4	+5.2	+4.4	+4.2	+3.8
New work output *	-27.4 (2020)	+19.8 (2021)	-6.0 (2022)	+6.0 (2023)	+8.5 (2024)

* BCIS forecast of new work output at constant prices 2016



Source: BCIS (Briefing April 2020)

2.6.8 Therefore, at the point of reporting we cannot be sure how the UK's decision to leave the European Union, the impact of the pandemic or other external influences will play out either short or longer term on the economics potentially affecting development viability. The situation changes daily and the range of potential influences and outcomes are becoming ever more difficult to follow, let alone predict. The influence on the property market from a values and rates of sales point of view seems likely to be at least as great as that on construction and build costs. At the current time, in general, there appear to be flattening prices or reduced growth at best across most areas relevant to the study as well as regionally with some reducing prices also being seen, meaning a relatively neutral picture on house price movement at present. In terms of very latest context, it may be that any market slow-down or downward movement in house prices in areas such as West Berkshire could be off-set to some extent by a potential desire on the part of some residents of London or other major conurbations who are not dependent on living there to move away from a city environment and into surrounding counties. This assumes a level of mobility and only time will tell on the nature or degree of any such effects, due to a combination of factors, but for example including a desire for more outdoor space/countryside access and enabled by changing lifestyle patterns such as increased home-working.

2.7 Policy Assumptions

Energy & Water

- 2.7.1 As a result of the Housing Standards Review, local authorities will need to ensure that any specific policy in regard of water consumption is set at no more than 110 litres/person/day usage. This has been assumed to be covered within the build costs - no additional cost allowance has been made in this assessment.
- 2.7.2 This study also assumes that the Sustainable Design / Construction Standards are based on meeting the requirements of the building regulations in terms of energy use due to the Government's withdrawal of the Code for Sustainable Homes. There has been a significant amount of confusion created by the WMS, the Deregulation Act 2015 and the potential changes to the Planning and Energy Act 2008.
- 2.7.3 Our understanding has been that until the adoption of the new NPPF that although local planning authorities could set energy efficiency targets that were higher than the building regulations current at the time, those could not exceed the equivalent of Code

Level 4 of the previous Code for Sustainable Homes standards. As noted by others⁸: *‘The Secretary of State can amend section 1 of the 2008 Act by bringing into force the provisions in the Deregulation Act 2015. These would remove the right for local authorities to add energy efficiency policies to their local plans which exceed the requirements of Building Regulations in relation to dwellings...It is noticeable that over the course of the last three years no government has brought into force the amendments to the 2008 Act which would have stopped local authorities from adopting energy efficiency standards above the requirements of Building Regulations’.*

- 2.7.4 Accompanying the publication of the NPPF 2018, and still current in 2019/20, was the Government’s response to the NPPF consultation exercise. In response to concerns from local planning authorities, the Government stated: *‘To clarify, the Framework does not prevent local authorities from using their existing powers under the Planning and Energy Act 2008 or other legislation where applicable to set higher ambition. In particular, local authorities are not restricted in their ability to require energy efficiency standards above Building Regulations. The Government remains committed to delivering the clean growth mission to halve the energy usage of new buildings by 2030’.*
- 2.7.5 This in itself does not contradict the general view above that LPAs have the ability to set higher targets than Building Regulations but equally also does not state that LPAs can go beyond the equivalent of the former CfSH Level standards.
- 2.7.6 For the purposes of this study we have based all modelling on a baseline that assumes increased energy efficiency over Building Regulations up to an equivalent of former CfSH Level 4. Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit extra-over (E/O) cost) for meeting the energy requirements for former CfSH Level 4 equivalent has been used as a proxy. The latest data suggests allowances in the range of 1% to 1.5%, and following discussion with WBC and analysis of the ‘Planning Obligations SPD’ we have used an assumption at 2% over base build costs, which effectively builds in an additional contingency element.

⁸ <https://www.burges-salmon.com/news-and-insight/legal-updates/can-local-authorities-adopt-energy-efficiency-standards-that-exceed-building-regulations/>

2.7.7 With the 2% effective additional contingency added to the base build costs in all appraisals, and so considered as part of the collective costs burden in looking at other key policies impacting viability the most, particularly on affordable housing, this means that appropriate standards have been allowed for in this respect.

Zero Carbon

2.7.8 Subsequent to our initial appraisal testing and reporting of emerging findings, WBC requested that we test viability as potentially impacted by build costs associated with a higher level of energy efficiency, taking into account the cost of building to a net zero carbon standard (see detail set out at 3.8 below). Based on our research, we have conducted an extensive sensitivity testing exercise assuming a +7% allowance over the applied base build costs to broadly reflect this standard via on-site renewables provision only, which we would consider to be the highest cost level route to achieving zero carbon without any potential savings assumed via off-setting allowances for example.

2.7.9 In addition, we have also conducted some sample sensitivity tests at a lower level of 4% over base build costs to achieve zero carbon through a combination of off-setting and on-site renewables. Allied to this, we understand WBC has identified local opportunities for offsetting as opposed to general offsetting schemes which are nationwide or global.

2.7.10 This is reported on in a separate section of the findings later in this document outlining how our base findings and recommendations would change with the above enhanced assumptions (Appendix IIb and IIc results tables compared with Appendix IIa).

2.7.11 Alongside the above zero carbon sensitivity testing/analysis, we have also considered the combined impact of a lower assumption on developer's profit at 17.5% as the mid-point of the range described in the PPG.

Affordable Housing Policy

2.7.12 As described earlier, the Council's current affordable housing policy requires developments of 15+ dwellings (or 0.5ha or more) to provide 30% AH on PDL and 40%

on greenfield, together with 30% AH provision on all sites between 10-14 dwellings and 20% on sites of 5-9 dwellings.

- 2.7.13 As noted above, the NPPF (most recently updated 2019) and recently updated PPG (updated in March 2019, and again in September 2019) indicate that, in designated rural areas, councils may set an AH threshold below 10 units.
- 2.7.14 In carrying out this viability assessment, as requested by WBC, we have undertaken a review of affordable housing policy across a range of thresholds in order to inform the Council's decision-making process from a viability perspective only. The Council would need to consider national policy and the wider evidence likely required (e.g. on-site supply and AH needs) in order to include a sub-10 unit affordable housing threshold, subject to viability constraints - both generally and in relation to the AONB designated areas. More detail on the affordable housing assumptions is provided below and at Appendix I.

Nationally Described Space Standard

- 2.7.15 The Government's Technical Housing Standards have introduced national space standards for housing which can be used in a Local Plan policy if there is sufficient evidence of need and viability.
- 2.7.16 Dwelling floor areas reflecting compliance with the nationally described standard have been included in the modelling for this viability assessment as a standard assumption as set out above. See Appendix I for detail.
- 2.7.17 In our experience so far, this base assumption typically has only a very small negative impact on viability and is more of an early stage planning and design consideration. It should not be an obstacle to viability. In any event, the assumptions cater adequately for the usual affordable housing dwelling size requirements of the relevant providers.

Affordable Home Ownership

- 2.7.18 The Housing and Planning Act 2016 introduced a requirement for Local Planning Authorities in England to promote the supply of Starter Homes. The exact proportion

is not set out in the Act, but previous consultation suggested that it would be in the region of 20% of new homes on all new developments (with certain exceptions). The publication of the revised NPPF (updated 2019) indicates a change of position leading to a requirement for 10% of new homes to be provided as 'affordable home ownership' products. Paragraph 64 states:

'Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership [as part of the overall affordable housing contribution from the site], unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups'

2.7.19 Within the mix we have used for the larger sites, we have included at least 10% affordable home ownership. On the smaller sites, we have assumed that the affordable housing target will be based on the mix identified in the SHMA. This is on the basis that a starting point of delivering 10% of schemes for affordable home ownership in accordance with the latest high-level national position (NPPF para 64) could well prejudice the Council's ability to respond to meeting identified local needs as a priority. Our understanding at this early stage of its introduction is that the NPPF also acknowledges the scope to consider specific local needs. However, we have carried out sensitivity testing on schemes of 15 and 50 units which demonstrates that including more affordable home ownership has a positive effect on viability, so if this requirement is delivered across the board it will improve deliverability.

2.8 Development Costs – Fees, Finance & Profit

2.8.1 The following costs have been assumed for the purposes of this study alongside those noted within this section and vary slightly depending on the scale and type of development. Other key development cost allowances for residential scenarios are as follows - *for the purposes of this assessment only* (Note: Appendix I also provides a summary):

Professional fees: *Total of 10% of build cost*

<u>Site Acquisition Fees:</u>	1.5% agent's fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).
<u>Finance:</u>	6.5% p.a. interest rate (assumes scheme is debt funded)
<u>Sale & Marketing costs:</u>	1.0% - 6.0% sales fees £750 per unit legal fees

2.8.2 The base set of appraisals (as set out in Appendix IIa) assume a profit of 20% of gross development value (GDV) for open market housing and 6% of GDV for affordable housing revenue, which we consider represents a “worst-case” scenario, also including an element of buffering. In practice however, the development profit requirement included at planning application stage as part of site-specific viability assessments, varies greatly.

