

For:
East Cambridgeshire District Council
- Interim Policy Support

Viability Assessment Information

Report (v2)

April 2019

DSP19608

(Re-issue) Report (DSP v2)

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Notes and Limitations

1. Using the viability information compiled for East Cambridgeshire District Council (ECDC) within our report completed and dated October 2017 this report is now re-issued to by Dixon Searle Partnership (DSP) to inform and support the Council's interim operation of development management policies. The East Cambridgeshire Local Plan 2015 remains the adopted local plan for the district. This follows the withdrawal from Examination recently of the formerly proposed new local plan version – what had been known as the emerging East Cambridgeshire District Local Plan 2016-2036.
2. The report is based on information that was provided by ECDC supplemented with information gathered by and assumptions made by DSP appropriate to the point of assessment, now with the above purpose in mind.
3. In this assessment, appraisals have been carried out to review viability for a range of residential development typologies. For strategic-scale sites (e.g. schemes of 500 or more dwellings) the viability assessment made reference to specific draft site allocations proposed by the now withdrawn Local Plan. Following withdrawal of East Cambridgeshire's draft Local Plan, these sites no longer have the status of 'draft site allocations'.
4. However, the appraisal of strategic-scale sites has been retained within this Interim Policy Support information/statement to aid understanding of the viability issues affecting strategic-scale developments. Inclusion of sites in this assessment does not imply that such sites have any formal status in planning terms, beyond that set out by the Local Plan 2015.
5. This review has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment, a large number of assumptions are required, alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.

6. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indicative surpluses (or other outcomes) generated by the development appraisals for this review will not necessarily reflect site specific circumstances. Therefore, 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 particular developments with varying characteristics come forward. This is also true in respect of the long timescales that can be involved in the ongoing implementation of development, while the economy and development climate (national and more local influences and impacts) are very likely to continue to vary. Nevertheless, the information brings together a review based on the likely cumulative cost effects of the Council’s approach to development management. Some previously assumed policy cost based elements of the information and assumptions do not reflect the adopted policy approach, being based on expected adjustments within the ECDC approach looking ahead. Nevertheless, the Council seeks to acknowledge the assessment work that had been undertaken and use it as part of an updated reflection local development economics in moving forward with development management in the interim period while work towards a new local plan is re-commenced.
7. 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 schemes are unlikely to be appropriate for all developments and 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 interim approach.
8. This report sets out options for the Council to consider from a viability perspective whilst taking into account national policies that may impact on development viability. The assessment project commenced in 2016, leading to a full draft report (December 2016) to inform the Council’s work to that stage. This was revisited in 2017, to add consideration of the then current stage assessment of the viability of the Council’s proposed strategic sites, with work concluding in September - October 2017. Conducted in this way, through liaison with ECDC, the assessment continues to inform and support the Council’s work with planning applicants and others..
9. It must be recognised that a planning-led basis for securing planning obligations relies on market-led processes. As a general point, and so not just referring to matters in East

Cambridgeshire District Council's case, we have to place an emphasis on the need for a practical approach to be taken by Council, having due regard to development viability where justified. By this we mean, where appropriate, the Council needing to be adaptable also to market housing scheme needs, being prepared to negotiate and consider varying solutions, and being responsive to varying scheme types and circumstances. The various components of a scheme will need to be considered in terms of the level of need for market and affordable homes, their successful integration and tenure mixes. This will involve considering, as an example, local needs, scheme location, type, design, management, affordability, dwelling mix, tenure, funding and numbers rounding in formulating the detail taken from the targets basis. The Council may need to consider the interrelation of those effects and how those impact on and benefit schemes as part of the collective development requirements. The Council may, where justified and appropriate, need to consider how to optimise provision in the given circumstances.

10. In carrying out this assessment from the necessary strategic viewpoint, it has been assumed that there will be a variety of market conditions during the life of the Local Plan, including periods in which we will see more and less stable and confident economic and property market conditions.
11. The review of development viability is not an exact science. There can be no definite viability cut off point owing to variation in site specific circumstances. These include the land ownership situation. The National Planning Policy Framework (NPPF) applicable at the point of the assessment preparation stated that *'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'*. It is not appropriate to assume that because a development appears to produce some land value (or in some cases even value equivalent to an existing / alternative use), the land will change hands and the development proceed. This principle will in some cases extend to land owners expecting or requiring the land price to reach a higher level, perhaps even significantly above that related to an existing or alternative land use. This might be referred to as a premium. In some specific cases, whilst weighing up overall planning objectives to be achieved, therefore, the proposals may need to be viewed alongside the owner's enjoyment / use of the land, and a potential premium relative to existing use value or perhaps to an alternative use that the site may be put to.

In practice, whether and to what extent an active market exists for an existing or alternative use will be a key part of determining whether or how site discussions develop.

12. Overall, land value expectations will need to be realistic and reflective of the opportunities offered by, and constraints associated with, particular sites and schemes in the given circumstances and at the relevant delivery timing; with planning policies being reflected amongst these factors. The planning requirements will be necessarily reflected in the land values that are ultimately supportable.
13. Similar principles to these have been endorsed through a re-write of the national Planning Practice Guidance section on 'Viability' in July 2018, which accompanied a new version of the NPPF at that point (subsequently further updated as recently as February – March 2019). The basis for considering land value in viability assessments both for plan making and development management (planning stage) is now clearly 'existing use value plus' (EUV plus), which will be a key point of principle for the Council's use, and is consistent with the approach that was taken within the compilation of this viability information.
14. 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.
15. 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.
16. 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.
17. Given this is a re-issue of the 2017 completed work, the report has not been wholly re-written and as such it may use tense in a variable way, simply as a result of updated context provided to the previously researched and prepared assessment work. The appraisals, results and underlying assumptions etc. have not been revisited.

Executive Summary

Context – background and assessment approach

1. Following the withdrawal in early 2019 from the examination process of the former version of a new local plan to cover the period to 2036, the adopted East Cambridgeshire Local Plan (2015)¹ will continue to be the local plan for the area, supporting and informing the development management process.
2. The viability information contained within this assessment, a process completed in October 2017, was undertaken to inform and support the former (now withdrawn) replacement emerging plan version. Therefore it had begun to inform the direction of travel of ECDC's development management processes, in certain areas of policy – such as affordable housing, for example. The Council proposes to continue using the information to contribute to informing and supporting its ongoing work with a wide range of stakeholders in delivering new housing, other development and infrastructure for the district.
3. For this assessment, appraisals were been carried out to review viability for a range of residential development typologies. For strategic-scale sites (e.g. schemes of 500 or more dwellings) the viability assessment made reference to specific draft site allocations proposed by the now withdrawn Local Plan. Following withdrawal of East Cambridgeshire's draft Local Plan, these sites no longer have the status of 'draft site allocations'.
4. However, the appraisal of strategic-scale sites has been retained within this Interim Policy Support information to aid understanding of the viability issues affecting strategic-scale developments. Inclusion of sites in this assessment does not imply that such sites have any formal status in planning terms, beyond that set out by the Local Plan 2015.
5. As a re-issue of the 2017 completed work, the report has not been wholly re-written and as such it may appear to use tense or other phrasing in inconsistent way, simply as a result of updated context provided to the previously researched and prepared assessment work. The appraisals, results and underlying assumptions etc. have not been revisited.

¹ East Cambridgeshire District Council – East Cambridgeshire Local Plan Adopted April 2015.

6. Viability in this sense focusses on the theme that *‘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 deliverable⁴*. The latter part of this provision is no longer part of the NPPF, which now refers out to the latest Planning Practice Guidance (PPG). That provides a clear basis of ‘existing use value plus’ (EUV plus) for considering land value in the context of viability in planning.
7. This viability update was produced in the context of and with regard to the National Planning Policy Framework (NPPF), CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the national PPG as updated to November 2016.
8. National planning policy and planning guidance has been updated further since the assessment period; most significantly in July 2018 with a new version NPPF and accompanying renewed ‘Viability’ section of the PPG. This national level policy and guidance has been further updated since (as recently as February to March 2019) and However, the information provided within and review process used in the production of this report and its Appendices remains more than broadly consistent with the latest national policy backdrop.
9. In general, the government’s reform of the planning system has placed significant criteria and limitations on the ability of Councils to set locally-specific standards and policy requirements. The Viability Assessment therefore investigates the impacts of the new optional national housing technical standards (including water efficiency, accessibility and adaptability and internal space), but does not appraise other technical dwelling standards. This Viability Assessment draws upon (rather than re-invents) the viability appraisal reports as published by government at the point of setting such optional standards.
10. This report of this assessment was first issued in ‘Final Draft’ form in December 2016 to inform and support the Council’s earlier stage former local plan development work. This version is a re-issue of the ‘Final Report’ that followed in late 2017, after revisiting as part of the former local plan proposed submission stage. In finalising this report at that point,

⁴ DCLG - National Planning Policy Framework (March 2012)

the work was developed on appropriate strategic site assessment and appraisals (see Appendix IIb) in response to ECDC's information current at that time.