2.8.3 We understand the Council’s latest position is to more closely align developer return with the range described in the PPG, and as such, in combination with enhanced sustainability standards, we have also sensitivity tested PPG stated mid-point of 17.5% of GDV (market housing only). In our experience, we consider this to also be suitably reflective of the consistently and relatively strong property and development market in the district. On this basis we have also included some profit sensitivity testing as test out in Appendix IIc alongside the sensitivity tests for zero carbon. Our results discussion, analysis and overall recommendations should be viewed with this context in mind.

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The build periods are for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and

size, having the effect of increasing the periods over which finance costs are applied. Appendix I provides the detail.

2.10 Community Infrastructure Levy & Other Planning Obligations

- 2.10.1 The Council already operates a CIL and a great majority of existing Planning Obligation requirements are taken up within the CIL charging scope, but nevertheless sites are still required to contribute to site-specific mitigation measures (for example relating to open space / highways / transport and similar requirements). The appraisals therefore include a notional sum of £3,000 per dwelling (for all dwellings – including affordable - in all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements, acting alongside the CIL payments in terms of the collective development costs to be considered. The £3,000 s.106 contingency allowed for throughout the typology appraisals is considered more than sufficient to allow for such elements together with any other matters that may fall outside the scope of the current or a future reviewed CIL.
- 2.10.2 In addition, from September 2019, with the removal of the pooling restrictions on the use of s.106 agreements, it is also important for the Council to keep in mind the greater flexibility of s.106 (as appropriate) balanced with CIL. This approach will help to ensure that the Council maximises the level of funding for essential infrastructure across the district. Ultimately this is a matter of making sufficient costs allowances overall, which this approach ensures.
- 2.10.3 The 1000 unit strategic/large site appraisal typology (see Appendix II Table 1p) has also been run with the indexed CIL costs. The outcome in each case shows a resultant surplus or deficit whilst taking account of CIL as part of the assumed cumulative costs of development. We need to be clear though that at this point no allowance has been included for site-specific mitigation costs/s.106 (beyond that consistent base level) and/or any abnormalities. Specific strategic site testing will need to be undertaken as part of the Council's whole plan viability testing at the appropriate stage of its evidence gathering exercise.

2.10.4 The results of the large site typology testing provide an indication of the sums potentially available to support further costs or infrastructure requirements that will most likely be identified at such a scale of development (e.g. through more extensive s.106 obligations in addition to the above and/or other currently unidentified costs).

2.11 Indicative land value comparisons and related discussion

2.11.1 Land value in any given situation should reflect the specifics on existing use, planning potential and status / risk, development potential (usually subject to planning) and constraints, site conditions and necessary works, costs and obligations. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value; as has been recognised by Planning Inspectors and CIL Examiners.

2.11.2 As discussed previously, in order to consider the likely viability of any development scheme relevant to the Local Plan and its policies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results and as those results change across the range of assumptions on sales values (GDVs) and crucially including the effect of affordable housing policy targets (%s).

2.11.3 This comparison process is, as with much of strategic level viability assessment, not an exact science. It involves judgements and the well-established acknowledgements that, as with other appraisal aspects, values associated with land will, in practice, vary from scheme to scheme.

2.11.4 The levels of land values selected for this comparison context are often known as 'benchmark' land values (BLVs). They are not fixed in terms of creating definite cut-offs or steps in viability but, in our experience, they serve well by adding a form of filter to the results to enable the appropriate review of those i.e. comparison of the appraisal RLVs against the potential BLVs to view the relative viability positions. They help to highlight the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change, with the key relevant

assumptions (variables) in this case being the GDV level (as represented by the value level – VL) and affordable housing proportion (%).

- 2.11.5 Our practice is to compare the wide scope of appraisal residual land value results with a range of potential benchmark land values based on the principles of ‘existing use value plus’ (EUV+) – in accordance with the PPG. This allows us to consider a wide range of potential scenarios and outcomes, and the viability trends across those. The coloured shading within the Appendix II results tables is a graded effect intended only to show the general indicative transition of results through the range clearly viable (most positive – green coloured) to likely non-viable (least positive, RLVs showing a deficit against the BLVs – white/non-coloured) – all with a view to illustrating the *relative* strength of results and main influences on those.
- 2.11.6 The Local Plan spatial strategy, set out in Core Strategy policy ADPP1, focuses development to the district’s urban areas, with the rural service centres and service villages also taking a proportion of development and continuing to be focal points for the surrounding villages and rural areas. The Local Plan Review will broadly continue with this approach, building on the existing settlement pattern and using a hierarchy of settlements as the focus for development.
- 2.11.7 Viewing the scale of the difference between the RLV and BLV (i.e. surplus after all costs including policy costs, profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to consider the potential scope across the various development circumstances to meet other policy costs / requirements. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see a poor viability relationship, and vice versa.
- 2.11.8 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are selected purely for this assessment purpose. In our experience, sites will obviously come forward based on very site-specific circumstances, including in some cases beneath the levels assumed for this purpose. This process requires a high-level view of typical land values that can be broadly associated with the identified site types i.e. greenfield or brownfield (PDL). This is a key element for WBC consideration moving forward and the amount of weight /reliance placed on different site types and what impact this may have on potential AH levels.

2.11.9 As discussed above, the recently updated PPG on Viability is very clear that BLVs should be based on the principle of existing use value plus a premium to incentivise the release of a site for development (EUV+).

2.11.10 The PPG states the following:

‘To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called ‘existing use value plus’(EUV+)... [paragraph 013]

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account. [paragraph 14]

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value

of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence... [paragraph 015]

The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements. [paragraph 016]

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. For any viability assessment data sources to inform the establishment the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).' [paragraph 016]

2.11.11 In order to inform the BLVs for use here, we have reviewed existing evidence e.g. previous viability studies, site-specific viability assessments in West Berkshire and nearby, in addition to published Government sources on land values for policy application⁹.

⁹ MHCLG: Land value estimates for policy appraisal 2017 (May 2018 report issue)

2.11.12 The Government data provides industrial, office, residential and agricultural land value estimates for the local sub-region including West Berkshire; but not all areas of the district are covered. Where there are no direct land value indications, we have made use of our own experience in order to inform a 'best fit' EUV from the available data. This data is shown in Appendix III and in the footnotes to the results tables. The residential land value estimates in particular require adjustment for the purposes of strategic viability testing due to the fact that a different assumptions basis is used in our study compared to the truncated valuation model used for the residential land value estimate. This (and other) viability assessments, assume all development costs are accounted for as inputs to the RLV appraisal, rather than those being reflected within a much higher, "serviced" i.e. "ready to develop" level of land value as assumed in the Government estimates.

2.11.13 The MHCLG truncated valuation model provides a much higher level of land value as it assumes all land and planning related costs are discharged, assumes that there is a nil affordable housing requirement (whereas in practice the Affordable Housing requirement can impact land value by around 50% on a 0.5 ha site with 35% AH) with no CIL or other planning obligations allowance. That level of land value would also assume that full planning consent is in place, whereas the risk associated with obtaining planning consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point. This MHCLG analysis assumes lower quartile build costs and a 17% developer's profit (compared to the assumed median build costs and 20% developer's profit used in this study) that lead to a view of land value well above that used for comparison (benchmark) purposes in viability assessments such as this. So, the assessment approach (as relates to all land values) assumes all deductions from the GDV are covered by the development costs assumptions applied within the appraisals. In our view this would lead to a significantly reduced residential land value benchmark when taking into account all of those factors.

2.11.14 DSP carried out the Council's CIL Viability Study in 2013 which ultimately recommended rates that were subsequently examined and found to be acceptable (CIL now being charged by WBC). As part of this study the relative BLVs assumed at the time ranged from £250,000/ha and £2,000,000/ha based on available market evidence and overall experience. Although we have had regard to appropriate

available evidence (i.e. previous CIL work), we have also necessarily taken a current view based on the latest available MHCLG data combined with our experience of viability in West Berkshire and the wider South East in relation to Local Plan / CIL / AH Viability together with viability assessments at planning application stage.

2.11.15 The figure that we consider represents a suitable low-end BLV for EUV+ as applied to greenfield (agricultural) land in the West Berkshire context is around £250,000/ha. For current testing purposes, we have applied this to the assumed gross (overall) site area. In our experience of dealing with site specific viability, prior to the new guidance on viability in the PPG, greenfield land values have tended to be expected or assumed at indicative minimum option to purchase price agreement levels, or similar. These have been typically quoted at around £100,000 and not exceeding £150,000 per gross acre (i.e. approx. £250,000 to maximum £370,000 per gross hectare). Depending on scale and circumstances, land values at up to those levels could be relevant to development on greenfield land (such as agricultural land or in cases of enhancement to amenity land value). We have “filtered” our results against lower BLVs (‘Viability Tests’) at £250,000 and £500,000/ha for the current review purpose. Overall, in our view an EUV+ approach to land in agricultural or similar use should not need to derive a BLV of more than £250,000/ha overall. Consideration may also need to be given to the extent of non-developable land in particular cases and whether that should attract a lower level of uplift (the “plus” element) in our view.

2.11.16 The assumptions represent enhancement (sale incentive uplift) to greenfield land values (with agricultural land reported by the VOA and a range of other sources to be valued at circa £20,000 - £25,000/ha in existing use). This is not to say that existing land value expectations in such scenarios would not go beyond these levels either – they could well do in a range of circumstances.

2.11.17 The EUV+ based BLVs considered within the study therefore range overall between £250,000/ha (lowest level BLV considered at this stage, for bulk greenfield land including a significant uplift from existing agricultural values, as above) to approximately £2.5m/ha¹⁰ for the highest value commercial land. A further Viability

¹⁰ BLV figures based on previous study assumptions, our own experience of working on site-specific viability appraisals within the district, DCLG Land Values for Policy Appraisal <https://www.gov.uk/government/publications/land-value-> WBC - Affordable Housing Viability Assessment - Final Report *Client Version 9* - DSP18569

Test has been included to cover land in existing residential use – at up to £2.7m/ha. We reiterate that these BLVs are not to be interpreted as fixed land value expectations or similar in practice because, as acknowledged here, a lower or higher level of land value could be appropriate. Particular circumstances may need to be considered in due course, given the high-level nature of this study and overall site supply characteristics. For these reasons, it is appropriate to also consider the effect of varied land value (BLV) assumptions – including at a potential lower level on greenfield development. Appendix II to this report sets out the specific ‘Viability Test’ BLVs range used in considering the strength of the RLV £/Ha results for each test scenario.

2.11.18 Once again, it is important to note that all RLV results indicate the receipts available to landowners after allowing, within the appraisals, for all development costs. This is to ensure no potential overlapping / double counting of development costs that might flow from assuming land values at levels associated with serviced / ready for development land with planning permission, etc. The RLVs and the indicative comparison levels (BLVs or ‘viability tests’) represent a “raw material” view of land value, with all development costs falling to the prospective developer (usually the site purchaser).

2.11.19 Matters such as realistic site selection for the particular proposals, allied to realistic land owner expectations on site value, will continue to be vitally important. Even moving away from a ‘market value’ led approach, site value needs to be proportionate to realistic development scope and site constraints, ensuring that the available headroom for supporting necessary planning obligations (securing AH and other provision) is not overly squeezed beneath the levels that should be achieved.

[estimates-for-policy-appraisal-2017](#), stakeholder consultation, and general research into land for sale locally (noting the commercial sensitivities surrounding this type of data, and the relationship between existing use values and market price).

3 Findings and Recommendations

3.1 General context for results review

- 3.1.1 The findings considered here relate to the results tables set out at Appendix IIa (Tables 1a to 1p). Following that, Tables 1q and 1r display the Affordable Housing Tenure Sensitivity Testing. Appendix IIb sets out the base residential results with an allowance for achieving an enhanced zero carbon standard. Appendix IIc sets out additional sensitivity testing in regard to zero carbon and profit level. A guide to the content of those tables will be provided below.
- 3.1.2 As noted above, WBC is reviewing its affordable housing policy as part of the overall review of the Local Plan to 2036, and as such it is considering whether there is scope to or a need to review the thresholds at which affordable housing is required as well as the type and proportion sought, across a range of types in different areas of the district.
- 3.1.3 Affordable housing provision (or an equivalent financial contribution) has a very large influence on the viability of development, especially alongside a fixed (non-negotiable) level of CIL charging.
- 3.1.4 As such, the way in which the Council selects and operates its affordable housing policies will be a major factor in ensuring sufficient viability to deliver a wide range of developments to underpin the Local Plan.
- 3.1.5 For these reasons the assessment will need to suggest any adjustments and policy positions that the Council should consider at this stage in our view, related to viability. However, this may in some cases continue to be about considering options – potential alternatives – which will be noted where applicable. Furthermore, the Council need not follow these report findings exactly because, overall, this is about considering the evidence collectively and setting out policies that will respond to an appropriate balance between the needs and viability.

- 3.1.6 Our testing has been on WBC's current policy position of a tenure mix with 70% being social rented and 30% shared ownership, however as requested we have carried out sensitivity testing of different tenure mixes, including around the expanded AH tenure view included in the NPPF (Tables 1q-r in Appendix IIa).
- 3.1.7 Building from our emerging findings and then draft stage work discussed with Council officers earlier in 2019, the viability testing has explored affordable housing as relevant by typology and WBC policy over the range 0%, 20%, 30% and 40% as relevant across a full range of scenarios, with the testing now expanded at WBC's request to include a larger typology assumed at 1000 dwellings (representing likely larger scale greenfield development), together with consideration of the likely impact of achieving zero carbon on AH targets.
- 3.1.8 As noted above, the national policy (NPPF) position (clarified in the PPG, March 2019, and subsequently updated 1 September 2019) on the 10+ dwellings threshold for affordable housing, allows for councils to set a lower threshold where this can be justified by the need and the importance of these sizes of sites to delivery. WBC have asked us to examine whether an affordable housing contribution could be sought on sites of fewer than 5 dwellings – purely from a viability viewpoint in this assessment. WBC will need to consider the wider implications of national policy and guidance relative to its own housing needs and policy development.

3.2 A guide to using the Appendix II Results Tables

- 3.2.1 The tables 1a to 1p at Appendix IIa and tables 2a to 2p at Appendix IIb set out the appraisal results by increasing development size (number of dwellings within each assumed scenario) from 1 unit to 1000 mixed units – as set out in Appendix I. For each scenario, the results relate to the tests carried out with 0%, 20%, 30% and 40% affordable housing depending on relevance – shown moving down each table set from top to bottom. Where 20% affordable housing is not viable, a higher proportion has not been tested. In each case the 0% AH tests provided a base scenario for comparison only (except in the case of the smallest (non-major development) typology tests, where this could be representative of policy options). This enables the effect of introducing, and then increasing, the amount of AH content to be seen clearly.

- 3.2.2 Each table cell of the Appendix II (a and b) tables contains in the white (un-coloured/non-shaded) upper sections an RLV result (in £s). In the corresponding lower part of each table (including the green coloured cells) the same RLV is then expressed in £/Ha terms, based on the indicative density and approximate land-take assumptions used. Each £ figure is an appraisal result expressed in this way.
- 3.2.3 The results are displayed by assumed value level (VL) which rises from 1 (lowest) to 9 (highest), moving top to bottom within the tables - as used in each test shown. The impact of the varying strength of values available to support viability is clear to see at the range of AH %s tested – increasing VL supporting a higher £ RLV and £ RLV/ha as represented by the increasing boldness of the green shading (meaning an increasing range of BLVs (or ‘viability tests’) met).
- 3.2.4 Again, simply to highlight the results trends, an increasing AH% test is shown to have the opposite effect in all cases – with reducing boldness of green colouring showing the declining levels of the RLVs as the appraised AH context increases e.g. from 0% to 20% or 20% through 30% to 40%, again depending on relevance by scheme size. The 0 to 4 dwellings scenarios have been appraised only at 0% and 20% AH, with the 20% tests currently representing a theoretical position including a likely maximum AH% level applicable in the event of WBC policy warranting a layer beneath 5 dwellings. 10% was not tested, because the current methodology in WBC policy for assessing contributions requires a percentage to be applied and the resulting requirement to be rounded up or down, with 10% of any number of units below 5 rounding down to zero.
- 3.2.5 Each table has two columns of results, one for each current WBC CIL charging rate (indexed figures of £92.29/m² and £153.81/m² as per WBC charging schedule now being used). The RLVs can also be seen to reduce with increasing CIL rate applied, as expected. The interaction of this effect with other requirements needs to be considered, especially given the fixed (non-negotiable) nature of CIL charging once in place, as it is already in West Berkshire.
- 3.2.6 We noted the values picture seen in Chapter 2 – see section 2.3 above (Figure 5 and Appendix I for an overview). To recap, within the broader overall range of values found in the district, the data indicates a relatively narrow range of values for most new build housing. We consider at this stage, that those values are most closely represented by

the central part of our VLs range – VL 4 to VL 6 i.e. c. £3,750 to £4,250/sq. m or approximately £348 to £395/sq. ft. (rounded indications).