11. The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).
12. The residual valuation technique has been used to run appraisals on sample scheme typologies representing development scenarios that are likely to come forward across the District. It is based on assumptions researched and set out in this report and associated appendices. The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These are necessary to determine both the overall viability of the scheme types tested and the potentially viable level affordable housing and other policies. Prepared in this way, the study considers the cumulative costs of development and therefore its potential viability across a range of circumstances considered relevant in the district.

Findings – brief summary

Generally and affordable housing (as a key viability influence)

13. In our view, at an overall level, looking at the range of development scenarios and policies likely to be coming forward, these appear to be capable of meeting the national policy requirements when considered in the context of the ECDC approach; the cumulative impact of policy and development costs as envisaged in this report is considered unlikely to unduly negatively affect viability when looking overall at a range of development types and locations.
14. Not just an East Cambridgeshire factor, but a widely applicable principle is that such an assessment process involves accepting that there will always be some more challenging scenarios in any area and that viability is by no means an exact science. Where appropriate, a practical and adaptable approach to policy aims and requirements is to be encouraged generally, and our experience bears this out.

15. The Council does not appear to be seeking to operate policy positions that are likely to go too far collectively in viability terms – looking at the 20% & 30% mixed tenure (pre-starter homes) affordable housing (AH) targets considered here in combination with other policy and development costs. The interim positions intended for use by ECDC are within the parameters of our findings and recommendations, as explained in this report, at a suggested 20% AH requirement for Littleport and Soham; 30% AH elsewhere in the District. These positions therefore represent reductions in some key respects from the currently adopted 30% (north) and 40% (south) AH policies. The AH policies are envisaged to take effect from 11 dwellings plus, consistent with the national position as re-amended from May 2016 (although now noting that the NPPF clarifies the equivalent threshold as 10 dwellings).
16. Reviewing the potential circumstances for development, these appear directed towards being unlikely to negatively impact too significantly the ability of developments to be delivered viably. This is provided that ECDC maintains an approach of not expecting the provision of standards beyond the national baseline policies (without specific evidence and confirmed policies in place), together with addressing its local affordable housing needs as far as is practical alongside the adopted CIL. This needs to combine with landowners' expectations also being at realistic levels reflecting site characteristics, relevant mitigation requirements and constraints as well as the opportunities side.
17. The Council may also wish to continue considering the likely positive viability influence from the inclusion of an element 'affordable home ownership' now in accordance with the latest NPPF – relative to the impact of the more traditional forms of affordable housing. There is no certainty as to exactly what forms such housing might take, and what overall dwelling mixes might look like moving ahead, in response to government policy. The range of potential tenure models continues to grow and further information may come through at a national policy level. However, the possibility of securing an enhanced quantum of affordable housing in a widened sense, and/or improved prospects for maintaining or improving the affordability of some homes, appears to remain – for example through also including an element of affordable home ownership or other models that support a higher revenue level compared with rented affordable homes.
18. Looking at subsidy and affordability as far as possible within the overall balance, the Council has a strong and growing approach in relation to community-led development and land trusts etc. and it aims to continue developing this area of strategy.

Housing/technical standards - optional building standards enhancements

19. On other aspects of planning policy detail that could have a financial viability impact, we have reviewed and provided information that suggests that the Nationally Described Space Standard and other elements of locally optional policy (from the revised national policy set related to the Government's recent review housing and technical standards) could be adopted in due course in East Cambridgeshire – dependent also on local needs and priorities.
20. These include potential initiatives on access to and use of buildings, where in our view moving ahead the Council could look at some new dwellings at least being to the generally accessible/adaptable optional standards (Building Regulations Part M4(2)). However, owing to viability limitations, a more cautious approach to the much more costly M4(3) optional requirements (full accessibility) would need to be suggested – more on the lines potentially considering and encouraging, but not necessarily requiring, provision to meet the latter should future policy development progress in this way.
21. As an area of identified water stress, all viability tests undertaken for ECDC to date include and assumption that a maximum water usage of 110 litres per person per day (i.e. per new dwelling occupant) will be achievable.
22. The assessment to date also endorses the likely workability of any small element of provision for custom/self-build homes on larger developments that may be considered as part of strategy/policy. In our view, the likely viability positions are considered to be capable of supporting a proportion of those plots (not exceeding say 10% and previously proposed at 5% by ECDC on sites providing 100 or more dwellings) as far as considered relevant in the local circumstances, again should this be considered moving ahead.

Commercial / non-residential development

23. As the reports notes, in looking at commercial property development, in many instances we have had to acknowledge the probable continued short-term challenge around delivery of significant new development, and particularly on a speculative basis.
24. In our experience and consistent with the ECDC CIL work, generally poor viability tended to result from test scenarios other than those representing potential larger format retail (supermarkets, superstores, retail warehousing) and, dependent on the details, to a lesser extent smaller retail units – e.g. convenience stores and for comparison shopping.

25. On completing the assessment, this continued to be the case for most of the B use class (business/employment) types, and is not unusual in DSP's wide experience of undertaking viability assessment and review work. Such outcomes do not necessarily mean that development will not be delivered through flexibility in development appraisal inputs and negotiations – factors that we cannot assume in prudently assessing viability using the type of assumptions that were suitable for the assessment purpose.
26. However, we also note that, as is typical, the Council's approach will continue the themes of promoting and encouraging development focused on improvements to the offer presented by the main towns and other locations that serve a more local catchment through local shopping etc., whilst acknowledging the role of the smaller villages in this way too.
27. Overall, our current stage view is still that the previous themes identified through the Council's available evidence for its CIL are likely to largely continue to remain valid.
28. Therefore, in addition to seeking to ensure that the approach to planning obligations (including the ECDC CIL and any review of that) does not add unduly to the viability pressures uncertainty to potential investment, we have put forward purely as practical indications a range of suggestions around working with the market, aiming to maximise appropriate opportunities for enhancing the commercial activity and employment base in the District.

Executive Summary ends

Interim Policy Support – Viability Assessment Report re-issue- DSP v2 – Final version
April 2019

1. Introduction

1.1 Background to the Viability Assessment

- 1.1.1 As noted within the above Executive Summary, East Cambridgeshire District Council (ECDC) will for the time being continue to use the adopted East Cambridgeshire Local Plan (2015)⁵ to guide development and as a basis for its management through the planning applications process.
- 1.1.2 With the review version local plan withdrawn from examination in early 2019, the Council intends to use some of its updated information that had been procured to inform and support that process. This is as part of an interim approach, to inform and support a practical ongoing strategy for the delivery of new housing, other development and infrastructure and the development management level detail of that.
- 1.1.3 It is worth noting at the outset that East Cambridgeshire District Council has an adopted Community Infrastructure Levy Charging Schedule to raise funds from new development to meet strategic infrastructure needs of the area. As such ECDC does not intend amending the CIL at this stage. This assessment does not explore the viability scope or otherwise for any potential alternative CIL charging rates, therefore; it considers the collective viability picture associated with proposed operation of policy positions (particularly of affordable housing for example) in combination with local characteristics and national level planning and development requirements.
- 1.1.4 It is in the interests of the Council, local communities, developers and all other stakeholders to ensure policies/interim positions, sites and the scale of development coming forward overall are able to be developed viably. The Council therefore commissioned this viability assessment which reviewed local policy positions and alternatives as regards elements of the Council's approach that have cost implications for development; to provide a viability appraisal of the site typologies likely to come forward.

⁵ East Cambridgeshire District Council – East Cambridgeshire Local Plan Adopted April 2015.

- 1.1.5 In preparing this assessment, appraisals have been carried out to review viability for a range of residential development typologies. For strategic-scale sites (e.g. schemes of 500 or more dwellings) the viability assessment made reference to specific draft site allocations proposed by the now withdrawn Local Plan. Following withdrawal of East Cambridgeshire's draft Local Plan, these sites no longer have the status of 'draft site allocations'.
- 1.1.6 However, the information in relation to the appraisal of strategic-scale sites has been retained to aid understanding of the viability issues affecting strategic-scale developments. Therefore it must be noted that the inclusion of sites within the scope of this assessment does not mean that such sites have any formal status in planning terms, beyond that set out by the Local Plan 2015.

1.2 East Cambridgeshire District Council Profile

- 1.2.1. East Cambridgeshire District a predominantly rural district located to the North East of Cambridge within the County of Cambridgeshire. The district council area comprises four main settlement areas – the city of Ely, the towns of Littleport and Soham and the large village of Burwell. The area borders the local authorities of Fenland, Huntingdonshire, South Cambridgeshire, Forest Heath, St Edmundsbury, and King's Lynn & West Norfolk.
- 1.2.2. Ely is the largest urban area and acts as a retail, service and administration centre. The FDLP states *'Soham is a small market town with a range of shops, catering for day-to-day needs. Littleport is a small fenland town with a very localised service catchment due to its proximity to Ely. The villages of Bottisham, Burwell, Haddenham and Sutton play a key service role for their rural hinterlands'*.
- 1.2.3. As of October 2017, the Council's assessment of local housing need – and consistent with the Government's September 2017 consultation 'Planning for the right homes in the right places' - was 11,960 new dwellings required between 2016 and 2036; then representing 598 new dwellings per annum we understand. This housing growth target was seen as sufficient not only to meet demographic needs for East Cambridgeshire but also the forecast growth in jobs for the area.
- 1.2.4. The Council's evidence suggested a need for employment growth (and land to accommodate that growth) for, at latest assessment, 6,000 jobs between 2016-2036

and approximately 3,000m² new convenience retail floor space and 10,000m² new comparison retail floor space between 2012 – 2031. The expectation was that much of this provision would be in Ely.’