- 3.2.7 As is often the case, most areas and even some sites can support mixed values. This means that although typically lower in value, for example development in Thatcham, Newbury and the eastern urban areas, these localities can also see higher than the typical values indicated here. Overall, as illustrated in Figure 5 above (see Section 2), house prices in West Berkshire cover the range as noted with lower and higher values seen across all settlements. However, the highest values are more typically and consistently seen in the AONB and East Kennet Valley with lower to mid value areas seen in Thatcham / Newbury (although we found that Newbury is typically higher value than Thatcham) and the Eastern Urban Area, but overall a variable picture with scheme specifics.
- 3.2.8 Although higher still values may be seen, the highest values from the range appraised (VL8 -VL9+ at £4,750/sq. m to £5,000/sq. m) are more frequently seen in settlements within the rural areas but there are also some more consistent with the typical values context – i.e. mid-range values VL4-6, representative of typical new build property values in the more built up areas and localities likely to host new development, as noted above.
- 3.2.9 In considering its review of affordable housing policy, a key factor for the Council will be the role that the various areas are expected to play, moving ahead, in accommodating development – the relevance of site supply characteristics. It is not possible for policy to reflect and respond to all levels of local variation in values in other matters. How it overlays with the planned site supply, even if that means some level of misfit in areas not supplying a significant level of development in the overall plan period, is most important. All sites are different, and varying values will even be seen within some sites as well as from one to another; however, we must keep in mind the high-level nature of this study and the associated national policy background and guidance.
- 3.2.10 The variety of site types e.g. whether greenfield or brownfield (previously developed land - PDL) expected to come forward over the course of the emerging plan is an important consideration for WBC. For the study purpose, this relates to reviewing the

results tables in the context of a range of potential land value comparisons (BLVs). We do not consider it appropriate to rely on comparison at a single land value level for each scenario as development will come forward in various forms and on a range of site types over time.

- 3.2.11 The residual land values (RLVs) produced by the current stage appraisals are “filtered” against a series of ‘viability tests’ shown in the Appendix II table footnotes i.e. benchmark land values (BLVs). So, the bolder the green colour within Tables 1a-p, the stronger the indicative outcome, as the appraisal RLVs reach or exceeds the level of the higher viability tests. A bolder green colour indicates a scenario likely to be workable with increased frequency or greater confidence – i.e. across a wider range of site types and circumstances.
- 3.2.12 Land values generally not exceeding c. £250,000/ha are considered to represent greenfield (enhancement to agricultural or similar low existing use value) and given our comments above provide an appropriate basis on which to assess viability for these site types – again important to note the proportions of site supply (greenfield vs PDL).
- 3.2.13 A wider range up to £2,700,000/ha maximum represents the most highly valued brownfield (previously developed land – PDL) at levels likely to be justified only in certain circumstances within the West Berkshire area. At points within this range, our view is that the BLVs at £1 - 2m/ha are likely to be key areas for many PDL sites, bearing in mind also that the WBC residential CIL rate was informed on the basis of land value assumptions ranging from £250,000/Ha to a maximum at £2,000,000m/Ha, through intermediate levels at £750,000/Ha and with a core area for comparison at around £1-1.3m/Ha. The use of our suggested range of ‘Viability Tests’ (benchmark land values) is considered a reasonable approach informed as above by the MHCLG 2018 publication. The approach is also consistent with DSP’s established and supported approach to strategic level viability assessments.
- 3.2.14 In reviewing the outcomes, we also keep an eye on the £sum RLVs and not just the RLVs expressed in £/Ha terms. This can be especially relevant to smaller PDL and town centre / higher density sites, where meeting the same or similar £/Ha rates might not provide a realistic picture and, for example, the prospect of being able to buy an

existing or former commercial use, or perhaps existing residential property, needs to also be kept in mind.

3.3 FINDINGS REVIEW – Residential scenarios (Appendix IIa – base results)

- 3.3.1 Overall, the results are considered to be positive and as noted above this is also considered to be reflective of the WBC experience of delivering planning-led affordable housing using its existing policy set.
- 3.3.2 Nevertheless, it also needs to be acknowledged that across the full range of testing the results can be mixed, and this is highly sensitive to the assumed value level and corresponding site location (see Figure 5 and Appendix I). The interaction between the VL and appraised AH% - i.e. the VL needed to support affordable housing within various scenario types - is also key, as is the viability test used to filter / view the strength of the RLV result in each case. The latter depends on the likely host site type – varying from greenfield to PDL (previously developed land), in various forms.
- 3.3.3 In reviewing the results to inform a review of affordable housing policy, prudent assumptions have been used throughout as part of ensuring that viability is not taken to the margins.
- 3.3.4 The viability work does not have to be followed precisely in any event. Instead, as with other Local Plan and CIL evidence, the Council should be able to show how the assessment has informed its overall approach. Nevertheless, the approach to assumptions setting might help to bring some further focus to WBC’s review of the results and what it takes from this necessarily and appropriately wide results set.
- 3.3.5 An important element to be aware of in the WBC context, is the potential flexibility in the application of the AH tenure and the additional viability scope provided by increased levels of AR (affordable rent) over SR (social rent) for example – to be considered further below, and always bearing in mind on the other hand the need to address affordability for the residents as far as can be achieved overall and from scheme to scheme.
- 3.3.6 On all aspects, of reviewing and considering the results and findings, we suggest that WBC will usefully do this alongside a “reality check” – i.e. consider in the context of its

local delivery, bearing in mind the Council's track record of delivering affordable housing alongside its adopted rates of CIL.

Affordable Housing Threshold(s)

Smallest scenarios (4 dwellings or fewer) (Tables 1a-1d)

- 3.3.7 Our understanding of the commitments within the AMR and the type of sites likely to make up the overall housing delivery is that, there will continue to be a wide range of developments coming forward, and smaller sites will form a significant part of the overall spectrum of the delivery.
- 3.3.8 As discussed above, WBC have been generally successful in delivering affordable housing on sites of 5 to 9 dwellings. DSP has been asked to review the potential for affordable housing contributions from sites of 1 to 4 dwellings using the WBC AH calculation methodology as described at 2.4.8 above. The application of the current methodology means that due to rounding of the number of units required, the 1 and 2 Houses scenario is not required to provide an AH contribution and the 3 Houses and 4 Flat scenarios should provide the equivalent to one on-site unit.
- 3.3.9 Tables 1a to 1d provide the results for small sites starting at single dwelling, and going up to 4 flats. The potential collective cost of development is greater on smaller scenarios, with increased build costs and a greater frequency of relatively high existing use values expected – for the resultant RLV to be compared against. The effect of this is only further compounded when an element of AH is added in, for example at Table 1c (3 Houses) moving from 0% AH to 20% AH sees a significant deterioration in viability, removing any scope. This theme is repeated throughout the smaller site scenarios and only when assuming upper end new build values, combined with the assumption of a greenfield site type, will viability improve to a potentially supportable level of AH. We have to keep in mind the overall likelihood of such a scenario coming forward and ultimately the relevance to wider AH delivery.
- 3.3.10 As discussed earlier in the report, DSP have tested the viability of smaller sites with off-site contributions using WBC's calculation. The results indicate that viability is not sufficiently strong to support a contribution on a consistent basis from sites of 5 units

or fewer. As per WBC's policy, if this is the case on a specific site, applicants will be required to submit an open book viability assessment to the Council for consideration.

- 3.3.11 The majority of smaller site scenarios will typically come forward on PDL sites which we assume to require higher BLVs. For example, we would consider the results at Table 1d (4 Flats) to typically come forward on existing PDL requiring the RLVs/ha to 'beat' land values of greater than £1.5m in at least some cases. It is clear from the results that although this BLV is met at VL6 (within our identified typical new build value range) at 0% AH, once 20% AH is included the support of higher than typical values at VL9+ would be required to meet the same BLV.
- 3.3.12 From experience however, there is no general evidence to suggest that viability is necessarily worse on smaller compared with larger schemes.
- 3.3.13 Overall, for sites of fewer than 5 units, it is clear that the inclusion of an affordable housing contribution either on site or as an off-site financial contribution would make the majority of schemes unviable.
- 3.3.14 It is important to note that any policy requirement seeking AH contributions beneath the national minimum threshold (as set out in the NPPF) will require the Council having in place suitable local evidence of AH needs combined with ongoing housing supply significantly reliant on the smallest sites (i.e. of 9 or fewer dwellings), subject also to viability.
- 3.3.15 Typically, we find there is a range of practical challenges involved in securing on-site provision of AH within the smallest schemes owing to the nature of site supply. There can be issues with design integration, management and affordability. We have tested on-site provision on schemes of 5 to 9 units, as well as financial contributions – however for sites of fewer than 5 units we have tested using a financial contributions assumption only. As well as the practical challenges mentioned above, WBC will also need to consider the implication in terms of resourcing the potential debate that may arise in the event of requesting AH contributions of the smallest sites.

5 to 9 dwellings (Tables 1e and 1f)

- 3.3.16 Table 1e shows the results of appraisals of a 5 unit scheme (houses). Taking into account the different interpretations of NPPF paragraph 63, we have tested both on-site affordable housing and a financial contribution in lieu of affordable housing, based on WBC's need and associated ambition to achieve affordable housing on site where possible, but acknowledging that in some cases this might not be practical, or desirable from the point of view of the Council or its housing association partners/those delivering and managing the affordable homes.
- 3.3.17 Considering the scenario whereby a financial contribution representing 20% affordable equivalent is provided (calculated using WBC's methodology), we see that viability is actually relatively poor compared to the viability of schemes with 20% affordable housing on site. This is partly because WBC's methodology involves rounding to the nearest number of affordable units and calculating the contribution accordingly, which can result in high contribution levels. Given the lack of suitable and available sites for affordable housing in West Berkshire, this can be seen as a beneficial effect, as it encourages on-site provision of affordable housing.
- 3.3.18 However, generally, any AH financial contribution methodology should provide a broadly equivalent level of subsidy to that which would be secured via the usual primary route of integrated affordable housing on-site. On this basis, we understand that WBC may be considering calculation adjustments or alternative methods of calculating AHFCs as part of any update to its Planning Obligations SPD.
- 3.3.19 On schemes of 5/6 Houses, testing at VL3/4+ indicates affordable housing (whether on-site or by way of financial contribution) is viable on greenfield sites, but with viability becoming more challenging on PDL. Assuming a PDL scenario, the results suggest reasonable viability prospects with not more than 20% AH is supportable from VL5/6+. Although we have also tested higher AH proportions at 30% and 40% affordable housing on 5/6 units, we consider 20% AH to be the maximum level likely to be supportable in viability terms.
- 3.3.20 This recommendation also aligns with the current overall evidence of AH delivery against current policy i.e. the current levels of AH delivery would support a targeted on-site AH target of 20% on schemes of 5+ dwellings (5-9 units), although we suggest with flexibility considered to allow an equivalent financial contribution in-lieu where

agreed as a more appropriate solution based on provided scheme specific information and review.

3.3.21 In comparison with schemes of 1 to 4 units, schemes of 5 and 6 units indicate stronger viability prospects. This is typical in our experience because the level of build cost assumed is lower for such schemes than for 'one-off' builds of only a few units (BCIS differentiates at 3 or less dwellings).

3.3.22 In summary, we consider that these findings support a continuation of the policy requiring 20% affordable housing on sites of 5 to 9 units. This represents a suitably ambitious target as part of the balance between needs and viability, acknowledging there may need to be some subsequent consideration of the latter, particularly where schemes on previously developed land are concerned. If viability is demonstrated to be an issue on a specific site, options include variations to the AH tenure and/or requiring a part/full financial contribution. On this basis, it is important that WBC acknowledge an element of flexibility is required when considering schemes of this size and that there may be some circumstances whereby the AH tenure could flex in order to support overall housing delivery. It is clear however, that an affordable housing requirement of any more than 20% on these small sites would in many circumstances probably prove to be unviable.

10 unit scheme – houses (Table 1g)

3.3.23 Table 1g shows results for 10 dwellings (Houses) scheme. 10 units is the current threshold in the NPPF for 'major sites.' In the WBC context, we consider this type of site may come forward as either a greenfield or PDL site and therefore we need to review the results across the range of BLVs.

3.3.24 Assuming a PDL site, VL5 to VL6 reach or exceed our assumed industrial BLV when combined with 30% AH with viability scope continuing to improve as the relative VL increases. , At 40% affordable housing, greenfield sites are shown to be viable from VL4/5+ but conversely the viability of PDL sites appears more challenging with the corresponding upper BLVs only supportable at VL7/8+.

3.3.25 The results therefore suggest an optimum (i.e. maximum regularly supported by viability) target for sites of 10 units or more of not more than 30% AH on PDL sites and 40% on greenfield sites - which we consider would inform and help to maximise delivery without having an undue effect on the ability of sites to come forward viably. This PDL headline would, as above, be on the basis of WBC seeking an appropriately challenging/ambitious AH target, acknowledging that there may be some need to review viability in certain site specific circumstances and therefore still a need for acknowledgment of flexible application of policy – for example including the option for tenure variation to include an element of AR.

15 houses (Table 1i)

3.3.26 Table 1i shows the results for a 15 dwelling (Houses) scenario. As per the 10 unit scheme above, we have also considered this scheme on the basis of being potentially based on either greenfield or PDL sites. The results indicate a similar theme to that seen at 10 Houses. Assuming the upper end of our new build values testing range at VL5/6, 30% AH is viable when compared against the lower PDL BLVs (industrial land values).

3.3.27 Equally, with 40% affordable housing, greenfield sites are viable from VL4+. However, to illustrate the difference in the strength of results between PDL and greenfield sites, PDL sites would need to achieve VL7+ in order to meet and exceed the industrial land value benchmark.

3.3.28 On this basis, the results for 15 houses are almost identical to those for 10 houses, indicating that the policy threshold could be aligned with the NPPF threshold for major sites (i.e. at 10+ dwellings) and that WBC no longer needs to distinguish with a differential policy between sites of 10 units and 15. However, we recommend that WBC maintains its current approach of having a site size threshold as well as a unit numbers threshold, at sites of 10+. This will enable WBC to request AH contributions from sites which are proposed at a low density and will encourage developers to bring forward schemes which favour units of a size aligned with the needs identified in the SHMA, rather than larger units at a low density designed with the aim of maximizing saleable floor area whilst avoiding affordable housing provision. The above same differentiation in viability between PDL and greenfield sites with varying AH targets is

also visible with the strength of results for PDL sites supporting a lower AH target of 30% compared to a higher 40% target supportable on greenfield sites – essentially greenfield sites support greater viability prospects.

15 and 50 Flats (Tables 1h and 1m)

- 3.3.29 We very often observe reduced viability associated with flatted schemes, unless relatively high sales values are available to support the higher development costs. This is a common theme in development viability and is seen here in the West Berkshire context – for both the 15 and 50 flatted scenarios.
- 3.3.30 Generally, we would consider flatted only schemes likely to come forward on PDL sites (unless part of a much larger mixed scheme). Whilst 30% AH appears potentially supportable at the higher end VLs at 7+, the sensitivity of these results to lower values in particular is such that in practice it seems likely that the council would need to consider a range of AH outcomes beneath 30%. Viability is clearly challenging even at 30% AH, compounded by the PDL site basis and reflects the assumptions on higher levels of cost on such PDL developments, often likely to be compounded due to higher existing use values of sites.
- 3.3.31 However, consideration needs to be given to how relevant this type of development is to the overall housing supply, and whether viability on such sites could reasonably be negotiated on a case by case basis where relevant, if needed.
- 3.3.32 In favour of a continued simple policy approach, in our view it is likely that although it is possible to consider a policy which differentiates between flatted and non-flatted development in specific locations e.g. town centre areas, this may not be considered necessary in the overall WBC context. There may be the potential for unintended consequences. A differential policy such as this would not necessarily fit and would be unlikely to facilitate all scenarios to be clearly viable in any event. For example, the results suggest that an AH policy lowered to 20% might still not “work” in all cases with a reduced level of base viability, and yet could also mean under-delivering on AH in some other scenarios.

3.3.33 Our view is that a 30% target across the board for PDL sites would continue to be a suitably challenging target also sufficiently reflecting typical viability differentials and bearing in mind that PDL sites are a mix of higher and lower EUV based scenarios. As noted above and to add some further context, it is not uncommon to see challenging viability on flatted PDL schemes – this is something seen across the country due to not only the existing land value but also due to (in comparison to houses) the costs involved, the gross to net ratio meaning that a much higher proportion of the area built is non-saleable (does not directly generate additional revenue and has to be constructed), and the timing of sales; with developers usually unable to sell most flats until the whole scheme is complete. However, we consider that given the fact we have tested an affordable mix of predominantly social rented tenure, which provides a viability buffer, a 30% target is appropriate. If viability is stretched on a particular site, consideration could be given to varying the tenure mix – and although not an assumption in our viability appraisals there is also the possibility of grant funding or other investment in future for social rented housing which might enable the full policy provision (although appropriately no such funding has been assumed within our assumptions).

25 unit scheme (houses) (Table 1j)

3.3.34 The results for the 25 unit scheme (houses), as set out in Table 1j in Appendix II, again follow a similar theme to those seen on review of the 10 and 15 House scenarios. Assuming a PDL site, a 30% AH target is supportable with VLs 5/6, whereas the AH level is supportable at a higher rate of 40% AH when assuming a greenfield site.

3.3.35 Again, these results support a clear option for differential between the headline approach suggested for PDL (30% affordable requirement) and greenfield sites (40% affordable requirement).

30 Flats – Retirement/Sheltered (Table 1k)

- 3.3.36 For the purposes of this study we have modelled a standard market-led retirement scheme, which would fall under the C3 category, and would not have specific care provided to the residents.
- 3.3.37 The premium values usually achieved for schemes such as new build retirement/sheltered accommodation, densities and typically reduced scope of external works, are in our experience positive viability influences in balance with the higher build costs associated with the construction of enlarged communal (non-saleable) areas in comparison with general market apartments development. Higher sales values than those assumed for the general assessment purpose (VL7 to an added VL 9 i.e. at £4,500 to £5,000/sq. m) are likely to be more relevant for this development type than the lower VL tests.
- 3.3.38 Therefore, consistent with our wide experience of viability, affordable housing/CIL rates setting and site-specific viability review workload to date, we consider there to be no reason to include differentiation for this form of development (assuming within the C3 planning use class and therefore market housing development), in AH policy headline terms.
- 3.3.39 These schemes are in our view part of the wide spectrum of market housing. In our experience, commercial negotiations tend to take place in respect of affordable housing contributions on such developments. As with all other schemes, that and other aspects of negotiation have the capacity to deal with viability issues where the collective costs cannot all be carried by a scheme, and a site-specific viability appraisal (planning applicant submission) and review investigates that.
- 3.3.40 The results indicate that seeking 40% AH on sites of 10 or more units (or > 0.5 ha) appears viable for this type of scheme, on most PDL sites as well as on greenfield, but with consistency in mind, we continue to suggest a lower target of 30% AH on PDL sites (also for 10+ units or >0.5 ha) as a supportable position at this stage in our view - it appears equally likely to support a level of AH contribution alongside CIL in a similar way as other higher density housing schemes do.
- 3.3.41 The findings are consistent with our wide experience of site-specific viability assessments across a variety of local authority areas. Schemes of this type are regularly

supporting CIL payments alongside making some level of contribution towards meeting local affordable housing needs, although with viability regularly discussed and a variety of PDL scenarios the norm. Our experience and general wider practice has been that financial contributions are typically the mode of provision from such schemes, although this need not affect the policy starting point or mean that the policy scope should be restricted to this, particularly as different forms of development and tenure formats could become a part of the overall picture in the coming period, with a greater national level emphasis on, and need for, housing for the elderly.