1.3 Purpose of this Report

- 1.3.1 Viability is an important element of the planning process. As outlined above, ECDC commissioned DSP to carry out a Viability Assessment with an objective to determine the impact on development viability of including the various relevant requirements of emerging policy, including making recommendations on affordable housing targets and the viability of introducing optional housing standards.
- 1.3.2 The assessment involves the review of the financial viability of site typologies representing a range of typical site types likely to come forward across the district based on the interim positions that in some cases were to be carried forward under the former new local plan version.
- 1.3.3 This approach does not warrant a detailed viability appraisal of every site anticipated to come forward but rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to be relevant. Neither does it require an appraisal of every development aspect or influence/policy, but rather a focus on potential elements of the overall development management approach that are likely to have a close bearing on development costs and therefore a more significant influence on viability.
- 1.3.4 To this end, the study brings together a review of key areas over which the Council has some control or influence, to consider their cumulative impact on development viability.
- 1.3.5 The assessment approach applies sensitivity testing to policy costs including a range of affordable housing proportions and at different thresholds combined with allowances for meeting the requirements for other optional housing standards including access to and use of buildings, water efficiency and space standards.
- 1.3.6 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work

provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

- 1.3.7 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue (sales income) generated by the completed scheme (the gross development value – GDV).
- 1.3.8 The residual valuation technique has been used to run appraisals on sample scheme typologies representing development scenarios that are likely to come forward across the District under the emerging development strategy.
- 1.3.9 The study process produces a large range of results relating to the exploration of a range of potential affordable housing percentages 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 used to continue inform the interim approach/policy setting process.
- 1.3.10 A key element of the viability overview process is the comparison of the RLV results generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward - so that development across the area is not put at risk owing to un realistic policy burdens in combination with other development cost factors. These comparisons are necessarily indicative but are usually linked to an appropriate site value or benchmark. The results sets have been tabulated in summary form and those are included in Appendix II.
- 1.3.11 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 will 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. As above, the emphasis on a ‘EUV plus’ approach to this is now increased – through the PPG.

1.3.12 This report then sets out findings and recommendations for the Council to consider in taking forward its interim/ongoing approach, including on a reasonable and viable level of affordable housing to be sought on residential development schemes across the area.

1.4 Policy & Guidance

1.4.1 This viability assessment was produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance applicable to studies of this nature. This study has also had regard to the national Planning Practice Guidance. The details references to and extracts from the former guidance have been removed from this report re-issue version, and the Council will be able to use this information in conjunction with the latest national policy and guidance.

1.4.2 In addition, relevant background and good practice information on strategic level viability assessment 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 wider process and offers guidance on how to assess the cumulative impact of development costs.

1.4.3 The Council is conscious that the government’s reform of the planning system has placed significant limitations on the Council’s ability to set locally-specific standard and policy requirements. Following consultation on the Housing Standards Review (August 2013), on 27th March 2015 in a written Ministerial Statement the Government formally announced a new approach to the setting of technical housing standards in England. This has been accompanied by a new set of streamlined standards.

1.4.4 The DCLG statement said: *‘From the date the Deregulation Bill 2015 is given Royal Assent, local planning authorities and qualifying bodies preparing neighbourhood plans should not set in their emerging Local Plans, neighbourhood plans, or supplementary planning documents, any additional local technical standards or requirements relating to the construction, internal layout or performance of new*

dwellings. This includes any policy requiring any level of the Code for Sustainable Homes to be achieved by new development; the government has now withdrawn the code... For the specific issue of energy performance, local planning authorities will continue to be able to set and apply policies in their Local Plans which require compliance with energy performance standards that exceed the energy requirements of Building Regulations until commencement of amendments to the Planning and Energy Act 2008 in the Deregulation Bill 2015. This is expected to happen alongside the introduction of zero carbon homes policy in late 2016. The government has stated that, from then, the energy performance requirements in Building Regulations will be set at a level equivalent to the (outgoing) Code for Sustainable Homes Level 4. Until the amendment is commenced, we would expect local planning authorities to take this statement of the government's intention into account in applying existing policies and not set conditions with requirements above a Code level 4 equivalent'.

- 1.4.5 The new approach introduces optional Building Regulations requirements for access (volumes 1 and 2) – Part M4 (2) and (3) - and water efficiency which provide a higher standard than the minimum national building regulations. A nationally described space standard has also been introduced which can be implemented through the planning system.
- 1.4.6 In addition, a new security standard has now been included in the Building Regulations (Part Q).
- 1.4.7 The review also clarified statutory Building Regulations guidance on waste storage - to ensure that it is properly considered in new housing development.
- 1.4.8 The effectively optional regulations and space standards may only be applied where there is a local plan policy, based on evidenced local need for them; and where the viability of development is not unduly compromised as a result of their application.
- 1.4.9 The national policy changes also included a 'vacant building credit'. This intended to incentivise the use of brownfield (previously developed) land, by reducing the affordable housing through a credit based on the floor area of any existing vacant buildings.

- 1.4.10 As further detail develops, through regulations, other national policy moves to encourage or secure the provision of various forms of housing may need to be considered.
- 1.4.11 The Chancellor announced in his Budget speech in 2015 that affordable housing providers would have to cut social housing rents by 1 per cent each year for four years from April 2016; a reversal of the rental formula which previously allowed RPs to raise rents in line with the consumer prices index (CPI) plus 1 per cent. As part of this viability update, accordingly we reviewed the impact of reduced rents on affordable housing values (i.e. the assumed value of the affordable homes using unit to a developer). This restriction has been lifted moving ahead.
- 1.4.12 At the assessment stage, any changes to the definition of affordable housing were not taken into account, other than looking at the potential introduction of Starter Homes (by way of initial indicative sensitivity testing that has been included) given that there was no detail or Regulation on which to base any viability modelling.
- 1.4.13 In advance of the final report stage, the above context changed to some extent at a national level, but not so as to affect this viability assessment and findings. The Government's Housing White Paper 'Fixing our broken housing market' was published in February 2017. The CIL Review Panel commissioned by the DCLG also reported at a similar time. As at October 2017, however, we had no further firm indications or confirmations on national policy development that would inform an alternative view or solid assumptions for viability testing – for example on a proposal that could see a minimum of 10% homes provided for 'affordable home ownership' on a similar but seemingly less directed / more adaptable model than referred to under the above noted 'starter homes' banner. The NPPF 2018 subsequently brought in such a national policy on affordable home ownership, although from initial review models such as shared ownership would meet that general criterion. It also appears that Local Authorities may have some discretion in relation to how best to meet particular local needs when considering this element of overall housing mixes.
- 1.4.14 Finally on context, as noted above, the Council has continued to consider the local relevance of potential community-led development – including a potential role for Community Land Trusts (CLTs), or similar. With the potential relevance of this in mind, at the point of developing this final version report, our appraisals aligned to one of the site proposals (land West of Station Road Kennett) enable the

consideration of a variety of potential land values implications and how those might influence overall viability outcomes. This element of the work was part of that added to the earlier stages assessment, to provide a suitable overview of the viability of the Council's proposed strategic housing development sites at the time. More detail follows on this, as well as on the testing carried out generally.