50 dwellings – mixed housing development (Table 1l)

- 3.3.42 As may be expected for this type of development, the mix of houses and flats indicates viability at lower level than appears to be seen with developments of houses alone, generally owing to the use of higher build cost assumptions. There is some off-setting of this effect through higher development density assumptions that could reasonably be expected though.
- 3.3.43 We have assumed a greenfield site basis here, typical enhancement to agricultural land value. On this basis, the results indicate the mid-range of values (from circa VL5+) should be capable of supporting 40% AH. Clearly if we were to assume a PDL site type, viability scope would be reduced and the AH target would only be supportable in viability terms at 30%.
- 3.3.44 However, the variation of AH tenure to include an element of AR would have a positive impact on viability and would therefore more confidently support the targets noted above. This would likely be a site-specific level consideration, but from these findings it would be beneficial for the AH tenure to be applied flexibly as appropriate.

100 mixed dwellings (Table 1n)

- 3.3.45 Overall this scenario test supports a similar range of findings to those noted above in connection with the houses and mixed (houses and flats) typologies. For this scheme, following discussion with Officers, we have assumed a town centre PDL site type representing a range of BLVs from £1m/ha up to a maximum of approximately £2.7m/ha. Given the town centre site type here, we have accordingly assumed a higher density of development in accordance with the Pattern Book densities, which has a positive impact on the strength of results compared with any lower density

assumption. Nevertheless, in our view densities at higher levels still are certainly possible.

- 3.3.46 The results indicate positive viability at VL4-5 meeting and exceeding the BLVs within the above range even when assuming 40% AH. However, across the West Berkshire area and so as not to push scope to the margins of viability, we consider assuming a 30% AH target on PDL could represent the most appropriate balance between the risk of/need for challenge and achieving policy aims of working as far as possible towards best meeting affordable housing needs.

250 mixed dwellings (Table 1o)

- 3.3.47 As above, overall this scenario test supports a similar range of findings generally to those noted above in connection with the other houses and mixed (houses and flats) typologies. For this scheme, we have assumed a greenfield site type representing a range of BLVs up to a maximum of £500,000/ha, based on £250,000/ha as the key comparison – greenfield land at EUV+.
- 3.3.48 The results indicate a positive viability scenario with VL2+ capable of supporting a 40% AH target which we would consider to be a realistic and appropriate policy level. As per other tests, if considered as a PDL scenario, 30% AH is likely to be a more appropriate target which would then also need to be operated flexibly where needed, as lower VLs and higher EUVs (leading to a poorer development value:cost relationship overall), tend to bring viability under pressure.

1000 unit scheme - Mixed (Table 1p)

- 3.3.49 Table 1p sets out the results of our viability exercise as related to a sample larger/strategic development site typology broadly representative of a potential site type to come forward over the plan period. In the current stage circumstances and using available information, we have not made any allowances for known site-specific infrastructure/mitigation.
- 3.3.50 The appraisal results are shown on an overall £ surplus or deficit basis and the equivalent outcomes then expressed in indicative £ per dwelling terms when the

assumed BLV level is deducted from the resultant RLV figure. In the circumstances where a surplus result is returned, this means the scheme is capable of meeting the assumed cumulative development costs (including CIL and AH) as tested and continues to produce a surplus for as yet unaccounted for costs – indicating a positive viability scenario and reasonable prospects of viability overall - given typical site-specific infrastructure/s.106 mitigation levels for schemes of this type, from experience.

- 3.3.51 For this site typology, we have assumed a greenfield site type to be considered against the most relevant viability test BLV at £250,000/ha in the circumstances. On this basis, the results indicate that at this stage a 40% headline AH target is supportable in viability terms from VL3+.
- 3.3.52 Overall, there appears to be reasonable prospects of viability when combined with 40% AH and the potential for a balance to be found between the acknowledged commercial drivers (appropriate land owner and developer returns, reflecting the circumstances) and the community/infrastructure side of the development economics. A reasonable prospect of a suitable level of land value (EUV) uplift appears achievable. In regard to the BLV assumption, should the overall land-take increase from the currently assumed level¹¹, then clearly the BLV would increase and this would have the effect of reducing the present stage surplus (or, in the case of the lower VL results, increasing deficit) position indications. On the other hand, the current assumptions apply the EUV+ land value basis at £250,000/ha consistently across the whole assumed site area. In due course it could be relevant to consider how a lower level of land value uplift may be applicable to at least some of the non-developable site area, depending on the nature of schemes that are likely to come forward. At this stage, this is purely a part of the typologies based approach to the assessment.

3.4 Self / Custom-build

- 3.4.1 From DSP's experience of considering custom / self-build to date (albeit limited to early stages exploratory work on viability) we consider that the provision of plots (serviced and ready for development) for custom-build has the potential to be a

¹¹ See Appendix 1 for assumption on land-take (net and gross land areas)

sufficiently profitable activity so as not to prove a significant drag on overall site viability. Broadly, from review work undertaken so far, we would expect it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details, as with other aspects of the development process.

- 3.4.2 There are a large number of different approaches to this housing type ranging from custom build with minimal involvement from the purchaser, through to an individual building their own home on a single plot. If self-build comes forward as part of a large residential scheme, or as 100% custom/self-build housing, we are of the opinion it should be treated as per market housing - an affordable housing requirement should apply. An individual self-build unit would be treated as per the policy for sites of under five units, and a single unit (as per WBC's current calculation) would not trigger an affordable contribution. If a contribution were to be sought, the results indicate this would not be viable with the current assumptions set. Finally, if a self-build scheme were to come forward as an affordable or community-led project, it would be likely to be subject to restrictions relating to subsidy and would be regarded as an exception to policy, thus not required to provide affordable housing.

3.5 Rural exception housing

- 3.5.1 Rural exception sites (RES) may be expected generally in the higher value areas hosted on sites having a comparatively low existing use value – principally greenfield in our experience. By their nature, such sites are not developable for standard market housing, and the existing/alternative use is generally of agricultural, grazing/paddock or amenity land value.
- 3.5.2 We have carried out some sample sensitivity testing of a typical (assumed) rural exception scheme. This demonstrates that a 100% affordable scheme (assuming a principally rented scenario (social or affordable rent)) appears to require the input of grant funding or similar to support the likely development costs. This is quite usual and this type of scheme does tend to both need and be able attract grant funding; with viability usually supported therefore. Typically, we would expect this type of development to potentially complement overall AH supply in a relatively unpredictable and low-key way, whilst also being highly dependent on site-specifics. Although it would be possible to explore the viability of these types of sites further (for example

indicating the amount of grant funding that may be required on a typical site and then potentially whether any additional market subsidy element would be needed to support site delivery), at this stage however, we consider viability has been appropriately explored for the strategic nature of this work.

3.5.3 In circumstances, including where cross-subsidy from market housing sale revenue is required, the onus is on the developer to demonstrate that this subsidy is required to make a scheme viable and deliverable for a majority of genuinely affordable homes for local people. Due to the low existing use value of such sites it is unlikely that any more than a very small proportion of market housing will be required to make a site viable, even when no capital grant is available.

3.5.4 Generally, in our experience this type of site rarely comes forward without some form of capital grant subsidy as a preferable route, however, in which case we would expect viability to be 'balanced' and such a site to be deliverable entirely for affordable homes.

3.6 Sensitivity testing – Affordable Housing Tenure (Table 1q-1r)

3.6.1 For the purposes of testing potential changes in AH tenure and its resultant impact on viability, we have looked at three typologies, focusing only on Value Level 5 (i.e. reflecting around the mid-range new build value):

- 15 houses
- 50 units mixed
- 50 flats

3.6.2 We ran five appraisals for each of these further scenario test schemes, with differing affordable housing mixes, to see how viability varied from the outcomes using the assumed base appraisal mix of 70% Social Rent and 30% Shared Ownership.

3.6.3 Replacing the shared ownership element with 'Discounted Market Sale' (assumed sales at 80% of market value) has the effect, as expected, of improving viability over the base appraisal. The impact of including an element of affordable rent in place of social rent also results in an improved viability scenario over the base results set (at 70% SR and 30% SO) as may be expected. Likewise, the sensitivity tests that include

the 70% rented element being equally split between social and affordable rent also show improved viability scope over the base appraisal set – as expected, albeit with intermediate results and lower viability than when including the 70% AR test assumption. Overall a spectrum of results is seen, and the Council may be able to use this information (the relativities) to inform its consideration of these matters.

3.6.4 It is clear that substituting social rent with affordable rent for across all the rented homes has a notable positive effect on viability, as would be expected. On this basis, if a suitably clear and challenging but adaptable AH approach is set out by WBC, we consider that there would be sufficient scope to vary the tenure mix where viability is too stretched. However, it is also of note that even the most favourable change in assumed tenure does not move a scheme into a positive viability scenario on many flatted scheme tests at the lower to mid VL tests. Having said this, it is not the AH in isolation that is causing the challenging viability prospects in such cases, but the weaker overall cost:value relationship and the inherent viability context for some of those schemes.

3.6.5 During the course of the study, we also carried out some additional testing below the 10-unit threshold – see table 1r. These sensitivity tests are based on an 8 Houses scenario as follows: -

- 0% AH (i.e. 100% market housing);
- 20% AH assuming 100% Shared Ownership units;
- 20% AH assuming 100% Social Rent units

3.6.6 Following on from the previous AH tenure sensitivity testing (table 1q), these further tests provide a similar pattern of results with the overall viability of development decreasing once AH is included at 20%. The results with 100% shared ownership (SO) indicate a stronger viability picture compared to 100% social rent (SR) – this is not usual as social rented products produce less revenue than shared ownership.

3.6.7 For example, as expected the results at 0% provide a positive viability scenario at the key new values range tested (VL4-6 £3,750 to £4,250/sq. m.) with the resultant RLVs/ha ranging from approximately £1m/ha to £2m/ha. Once 20% AH is included with 100% SO content, those results reduce to a range of approximately £700,000/ha to

£1.6m/ha i.e. continuing to exceed both greenfield and PDL BLVs. Conversely, once the AH content changes to 100% SR, the strength of viability reduces further producing a range of RLVs/ha of approximately £300,000/ha to £1.1m/ha. PDL sites, therefore, begin to show a more challenging viability scenario unless the upper end of our new build values range is assumed, however, all results meet and exceed our assumed greenfield BLVs indicating positive viability scope on these site types.

- 3.6.8 On this basis, a scheme of this type coming forward on PDL land with a large proportion of social rented AH units may require an element of grant funding to viably deliver those social rented units.
- 3.6.9 Using the information set out (see Appendix IIa Table 1q) the Council will be able to begin considering relative outcomes, including varying policy/assumptions combinations that support similar overall results as well as perhaps informing views around potential priorities/trade-offs.

3.7 Additional Commentary

- 3.7.1 We consider that the above provides scope to both identify opportunities with viability potential and find the appropriate balance between affordable housing needs, other planning policy objectives and scheme viability.
- 3.7.2 This is consistent with DSP's wide experience of successful CIL, Local Plan and Affordable Housing viability evidence and outcomes through to examination and on to adoption stages, as well as in the detail of affordable housing and other planning policies and viability factors in operation in practice.
- 3.7.3 This viability evidence will need to be considered in conjunction with wider evidence on housing needs, and the nature of site supply (type, location and size of sites coming forward), infrastructure needs and planning, employment land and so on.
- 3.7.4 Ultimately there will be circumstances where some flexibility will be needed to any AH target and tenure split appropriate in the West Berkshire context on a site-specific basis – essentially enabling policy to effectively maintain viability scope / be responsive to particular circumstances, through the variation of tenure where necessary rather

than the direct reduction of AH provision. This approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we have at the current time.

- 3.7.5 Suggestions to consider (and any subsequent use of) reduced / lower than headline targets for AH do not imply that such targets would always be met at the lower levels all of the time. There will always be site specific circumstances causing viability pressure which may need to continue to be taken into account at the planning application stage, although how this will play out in relation to new Local Plans prepared and examined in the context of the NPPF (2019) para. 57 principles is yet to be seen; currently very early days on this.

Overview – main AH policy considerations/options for WBC review – Base results sets

- 3.7.6 In summary, following on from the analysis and results discussion above, from a viability perspective we recommend the following approach for consideration by WBC in connection with setting an appropriately robust AH target and thresholds:

Figure 7: AH Policy Considerations / Options

Sites of <5 dwellings – District wide	<p>Limited viability scope indicated by results and we suggest consideration of a nil AH target in these cases. Although there may be particular scenarios / circumstances where this would understate the viability position, on balance we consider it to be an appropriate recommendation in the WBC context.</p>
Sites of 5-9 dwellings – District wide	<p>Suggest maintaining the existing AH target relating to 20% on-site contributions whilst noting the need for potential flexibility in AH tenure where needed.</p> <p>In those circumstances where a financial contribution in-lieu of on-site AH is agreed as necessary and appropriate, WBC’s methodology for calculating payments aligns with the desire for a ‘challenging’ target. However, although we see positive viability is generally achieved, there may be merit in adjusting or reviewing the calculation/methodology to resolve the current discrepancy</p>

	<p>between the level (impact) of on-site and financial contributions in some cases.</p>
<p>PDL Sites of 10+ dwellings (or > 0.5 ha) – District-wide</p>	<p>Suggest reducing the current threshold from 15 dwellings to 10 dwellings for the placing of the headline policy. On PDL sites we consider an AH target of 30% to be a suitably ambitious and challenging target whilst again noting the likely need for adaptable policy application in some circumstances.</p> <p>Suggest retaining the current approach of a site size threshold (0.5 ha) in addition to a unit number threshold, to discourage developers from planning development at very low density in an attempt to avoid affordable housing obligations.</p>
<p>Greenfield Sites of 10+ dwellings (or > 0.5 ha) – District-wide</p>	<p>As above, suggest reducing the current threshold to 10 dwellings. The assessment finds that Greenfield sites have the ability to support a greater level of AH in viability terms. We consider a 40% AH target to be appropriate in these circumstances. (This approach continues the current policy differentiation that has by and large proved workable in West Berkshire). As above, we suggest retaining the current approach of a 0.5 ha site size threshold in addition to a dwelling number threshold.</p>

AH Tenure Mix	<p>As noted above and throughout the Findings section, social rent has a significant impact on viability overall compared with affordable rent or low cost ownership tenure forms; having the effect of pulling down the results, with this likely to be further in focus particularly on PDL site types where viability can usually be expected to be tighter. We consider there will be some circumstances where a flexible approach to AH tenure will be needed or at least best considered amongst the delivery options, in order to enable successful delivery of some sites. In these circumstances, it may not be solely the impact of social rent (or even the AH requirement overall) reducing viability scope, however, but a general inability for that particular scheme to support the collective development costs at a site-specific level.</p> <p>It is clear that any increase in the amount of Shared Ownership proportion (or other form of affordable home ownership including for example an element of Discounted Market Sale or similar) or switching from social to affordable rent has a positive viability impact. Flexibility in approach to affordable housing tenure mix must also be considered alongside evidence of affordable housing needs.</p>
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3.8 Additional testing assumption - Zero Carbon allowance (Appendix IIb and IIc)

- 3.8.1 Following the first phase of appraisal modelling, the Council instructed DSP to undertake additional testing to consider the impact of enhanced sustainability requirements to achieve the net zero carbon standard on the recommended AH proportion. This was carried out in two phases as more information on the costs of achieving this standard became available – see discussion further below. Our base appraisal testing (Appendix IIa) assumes a 2% on cost allowance, being the base level equivalent to meeting the relevant former Code for Sustainable Homes Level 4 elements.
- 3.8.2 According to some recent reports, including the Currie and Brown report for the Centre of Sustainable Energy and Committee on Climate Change, the costs for achieving the zero carbon standard could point to cost increases as high as 7%-11% above base build cost. The first phase of this additional testing, as set out in Appendix IIb, assumes a 7% on cost allowance to achieve this standard which we consider includes a high

proportion of on-site renewable measures rather than a combination of on-site renewables and off-setting.

- 3.8.3 Following the first phase of testing (Appendix IIb) and further review of current evidence, we consider a reduced assumption of 3%-5% to be more appropriate taking into account a general decarbonisation of the energy network over time, any current sustainability measures that are already part of council policy as well as potential economies of scale over time. On this basis, we have conducted additional sample sensitivity testing (Appendix IIc) applying a 4% increase over base build costs to achieve the zero-carbon standard through a combination of on-site renewables and off-setting.
- 3.8.4 In addition, we note the Government is currently consulting on a new 'The Future Homes Standard' (closing February 2020) which proposes two options for enhanced sustainability standards with the more onerous option requiring a 31% reduction in CO₂ from new dwellings at an average cost of £4,847 per dwelling. Following adoption of the new NPPF, the Government confirmed that LPAs have the ability to set higher targets than Building Regulations. It is our understanding that the Council are looking to pursue the zero-carbon standard.
- 3.8.5 This additional testing has been carried out across the range of scenarios already discussed above to provide a comprehensive view of the potential AH viability implications should this enhanced standard be pursued by the Council moving forward.
- 3.8.6 The commentary below is intended to be high-level at this stage and therefore does not go into the same level of detail as for the original (base) results sets discussed above. Given the increased cost to development associated with achieving a zero carbon standard, it is not surprising that viability and, therefore the potential resultant AH proportions, are affected subject to whether the 7% or 4% assumption is applied. The following commentary will describe the impact of both assumptions where applicable (noting 4% has only been tested on a sample basis).