2 Methodology

2.1 Residual valuation principles

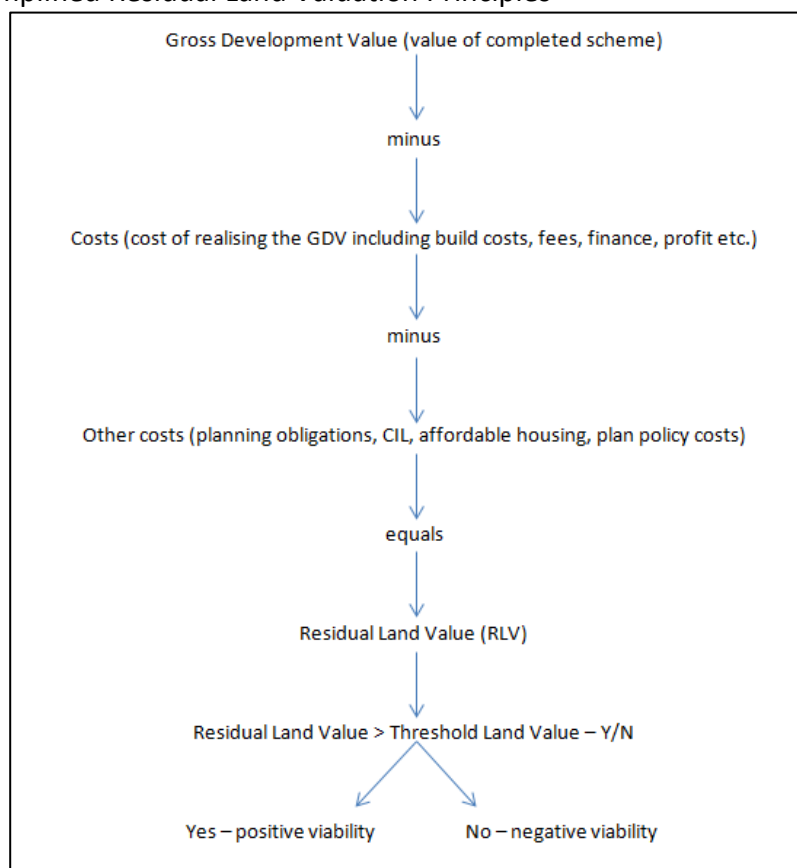
- 2.1.1 As noted above, on re-issue of this assessment report, no research, assumptions, appraisals or results have been revisited. Therefore the only adjustments made to the following reporting from the earlier issue are in relation to the context, timing/tense in which the information and commentary is provided. There are no methodological changes or new points to make in terms of the review and assessment work that was carried out – no new or refreshed work of that nature has been undertaken. The previous assessment context is simply now put forward in the revised, latest context of ECDC’s ongoing, interim approach – to help inform that.
- 2.1.2 Collectively this study investigates the potential viability of development in the district, including as a key element the review of various potential affordable housing proportions (target percentages - %s) and the thresholds above which affordable housing may be sought.
- 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.. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the collective impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. 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.
- 2.1.4 To inform our assumptions, necessarily fixed at a point in time, and prior to running appraisals using those (as outlined in the following paragraphs) we undertake an extensive information review and property market research including development industry stakeholders’ survey. As a part of this, we undertake a review of the potential policy proposals which 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 proposed policies so far as those are known at the time of this assessment.

2.1.5 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of scheme types, both residential and non-residential / commercial.

2.1.6 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



2.1.7 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).

2.1.8 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site

value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.9 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as from the DCLG, Valuation Office Agency (VOA) reporting, previous and current evidence held by the Council and its immediate neighbours and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals and consequently there has been very little to use in terms of comparables. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a particular level of land value need to be understood. As such a range of information as mentioned above has to be relied upon to inform our assumptions and judgments.

2.1.10 The results show trends indicating deteriorating residual land values (RLVs) and, therefore, reduced viability as scheme value (GDV) decreases and / or development costs rise – e.g. potentially through adding / increasing affordable housing, optional technical housing standards and / or increasing planning obligation levels.

2.1.11 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 research on local values, costs and types of provision, etc. At various project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder 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. DSP also undertook a Stakeholder Workshop session, held at the Council's offices. Appendix III provides more details.

On the whole, the process is informed as far as practically possible by the review of

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available information and making an overview from that. This approach reflects the expectations of the guidance.

2.1.12 The same principles have been used in considering the current stage strategic sites viability – appraisals undertaken most recently as per Appendix IIb. For those, a fixed land cost at £250,000/Ha (as per the Appendix IIa tables ‘Viability Test 1’ for results trends viewing) applied to each of the whole (gross) site areas has been assumed for this assessment purpose only.

2.1.13 In the case of the potential CLT-lead scheme – Land West of Station Road, Kennet– that assumption has also been applied. As noted above, however, in that instance the Appendix IIb results table also sets out alternative outcomes based on applying lower land values, overall, as the primary mode through which subsidy would be available in those circumstances. This and / other forms of subsidy would typically be needed and available to support the aims of the CLT approach (potential discounted land value to support community objectives e.g. through planning obligations/planning-led provision, working in partnership with landowner(s)). In that case only, consistent with the ECDC proposals relating to that CLT, the alternative land values assumptions range provides wider information for ECDC’s consideration, and allows for:

- at the lowest land value assumption, the land bought in at £25,000/Ha, broadly in line with agricultural or amenity land value and then;
- an intermediate position as another potential alternative, in which the net developable site area is assumed to be acquired at the wider assessment assumption level land price of £250,000/Ha and the wider land at the above £25,000/Ha base (existing use related) level.

2.2 Key Policy/Interim approach Areas for Testing - Summary

Energy & Water

2.2.1 As a result of the Housing Standards Review, ECDC will need to ensure that any specific policy/approach in regard of water consumption is set at no more than 110 litres/person/day. We understand that as with much of Cambridgeshire, East Cambridgeshire District has been identified as an area of severe water stress and as such the strategy moving ahead is likely to include an additional requirement for water efficiency measures.

- 2.2.2 For this assessment we have assumed that the Council may in due course introduce the minimum level of compliance (i.e. 110 litres per person per day (lpppd)) but for that no additional cost allowance is required⁷.
- 2.2.3 This study 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. Appendix I provides the detail but data taken from the DCLG Housing Standards Review Impact Assessment (average £ per unit E/O cost) for meeting the energy requirements for former Code for Sustainable Homes (CfSH) Level 4 equivalent has been used as a proxy for building regulations compliance.
- 2.2.4 No other sensitivity testing has been carried out in relation to higher levels of the CfSH or zero carbon as a result of the Government announcement to delay the introduction of national zero carbon policy and the scrapping of the allowable solutions element of national policy.
- 2.2.5 In general, the Council may now (April 2019) and moving ahead wish to consider the very latest national policy and guidance context, and direction of travel, applicable in these and other areas (including the below) of their considerations on development management.

Affordable Housing

- 2.2.6 The Council's adopted affordable housing policies require affordable housing from sites of more than 10 dwellings and the continuation of this is a base position that we assume will remain relevant.
- 2.2.7 Affordable housing has been included in this viability assessment based on a threshold of 11 units (representing the effective national policy threshold at the time) but in this case we assume that as that is consistent with latest national policy, this could continue in operational terms in any event. Should any possibility of more onerous policies (i.e. based on a lower threshold or similar) be weighed-up in the national policy context in future, these would need specifically evidencing. More detail on the affordable housing assumptions is provided below and at Appendix I.

⁷ N.b. extra over costs of attaining water efficiency standards of 110lpppd are in the region of £6-£9 per dwelling according to the DCLG Housing Standards Review Cost Impacts Study (September 2014). In our opinion this would have such a marginal impact on scheme viability that it has not been included in this assessment.

Nationally Described Space Standard

- 2.2.8 The Government's Technical Housing Standards have introduced national space standards for C3 housing which can be used in local policy if there is sufficient evidence of need and viability.
- 2.2.9 So that that the Council could consider using these, subject to other evidence, the dwelling sizes consistent with these space standards have been included in the modelling for this viability assessment as a standard assumption. See Appendix I for detail.

Access to and use of Buildings

- 2.2.10 The Government's Housing Standards Review has also resulted in changes being made with reference to Lifetime Homes and the Wheelchair Housing Design Standard. Accessibility is now incorporated into Part M of Building Regulations, applied by Local Planning Authorities as conditions and checked for implementation through the Building Control process.
- 2.2.11 Again, as with residential space standards, there needs to be evidence for both need and viability.
- 2.2.12 As part of the viability testing process, the Council requested that sensitivity testing be carried out to look at the likely viability impact of including requirements on the access to and use of buildings, the proportion that could be requested and the threshold (e.g. dwelling numbers) at which the approach should be triggered. We set out below the likely additional costs for including policies that meet the optional Category 2 and 3 requirements of Part M4 of the Building Regulations and those have been used in our sensitivity testing (not as base assumptions throughout).
- 2.2.13 As part of the Government's Housing Standards Review consultation, cost analysis was produced by EC Harris (and subsequently updated) relating to areas that included Access. Within the 2014 update to that review document, approximate costs of complying with the optional Category 2 requirements of Part M4 were included. This indicates various costs for different types of dwelling and on different forms of development. For the purposes of this report, the average extra over access

cost per dwelling is approximately total of £2,447 for houses and £1,646 for flats for meeting Part M4 (2) standards. This is based on an average extra over access cost per dwelling (£682/dwelling) alongside the average access related space cost per dwelling but without allowing for cost recovery (£1,444/ dwelling).

2.2.14 For Part M4 (3) the same report indicates average extra over (E/O) costs to be £15,691 for flats and £26,816 for houses.

2.2.15 Within this viability assessment, sensitivity tests have been carried out using the base scheme of 100 units and noting that Part M4(2) and Part M4(3) would not be required on the same individual unit; in respect of individual dwellings the standards are distinct. As with all aspects of this assessment, this is aimed to inform the Council's consideration of potential development costs impacts.

2.2.16 However, the strategic sites testing added for the updated final version of this report included assumptions representing all dwellings being provided to meet enhanced accessibility standards, to M4(2), also using updated values assumptions as well as inputs particular to those tests. Further information provided below notes the nature of those additional tests, and Chapter 3 (together with Appendix IIb) added in 2017 for this final report version provides those results.

Starter Homes/ Affordable Home Ownership, Custom Build & Prestige Homes

2.2.17 Although at the time of assessment the detail had not yet been provided through Regulation and / or Guidance, 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 was not set out in the Act but previous consultation had suggested that it would be in the region of 20% of new homes on all new developments (with certain exceptions). Starter homes exception sites were referred to within the PPG as a form of Starter Homes supply but it was not clear what relationship this would have with the requirement for all sites to provide a proportion of Starter Homes. Related to the type of PDL sites on which the Starter Homes initiative had been envisaged to be focused, DSP's view is that land values should be reflective of the site characteristics, development type and mix - as in all other cases. Developments specifically aimed at this model would not be providing an affordable housing quota, s.106 or CIL funded infrastructure and in our view based on 80% market sale values is, at the very least, likely to be no less viable on such a

site than a combination of full market and regular affordable housing in the sense that has been required to date.

2.2.18 Looking at Starter Homes as set out loosely in the Act (i.e. not exception site Starter Homes but Starter Homes as a proportion of normal residential development) further information was needed from the Government before the full impact on viability could be fully tested. For this viability update, sensitivity testing was carried out assuming that the first 20% of affordable new dwellings (a “top-slice”) as Starter Homes, with the remainder (subject to the positioning of the affordable housing policy headline proportion) as traditional affordable housing (i.e. a combination of affordable rent and intermediate housing. The emphasis was assumed to be on the rented element particularly if Starter Homes are to substitute the intermediate housing first).

2.2.19 The above referred to Housing White Paper, published in 2017, suggested that an approach at least slightly different to the above was likely to evolve. This has proved to be the case, with a more general requirement to provide at least 10% ‘affordable home ownership’ within developments now within the NPPF (from July 2018). The nature of those homes in terms of tenure and affordability, whilst perhaps not so prescriptive, could well be similar to those envisaged under the starter homes initiative.

2.2.20 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 for custom-build has the potential to be a 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.

Commercial / Non-Residential Development

2.2.21 On review of the Council’s available information at the various project stages we have not further developed the Council’s existing evidence base as prepared for its Community Infrastructure Levy. That indicated the viability of various forms of non-residential development moving forward. As outlined above, at an appropriate high level, our review work suggests that we would expect to identify the same themes in respect of various forms of non-residential development when using appraisal

assumptions of the type appropriate for the district-wide overview assessment purpose.

2.3 Scheme Development Scenarios

2.3.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of development whilst including testing and sensitivity testing on the requirements considered to have an impact on development viability. The scenarios were settled and discussed with the Council following a review of the information it provided. Information included adopted and (former) emerging Local Plan documents, CIL studies and adopted CIL charging schedule, Strategic Housing and Economic Land Availability Assessment (SHELAA), Strategic Housing Market Assessment (SHMA) and other sources.

Residential Development Scenarios

2.3.2 Representative of a range of relevant residential scheme types, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on affordable housing provision as well as on other policy cost areas as discussed in this report (see Figure 2 below for the range of general typologies and assumed mixes, and Appendix I provides more detail):

Figure 2: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
11 Houses	5 x 2BH, 3 x 3BH, 3 x 4BH
15 Houses	7 x 2BH, 5 x 3BH, 3 x 4BH
25 Mixed	1 x 1BF, 2 x 2BF, 8 x 2BH, 8 x 3BH, 6 x 4BH
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Houses	23 x 2BH, 15 x 3BH, 12 x 4BH
100 Mixed	5 x 1BF, 10 x 2BF, 30 x 2BH, 30 x 3BH, 25 x 4BH
100 Mixed (Variants – sensitivity tests looking at 20% starter homes & Use of and Access to buildings)	5 x 1BF, 10 x 2BF, 30 x 2BH, 30 x 3BH, 25 x 4BH

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

2.3.3 The assumed dwelling mixes are based on the range of information reviewed, including taking into account the recommendations contained within the Strategic Housing Market Assessment (SHMA)⁸ for the Cambridge housing sub-region.

⁸ 2013 Strategic Housing Market Assessment for the Cambridge housing market (no date; no author)

- 2.3.4 The scenarios reflect a range of different types of development that could come forward across the District so as to ensure that viability has been tested with reference to the potential housing supply characteristics. 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.
- 2.3.5 Appendix IIb sets out the further tests and corresponding results - on strategic sites proposals - completed in October 2017, and added to the wider assessment. In summary, those related to:
- Land west of Station Road, Kennet – indicatively 500 dwellings – potential Community Land Trust (CLT) approach;
 - Land west of Highfields, Littleport – indicatively 600 dwellings;
 - Land south of Grange Lane, Littleport – indicatively 1,200 dwellings;
 - Eastern Gateway, Soham – indicatively 500 dwellings.
- 2.3.6 The strategic sites considered in the viability assessment were draft site allocations of 500 or more dwellings, as were proposed by the now withdrawn local plan. For the avoidance of doubt, following the withdrawal of the local plan these sites no longer constitute ‘draft site allocations.’
- 2.3.7 The scheme assumed mixes were not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types in different combinations according to particular site characteristics. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers particularly. The affordable housing numbers (content) assumed within each scheme scenario can be seen at Appendix I – Assumptions overview spreadsheet.
- 2.3.8 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

2.3.9 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. As above, if dwelling space standards were to be introduced by East Cambridgeshire District Council, that there would need to be a proven need to do so, with viability considerations also taken into account. We assumed, however, for the purposes of this assessment process that the nationally described space standard may be introduced or at least encouraged. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important 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) 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.

2.3.10 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). 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. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

2.4 Gross Development Value (Scheme Value)

2.4.1 For the broad range of residential scheme types modelled in this study, a range of (sales) value levels (VLs) have been applied to each 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 East Cambridgeshire and given the fairly significant values variations seen in different parts of the District area through both the initial research stages and previous work undertaken by this consultancy, the VLs covered typical residential market values (average prices across a scheme) over the range £1,890/m² (approx. £176/sq. ft.) to £3,850/m² (approx. £358/sq. ft.). These are set out in tables by area (settlement hierarchy) in relation to existing CIL zones at Appendix I. In summary the new-build values ranges used by settlement / locality for the broad range of scenario tests, overall, were as follows (See Figure 4 below):

Figure 4: New Build Values Assumptions Summary

Test Area 1:
CIL Zone C North
(excluding Ely, Littleport & Soham) £90

Market Value Level	Lower	Base	Upper
1 Bed Flat	£135,000	£150,000	£165,000
2 Bed Flat	£189,000	£210,000	£231,000
2 Bed House	£213,300	£237,000	£260,700
3 Bed House	£270,000	£300,000	£330,000
4 Bed House	£351,000	£390,000	£429,000
Value Level (£/m²)	£2,700	£3,000	£3,300

Test Area 2:
CIL Zone A North
(Littleport) £40

Market Value Level	Lower	Base	Upper
1 Bed Flat	£94,500	£105,000	£115,500
2 Bed Flat	£132,300	£147,000	£161,700
2 Bed House	£149,310	£165,900	£182,490
3 Bed House	£189,000	£210,000	£231,000
4 Bed House	£245,700	£273,000	£300,300
Value Level (£/m²)	£1,890	£2,100	£2,310

**Test Area 3:
CIL Zone A North
(Soham) £40**

Market Value Level	Lower	Base	Upper
1 Bed Flat	£108,000	£120,000	£132,000
2 Bed Flat	£151,200	£168,000	£184,800
2 Bed House	£170,640	£189,600	£208,560
3 Bed House	£216,000	£240,000	£264,000
4 Bed House	£280,800	£312,000	£343,200
Value Level (£/m²)	£2,160	£2,400	£2,640

**Test Area 4:
CIL Zone B North
(Ely) £70**

Market Value Level	Lower	Base	Upper
1 Bed Flat	£135,000	£150,000	£165,000
2 Bed Flat	£189,000	£210,000	£231,000
2 Bed House	£213,300	£237,000	£260,700
3 Bed House	£270,000	£300,000	£330,000
4 Bed House	£351,000	£390,000	£429,000
Value Level (£/m²)	£2,700	£3,000	£3,300

**Test Area 5:
CIL Zone C South £90**

Market Value Level	Lower	Base	Upper
1 Bed Flat	£157,500	£175,000	£192,500
2 Bed Flat	£220,500	£245,000	£269,500
2 Bed House	£248,850	£276,500	£304,150
3 Bed House	£315,000	£350,000	£385,000
4 Bed House	£409,500	£455,000	£500,500
Value Level (£/m²)	£3,150	£3,500	£3,850

2.4.2 As can be seen at Appendix IIb (and further information added to Appendix III), our latest research informed updated specific assumptions on values used as part of a revised set of inputs suitable for the strategic sites testing. Certainly, subsequent values growth relative to the above is evident – increased new-build house prices.

- 2.4.3 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 also considered existing information contained within previous research documents including previous viability studies; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.
- 2.4.4 A framework needs to be established for gathering and reviewing property values data. The residential market review has been based on settlements within the East Cambridgeshire District area as described in the Council's Settlement Hierarchy Policy LP3 and Settlement Hierarchy in East Cambridgeshire supporting document (February 2016). Those areas were then aggregated into the existing CIL charging zones. This 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. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.
- 2.4.5 The purpose of the settlement hierarchy is to identify the current role and function of settlements based on the number and type of facilities and services they provide, to inform the spatial strategy moving ahead. As discussed earlier, the likely strategic approach for the future was at the time moving towards directing new development relatively proportionately across the District.
- 2.4.6 Our desktop research considered the marketing prices of properties across the District and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by a review of Land Registry information, on-line property search engines and new build data where available; including, as noted above, as part of tailored updated research undertaken to inform the strategic site tests that have been added to the assessment most recently. Together, this informed a base position District-wide view of values appropriate to this level of review and for considering the sensitivity of

viability to the values varying. This research is set out at Appendix III, including as subsequently supplemented for the strategic sites review.