Results Analysis with 7% Zero Carbon cost assumption

Smallest scenarios (4 dwellings or fewer)

(Appendix IIb - Tables 2a-2d)

3.8.7 With 7% on cost for achieving zero carbon standard, the results show a picture of deteriorating viability, indicating nil scope for AH. Using the selected assumptions, it is only once the sales value levels reach the upper end of our assumed range (at VL8/9) that these types of schemes appear to become viable, but then usually only when nil AH is applied.

5 to 9 dwellings

(Appendix IIb - Tables 2e and 2f)

3.8.8 As above, the results again show a significantly reduced level of viability with higher VLs at 4/5 needing to be achieved in order to meet the greenfield BLV, increasing to VL8+ for viability on PDL sites. Compared to the original (base) appraisal results set, this equates to approximately a 17% decrease in the corresponding RLVs. On this basis, it is clear that the 20% AH target comes under pressure when an allowance for achieving zero carbon is added. Although there may be some instances where this is achievable, in the majority of circumstances we consider 20% AH likely to be unviable in combination with an additional 7% cost, and recommend that if a net zero carbon standard is to be applied, and this level of cost is required, this will need a reduction in affordable housing requirements; for example with AH being set at a nil or a significantly lower level.

>10 dwellings

(Appendix IIb Tables - 2g to 2p)

3.8.9 The results themes and trends noted above continue to be seen on all other scenarios with viability scope deteriorating from the original results. In order to support our original AH recommendations, a higher level of value (VL) would need to be assumed. Upon review of these results, we consider that the sales values would need to increase by approximately two value levels – i.e. by between 10% and 15%, reaching the upper end of expected new build values - to support our original (base assumptions founded) AH recommendations with these enhanced sustainability costs applied.

Results Analysis with 4% Zero Carbon cost assumption

(Appendix IIc - Table 1a-1d)

3.8.10 As noted earlier, the results of testing with a lower 4% zero carbon assumption are set out in Appendix IIc and have been tested at 30% and 40% AH. Although these results are also combined with profit sensitivity tests (see 2.8.2), the discussion below

principally relates to those tables with 20% profit as our original base position. Having tested the full range of scenarios with a 7% assumption, the following were revisited as a second phase of testing, with a 4% assumption, as a result of further research on this topic.

15 Houses

(Appendix IIc - Table 1b)

3.8.11 A lower cost allowance for achieving a zero carbon standard (through a combination of on-site renewables and carbon off-setting) shows improved viability scope compared with the same 7% results. Positive viability scope is presented from VL4+ when assuming a greenfield site type combined with 40% AH. If this scheme were to come forward on a PDL site type, there is more of a reliance on higher-end of the new build VL range, from VL5+ to meet or exceed the corresponding BLV at 30% AH.

50 Mixed

(Appendix IIc - Table 1d)

3.8.12 As above, in comparison to the corresponding 7% zero carbon results set, assuming a 4% allowance for achieving the zero carbon standard has the effect of improving the relative viability scope. This presents a broadly similar tone of results as 15 Houses above, with 40% AH achievable from VL4+ on greenfield land and 30% AH achievable from VL5+ on PDL. Compared to the 7% results set, this provides an improvement of approximately 15%. However, in comparison with the original (base) appraisal results set (assuming only an enhanced sustainability allowance), this equates to approximately an 8% decrease in the corresponding RLVs

3.8.13 The results themes and trends noted above indicate viability scope deteriorating from the original results basis, even when assuming the lower zero carbon cost allowance. However, with the 4% allowance to achieve zero carbon standard, we consider the results continue to support our original recommendations for 30% AH on PDL site typologies and 40% AH on greenfield site typologies.

Additional Commentary

3.8.14 Workable scenarios supported by higher values may be seen when the higher 7% cost for achieving zero carbon is assumed. However, we consider that the values required to support both a zero carbon policy (utilising a 7% cost assumption) and 30% or 40% affordable housing are above the typical range of values likely to be seen for the majority new build properties that will contribute most significantly to the overall Local Plan development supply in the district. However, subject to Council's desired zero carbon standards and by what means those are achieved, we consider a suitably challenging AH target varied by site type (PDL or greenfield) can still be viably achieved at the lower 4% assumption. The overall cost of meeting zero carbon standards will therefore be important in continuation of viable affordable housing policy.

3.8.15 It is clear from the results and sensitivity analysis at Appendix IIc that the application of a lower profit assumption of 17.5% (mid-point of the range described within the PPG) has a positive impact on viability. Although this profit level as a base assumption would not alter our overall recommendations for AH, it is a factor the Council could keep in mind when reviewing viability at planning application stage alongside future whole plan viability assessment. The results also obviously counter some of the negative viability impacts of zero carbon policy cost.

3.8.16 If the Council seeks to require new homes to be built to a zero carbon standard, there is related impact on viability which becomes much more onerous in the trade-off with AH at the enhanced standard of 7%. Based on our additional appraisal testing and discussion above, and indicatively at this stage, pending any further review of other updated draft policies, we have summarised the impact of the additional zero carbon testing on the level of AH as follows: -

A. Achieving Zero Carbon through on-site renewables provision only (7% increase on cost)

- < 5 dwellings – likely nil scope for AH (as per base);
- 5-9 dwellings – reduce base 20% to 10% AH, applying the WBC AH financial contributions methodology;
- >10 dwellings – reduce target from 30% to 20% for PDL sites and from 40% to 30% for Greenfield site types. Assuming WBC wish to continue a suitably challenging target, there may be scope to increase these up to a maximum of 25% and 35% AH but that would be reliant on assuming lower BLV levels, a

positive market outlook and in-built AH tenure flexibility, alongside the acceptance of potential viability challenges in some circumstances and an increased frequency of these on PDL and for flatted scenarios.

B. Achieving Zero Carbon through a combination of on-site renewables and off-setting (4% increase on cost)

- < 5 dwellings – likely nil scope for AH (as per base)
- 5-9 dwellings – maintain the 20% AH recommendation, applying the WBC AH financial contributions methodology;
- >10 dwellings – maintain the 30% AH target recommendation on PDL sites and 40% for Greenfield site types. As above the same contextual themes apply in terms of the desire for a suitably challenging AH target, alongside the need for flexible application of the AH tenure.

Final Report Client Version 7 Ends
October 2019

Notes and Limitations

1. The purpose of the assessment reported in this document is to assess whether WBC's existing affordable housing policy is workable, via a review of the housing market and viability testing of a range of development scenarios and to make recommendations about changes to the policy if necessary.

2. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

3. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.

4. The research, review work and reporting for this further assessment has been assembled at a time when there remain economic uncertainties associated with Brexit. In terms of the latest context potentially having a bearing on all of this, the Global COVID-19 (Coronavirus) situation is now dominating all aspects of the news and economy. This may run through into many potential areas of influence on matters affecting viability or deliverability, short term in particular. At the point of this assessment while there are unknowns, and potentially significantly so, it is possible to work only with the known – i.e. available information at this point in time as continues to be reflected through the stated established information sources. At this stage it appears that it will then be for Local Authorities and others to consider how this picture may change – monitor it as best possible and consider any necessary updating of the evidence in due course. This is consistent with the approach that typically is taken already when either a significant amount of time passes, or other circumstances change. In the meantime, this work contains information on the impact of varied assumptions. Additionally, in considering any site-specific allocations, strategic sites or similar within its scope, through the assessment work more widely we have also sought to provide further sensitivity testing to inform the Council's consideration of development viability in the wider plan delivery context.

5. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies continue to be applied practically from case to case.

6. It should be noted that every scheme is different and no review of this nature can reflect the variances seen in site specific cases. Specific assumptions and values applied for our test scenarios are unlikely to be appropriate for all developments. A degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing the Council's policy development.

7. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated, therefore the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances.

8. Accordingly, this assessment (as with similar studies of its type) is not intended to prescribe land values or other assumptions or otherwise substitute for the usual considerations and discussions that will continue to be needed as individual developments with varying characteristics come forward. This is also true in respect of the long timescales in Local Plan development and implementation over which the economy and development climate (national and more local influences and impacts) are very likely to vary. Nevertheless, the assumptions used within this study reflect the policy and strategy direction of the Council as far as known at the time of carrying out this assessment and therefore take into account the cumulative cost effects of policies where those are relevant.

9. DSP conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We do not operate any work on the basis of incentivised arrangements – all fees for this work are quoted and fixed up-front.

10. DSP has previously carried out strategic level policy/viability work with WBC. We also work on an ad hoc basis receiving instructions from the Council from time to time on planning application (decision making) stage scheme-specific viability reviews of applicants' viability submissions.

11. We can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base.

Notes and Limitations end