- 2.4.7 Values patterns are often indistinct and especially at a very local level. However, 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 District development strategy and linked back to the variation with regard to the CIL charging schedule. 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 East Cambridgeshire. 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 viability and deliverability.
- 2.4.8 As a general summary, the data indicates a relatively wide range of values seen across the area to support development. Values are highest in the 'High CIL Charging Zone' as set out in the Council's current CIL Charging Schedule; reducing towards the lowest CIL Charging Zone. Typically, and at a very high level, we see values increase from north to south across the District. The evidence suggests that there is no reason to alter the sub-market area groupings used for the CIL Charging Zones at this stage.
- 2.4.9 Importantly, in addition to the market housing, the development appraisals also assume a requirement for affordable housing. As this study seeks to consider the viability of positions and alternatives holistically, we tested and reviewed a range of potential affordable housing policies from 20% to 40%. For the affordable housing, we assumed that approximately 70% is affordable 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 overall scheme mixes and affordable housing proportion in each scenario).
- 2.4.10 In reality tenure will normally be decided based on an up to date Strategic Housing Market Assessment (SHMA) 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 (assumed 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) 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), and as above this may in time be regarded as a form of 'affordable home ownership' in accordance with the Government's latest policy directions. Assumptions need to be made for the study purpose, using information as far as available when those are set.

2.4.11 At the assessment stage there was some uncertainty over the future definition of affordable housing for planning purposes and to some extent this is an ongoing area. Sensitivity testing within the results as part of this assessment included for the Council's wider information an early stage assumption only that the first 20% of dwellings in the relevant appraisals are set aside for starter homes. Those were assumed at a sales value at 80% of market value (subject also to a cap for the discounted price at £250,000). We further assumed that the starter homes would be regarded as market provided housing product by the development industry and as such applied the same market assumptions (profit, fees, agency costs etc.) as for the market housing. Within those additional sensitivity tests, the remaining affordable housing (if any) on the site was then assumed to be in the form of traditional affordable rented / intermediate affordable housing – the assumptions behind which are discussed below. As noted subsequently, following the 2017 Housing White Paper, a different approach has now been confirmed – with a minimum 10% 'affordable home ownership' included within overall mixes.

2.4.12 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 the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant or equivalent subsidy input. At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We therefore made no allowance for grant or other public subsidy / equivalent.

- 2.4.13 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 the maximum allowed by the Government of 80% MR including service charge.
- 2.4.14 In broad terms, the transfer price assumed in this study varies between approximately 30% and 65% of market value (MV) dependent on tenure, unit type and value level. 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 Cambridge Broad Rental Market Area (BRMA) that covers the East Cambridgeshire District Council area for the varying unit types was used as our cap for the affordable rental level assumptions.
- 2.4.15 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including an 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 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. As with the scheme scenario building, an overview of the various available data sources is required and is appropriate.

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 within all appraisals. This is another factor that should be kept in mind in looking at the viability of the Local Plan and the cumulative effect of local policies in combination with any optional technical standards; helping to ensure that these 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 were taken from the BCIS. In each case the figure was rebased using the East Cambridgeshire location factor. Costs assumed for each development type are provided in Appendix I. Figure 5 below summarises these:

Figure 5: Build Cost Data (BCIS Median, East Cambridgeshire location factor relevant at time of research)

Development Use	BCIS Category	Base BCIS Build Cost (£/m ²)*
Residential (C3)	Build Costs Mixed Developments - generally (£/m ²)	£1,023
	Build Costs Estate Housing - generally (£/m ²)	£991
	Build Costs Flats - generally (£/m ²)	£1,165
	Build Costs (Sheltered Housing - Generally) (£/m ²)	£1,215

* excludes external works, contingencies & fees

2.6.2 Unless stated, these above build cost levels do not include for external works, contingencies or professional fees. An allowance for externals 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 for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

- 2.6.3 For this broad test of viability, it was 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 through not looking as favourably as possible (for viability) at all assumptions areas.
- 2.6.4 In all cases further allowances have been added to the total build cost in respect of meeting optional technical housing standards as discussed earlier in this chapter.
- 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. We have seen variations, again, either side of this level in practice.
- 2.6.6 Survey and normal site costs were allowed for on a notional basis at £4,500 per unit for smaller residential scenarios – broad typologies. The upper-end Harman report range assumption of £23,000 per unit has been used in place of this for the strategic site residential tests added in the latest assessment phase.
- 2.6.7 The interaction of costs and values levels will need to be considered again at future reviews of CIL and the Local Plan. In this context it is important to bear in mind that the base build cost levels may vary over time. In the recent past recessionary period we saw build costs fall, but moving ahead subsequently in many cases risen relatively

they were seen to rise sharply so that a readjustment occurred. Over the course of this assessment, overall it seems fair to say that we have seen a steadier period when looking at build costs.

2.6.8 At the time of assessment reporting related to the broad range of scenario (typology) tests, unchanged for this final report, the latest available BCIS briefing (December 2016) stated on build cost trends:

'There is a consensus that the uncertainty created by the leave [EU] vote will lead to a slowdown. The length and depth of that slowdown will depend on various political decisions, any of which are equally possible. We have therefore produced forecasts based on three scenarios. These reflect the different political outcomes from the exit negotiations from the EU and are equally likely:

- *an 'upside' scenario based on the assumption that we will remain in the European free trade area with freedom of movement of labour;*
- *a 'downside' scenario based on the assumption that we do not have favourable access to the European Union market and there are restrictions on the movement of labour;*
- *a 'central' scenario based on some restrictions to trade but a largely unchanged access to labour.*

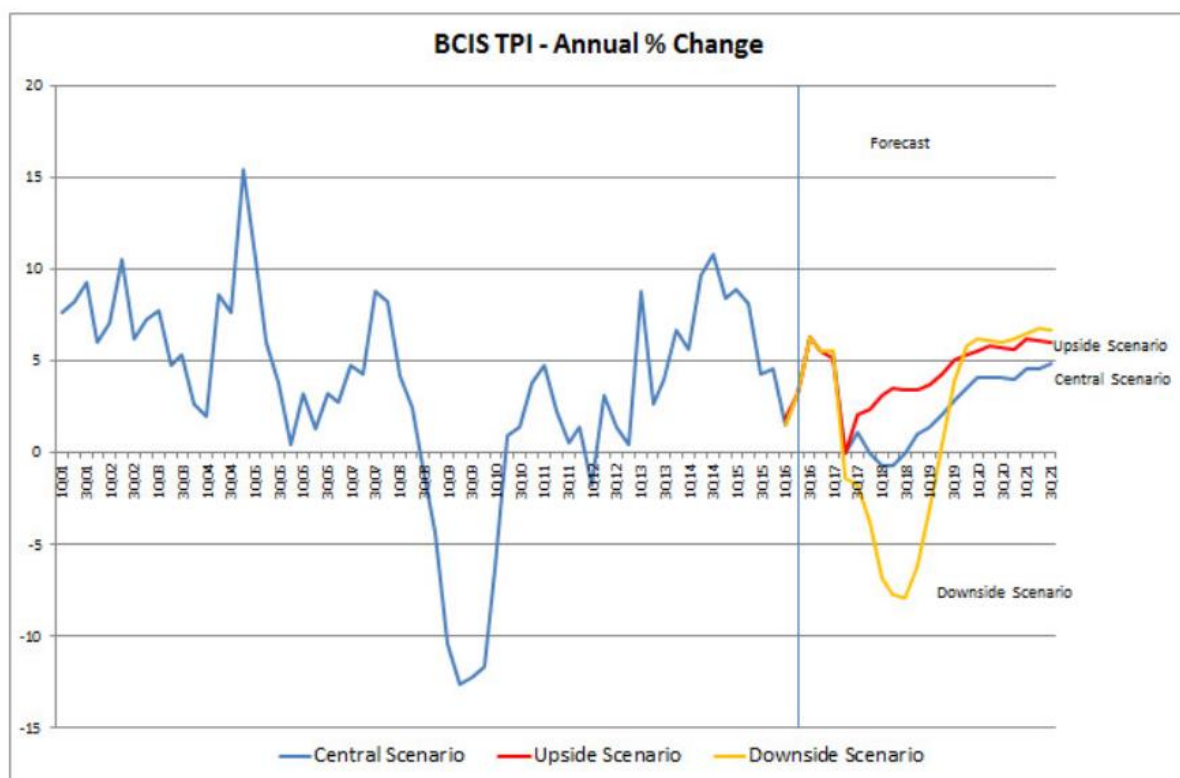
The terms 'central', 'upside' and 'downside' reflect the impact of the scenarios on construction demand.

*We are publishing the 'central' scenario as the forecast for the price and cost indices but it should be borne in mind that each scenario is equally possible.'*⁹

⁹ BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (December 2016)

	Percentage change				
	3Q16 to 3Q17	3Q17 to 3Q18	3Q18 to 3Q19	3Q19 to 3Q20	3Q20 to 3Q21
'Central' scenario					
TPI	+1.1	0	+2.8	+4.1	+4.9
GBCI	+4.0	+3.2	+3.1	+3.3	+3.5
New work output*	-0.7	-0.9	+1.9	+4.5	+6.2
'Upside' scenario					
TPI	+2.1	+3.4	+5.0	+5.7	+6.0
GBCI	+4.0	+3.8	+4.0	+4.1	+3.9
New work output*	+0.9	+3.3	+6.1	+6.8	+5.3
'Downside' scenario					
TPI	-1.8	-7.9	+3.9	+6.0	+6.7
GBCI	+4.0	+3.2	+3.7	+4.7	+4.7
New work output*	-9.6	-8.2	+4.3	+5.6	+8.1

*Year on year (3Q16 to 3Q17 = 2016 to 2017), constant prices 2013



Source: BCIS

2.6.9 At the point of our final reporting, towards the end of 2017, there are many mixed signals and of course we remain unsure how the European scenario or other external influences will play-out either in the short or longer term on the range of economic factors potentially affecting development viability. The influences on the property market from a values and rates of sales point of view seem likely to be at least as great as those on construction and build costs, so that of late locally we have seen

values growth “keeping ahead of” more the now apparently more stable build costs picture, as noted above.

2.6.10 At the time of finalising the assessment, in general, positive housing market conditions had been seen locally as our assessment moved on from its earlier stages to the adding in late 2017 of the strategic sites tests. The local market activity and evidence of latest house prices gathered from our most recent research for the strategic sites appraisals certainly suggests a positive trend on values to that point.

2.7 Development Costs – Fees, Finance & Profit

2.7.1 The following costs have been assumed for the purposes of this study alongside those noted within section 2.6 above 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):

<u>Professional fees:</u>	<i>Total of 10% of build cost</i>
<u>Site Acquisition Fees:</u>	<i>1.5% agent’s fees 0.75% legal fees Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).</i>
<u>Finance:</u>	<i>6.5% p.a. interest rate (assumes scheme is debt funded) Arrangement fee variable – basis 1-2% of loan</i>
<u>Marketing costs:</u>	<i>3.0% - 6.0% sales fees £750 per unit legal fees</i>
<u>Developer Profit:</u>	<i>Open Market Housing – 20% GDV Affordable Housing – 6% of GDV (affordable housing revenue).</i>

2.8 Build Period

2.8.1 The build period assumed for each development scenario was 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 following build periods were therefore assumed. Note that this is 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 (see Figure 7 below):

Figure 6: Build Period

Development Use Type	Scheme Type	Build Period (months)
	11 Houses	9
	15 Houses	12
	25 Mixed	12
	30 Flats (Sheltered)	18
	50 Mixed	18
	100 Mixed	24

2.8.2 The assumptions made in this respect for the strategic sites proposed to provide 500 to 600 dwellings each assume 4 sales per month per outlet. So for those i.e. West of Station Road Kennett (approx. 500 dwellings), West of Highfields Littleport – (approx. 600 dwellings) and Eastern Gateway Soham (approx. 550 dwellings) we assumed an indicative approach based on 2 sales outlets. For our current stage appraisal of the proposed site South of Grange Lane, Littleport – indicatively 1,200 dwellings – the assumptions represent a potential approach involving 3 to 4 sales outlets.

2.8.3 These assumptions on the larger sites involve construction and sales running over approximately a 5 year period on the developments of 500 to 600; indicatively a 7 year construction and sales period on the larger circa. 1,200 dwellings development proposed for Littleport, as above. In each of these cases, the sales are off-set by one year from assumed construction, so that first sales are assumed to commence one year after construction commences, with final sales approximately one year after the main construction works completing.

2.9 Community Infrastructure Levy & Other Planning Obligations

2.9.1 Applicable guidance stated the following with regard to CIL: *'At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions'*¹⁰. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance¹³ states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.9.2 The Council already operates a CIL and a great majority of existing Planning Obligation requirements are taken up within the CIL proposals, but nevertheless at least in some cases sites may still be required to contribute to site-specific mitigation measures to some degree (for example open space / highways / transport and similar requirements). This will be a variable and site-specific effect. The appraisals for the broad range of site typologies therefore included a notional sum of £3,000 per dwelling (for all dwellings – including affordable - and 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.

2.9.3 CIL is included based on the Council's current CIL Charging Schedule as summarised here (although it should be noted that in practice the latest indexed rates would now be those relevant):

¹⁰ DCLG – Community Infrastructure Levy Guidance (February 2014) – as subsequently provided with Planning Practice Guidance
East Cambridgeshire District Council – Interim Policy Support - Viability Assessment Information (v2 DSP19608)

Development type	CIL rate (per square metre)
Residential Zone A – Littleport and Soham (C3)	£40
Residential Zone B – Ely (C3)	£70
Residential Zone C - Rest of the district (C3)	£90
Retail development ¹ (A1/A2/A3/A4/A5) and sui generis uses akin to retail (e.g. petrol filling stations and motor-sales units)	£120
All other uses (unless stated otherwise in this table)	£0

2.9.4 The s.106 contributions and / or works obligations packages applicable to the strategic sites were known in terms of supporting relatively firm assumptions for appraisals. Therefore, the reported results show an ‘estimated potential surplus’ remaining after accounting for the land value, profit, all including development and costs and also allowing for payment of the CIL at the adopted rates. This surplus – after CIL, since there is no CIL differentiation for such sites in place - provisionally indicates the scope available to support site-specific s.106 and / or any other currently not accounted for costs applicable to these developments.

2.10 Indicative land value comparisons and related discussion

2.10.1 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 and CIL, will also have a bearing on land value; as has been recognised by Local Plan and CIL Examiners as well as Planning Inspectors.

2.10.2 As discussed previously, in order to consider the likely viability of the development typologies, the outturn results of the development appraisals (the RLVs viewed in £/ha terms) need to be somehow measured against a comparative level of land value. This is a key part of the context for reviewing the strength of the results as those change across the range of assumptions on sales values (GDVs), s.106 costs and other sensitivity tests (crucially including the effect of affordable housing policy targets applied fully in the case of the residential tests).

2.10.3 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, land value circumstances and requirements will in practice vary from scheme to scheme as well as being dependent to some extent on timing in relation to market conditions and other wider influences such as

Government policy. The levels of land values selected for this comparison context are often known as ‘benchmark’ land values, ‘viability tests’ or similar (as referred to in our results tables – Appendix II and within the following report Chapter 3). They are not fixed in terms of creating definite cut-offs or steps in viability, but in our experience they serve well in terms of adding a layer of filtering to the results, to help enable the review of those; they help to highlight the tone of the RLV results and therefore the changing strength of relationship between the values (GDVs) and development costs as the appraisal inputs (assumptions) change – with key relevant assumptions (variables) in this case being the GDV level (value level – VL), affordable housing proportion and, to a lesser extent, the s.106 level included for scheme specific mitigation in addition .

2.10.4 As suitable context for a high level review of this nature, DSP’s practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons in this way. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the land supply picture that the Council expects to see.

2.10.5 The local housing requirement and the strategy for growth that will continue to be responsive to it indicates a likely overall supply role for a range of sites spread across the District, in broad terms, although (at the review time) with an emerging emphasis then for particular individual concentrations of new housing on larger (‘strategic’) developments on a small number of sites at Kennet, Littleport and Soham – as considered through further appraisals as part of this assessment. In the course of the viability assessment we were aware that the Council’s strategy for growth was likely be largely based on a range of small and medium sites, given the pool of sites available and (following consultation) a preference to distribute growth across the district - with a vast majority of those likely to come from greenfield sites. In addition, it is likely that a range schemes will continue to come forward and support the overall supply picture from previously developed former commercial / employment land, for the redevelopment of non-conforming uses; as well as, in some cases, reuse and intensification of existing residential sites and garden areas.

2.10.6 The scale of the difference between the RLV and comparative land value level (‘viability test’ / benchmark land value) in any particular example - i.e. surplus over the comparative land value after all costs (including policy costs), profit and likely land value expectations have been met - and how that changes between scenarios,

allows us to judge 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 marginal or poor viability relationship (so no or limited scope to meet additional costs). Where we see a surplus, and as that increases, confidence in the outcomes increases – indicating greater prospects for the scenario being viable and deliverable, and increasing scope to support additional costs.

- 2.10.7 The land value comparison levels are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. Sites will obviously come forward based on very site specific circumstances – including in some cases at land values beneath the levels assumed for this purpose.
- 2.10.8 In order to inform these land value comparisons or benchmarks we have reviewed existing evidence, previous viability studies and sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. In the usual and appropriate way for such a study, we reviewed information sourced as far as possible from the DCLG, VOA, previous research / local studies / advice provided by the Council, through seeking local soundings, EGi, Co-Star; and from a range of property and land marketing web-sites. Details, so far as available, are provided in Appendix III.
- 2.10.9 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends. The VOA however does publish residential land value estimates for policy appraisal on behalf of the DCLG. The data for East Cambridgeshire (but taking into account the numerous caveats and basis for those values) has also been considered.
- 2.10.10 As can be seen in Appendix IIa (residential scenarios results), we have made indicative comparisons focussing on land value levels in a range between £0.25m/ha and £1.2m/ha so that we can see where our RLVs fall in relation to these levels (including both above and below) and the overall range between them. This does not prevent the presentation and review of results that fall outside this range either. As noted above, the Appendix IIb (strategic sites) tests also use the £0.25m/ha

(£250,000/Ha) land value assumption but in those cases as a fixed land cost, rather than as a filter level ('viability test') for the results. Again, assumption made for the assessment purpose only.

2.10.11 These benchmarks are based on a review of available information. In this case the approach was informed primarily by some the principle of using a range of benchmarks (in common with DSP's usual and established practice) as per previous work undertaken locally together with any information from site specific reviews and, as noted, any further information gathered through our exercise of seeking local soundings (stakeholders' survey – as outlined in Appendix III).

2.10.12 The figure that we consider to represent the minimum land value likely to incentivise release for development under any circumstances in the East Cambridgeshire context is around £250,000 to perhaps £370,000/ha based on gross developable site area and dependent on the "bulk" of land required. Land values at those levels are likely to be relevant to development on larger to smaller scale greenfield land (or enhancement to amenity land value) and therefore potentially relatively commonly occurring across the District. It is important to note that at these levels and all levels indicated by the RLV results being compared with them (see the tables at Appendix II), the land values shown indicate the receipts available to landowners after allowing within the RLV 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 ('viability tests') represent a "raw material" look at the land, with all development costs falling to the prospective developer (usually the site purchaser).

2.10.13 So this approach (as relates to all land values) assumes all deductions from the GDV covered by the development costs assumptions. At this level it could be relevant for consideration as the lowest base point for enhancement 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). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations in such scenarios would not go beyond these levels – they could well do in a range of circumstances.

- 2.10.14 Land value judgements for the assessment purpose are based on seeking to ensure a competitive return to a willing landowner, as is recognised through the RICS guidance on ‘Financial Viability in Planning’ (RICS GN 94/2012 – as noted below), the NPPF requirements and other papers on viability assessment.
- 2.10.15 The consideration of land value involves looking at any available examples (‘comparables’) and considering land value relating to an existing or use value (‘EUV’) or potentially (although usually only where a planning permission is implementable) alternative use value (‘AUV’). In addition, there may be an element of premium (an over-bid or incentive) over ‘EUV’ or similar required to enable the release of land for development – i.e. to take a site out of its current use, but not necessarily applicable where a site has become redundant for that use. The consideration of these principles derive the ‘EUV plus’ approach noted in this document and that now need to receive emphasis.
- 2.10.16 The HCA’s draft document ‘Transparent Viability Assumptions’ that accompanies its Area Wide Viability Model suggested that *‘the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development’*. This benchmark is referred to as threshold land value in that example: *‘Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely’*. Further it goes on to say that *‘There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied’*.
- 2.10.17 RICS Guidance¹¹ refers to site value in the following *‘Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan... The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations’*. This would now need to be considered in a EUV context rather than any wider view that includes any element of “hope” value or other

¹¹ Financial Viability in planning – RICS Guidance note (August 2012)

enhancement beyond any reasonable uplift to EUV as an incentive to release land for development at the appropriate time.

2.10.18 In the Local Housing Delivery Group report¹² chaired by Sir John Harman, it is noted that: *‘Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful ‘sense check’ on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values’.

2.10.19 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.10.20 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

¹² Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

3 Findings and Recommendations

3.1 General context for results review

- 3.1.1 The findings considered here relate to first to the appraisal RLV results tables at Appendix IIa – tables 1a to 1j. A guide to the content of those tables will be provided below. Following those, Appendix IIa contains a sample of example appraisal summary sheets – see below.
- 3.1.2 Appendix IIb, added for this final version report following the continued work undertaken more recently (focusing on the strategic sites indicative viability as per the review scope) has a single table format which summarises the appraisal bases and outcomes. Again, that is followed by appraisal summary sheets (this time for all appraisals, given the manageable number to reproduce) prepared using Argus Developer appraisal software standard format reporting.
- 3.1.3 The consideration of development viability for policy setting here cannot be separated from the District Council’s CIL charging regime that is already in place. The CIL viability evidence and the resultant Charging Schedule as considered by the Council, subsequently examined and adopted, found a suitable balance between the CIL rates and other development requirements and costs. This means that the combination of the adopted policy on affordable housing and the proposed CIL were evidenced as workable in combination, being the key aspects of the collective costs of development over which ECDC has significant influence.
- 3.1.4 The existing approaches to affordable housing and CIL will therefore significantly influence any further development and checking of policy positions, in light of the updated context on development costs and values as well as additional influences from both local and national policy / policy proposals. The CIL is not being reviewed at this stage, and was set based on the policy requirements now in place. Therefore, unless significantly changed circumstances overall suggest otherwise, with the Council in the main set to follow (not exceed) the national policy direction, amongst the key areas for consideration for this exercise were those draft policies proposed for addition since the adoption of existing positions (relating to the Local Plan 2015).
- 3.1.5 With this in mind, DSP’s understanding of the ECDC affordable housing policy (HOU3) scenario that is in place under the adopted policy is that it currently influences

development viability based on a threshold (policy trigger) of 10 dwellings, applicably variably according to broad location with the District:

- North of the District – a minimum of 30% AH is sought. This area includes the following settlements:
Coveney, Ely, Haddenham, Isleham, Little Downham, Littleport, Little Thetford, Mepal, Soham, Stretham, Sutton, Wentworth, Wicken, Wilburton, Witcham, Witchford.
- South of the District – a minimum of 40% AH is sought. This area includes the following settlements:
Ashley, Bottisham, Brinkley, Burrough Green, Burwell, Cheveley, Chippenham, Dullingham, Fordham, Kennett, Kirtling, Lode, Reach, Snailwell, Stetchworth, Swaffham Bulbeck, Swaffham Prior, Westley Waterless and Woodditton

3.1.6 All schemes of fewer than 10 dwellings do not attract an affordable housing requirement under adopted policy. Given national policy developments, it is assumed that the locally effective threshold would in any event continue unaltered.

3.1.7 Whilst Local Authorities have been able to make a case for a lower threshold based on local housing need and the profile of sites coming forward (where supportable also on viability grounds) we understand that this is still not a consideration here at the current time. Our wider experience is that there is a considerable “first time impact” on viability to bear in mind from the introduction of affordable policies for the first time, as in the case of lowering a threshold.

3.1.8 To recap in terms of the costs of the CIL, the adopted scenario already influencing development locally has been taken into account so that the results are also reviewed in this context. This is summarised as follows, and is consistent with the north / south of district affordable housing policy differentiation and so makes allowance for the finer-grained variation derived for and operating under the CIL Charging Schedule in reconsidering the scope to support affordable housing, as follows (current rates applicable always need confirmation depending on timing - subject to indexation):

- North – Littleport and Soham: CIL at £40/sq. m (currently in conjunction with 30% AH as above);

- North – Ely: CIL at £70/sq. m (again, with above 30% AH);
- North – elsewhere (remainder of northern part of district): CIL at £90/sq. m (also with 30% AH);
- South: CIL at £90/sq. m (currently alongside 40% AH).

3.1.9 In the following reporting of our findings, we will refer to the above via the use of the ‘Test Areas’ 1 to 5 as listed in section 2.4 / Figure 4 above (and within Appendix I). On review of the values relativities and patterns broadly applicable within the district, these have been found to remain representative and suitable for the current purpose of reviewing viability as influenced by the (former) proposed policies.

3.1.10 Approached in this way, after considering the revised assumptions now applicable on development values and costs (see Appendix I for an outline; Chapter 2 for the context), the updated viability review basis is consistent with the established geographical context for both the Council’s longstanding affordable housing policy approach and its more recently adopted CIL requirements. The CIL is not under review at this stage – again, the costs associated with that are used as a fixed assumption here.

3.1.11 However, reconsidering this context as explained above, and building from our emerging findings stage work and initial internal reporting shared with the Council in the summer of 2016, the viability testing considered affordable housing at a potential 20%, 30% and 40% across a broad range of scenarios, as discussed. The earlier stages settling and review of results showed the relevance in the local circumstances of exploring beneath the 40% AH scenario more widely, but not above it. Subsequently this approach has been carried into the consideration of the strategic sites that were proposed at the time of assessment, building on the earlier stage work and findings to review those at 20% and 30% AH (dependent on location and relevant headline policy consistent with the earlier work and values patterns).

3.1.12 The re-testing of the viability scope available to support affordable housing requirements is a key element of such an assessment, given the impact that these requirements always have on development finances; a consistent finding from our work across a large number of studies. The findings are therefore discussed with a view to policy adjustments being made where necessary, in comparison with the

existing and / or any previously proposed positions. Run and used in this way, the assessment informed the (now withdrawn) policy development to date, and will continue to support the Council's intended interim approach in respect of key areas of some of its development management approach accordingly.

- 3.1.13 The introduction of policies, as were proposed, to support enhanced use of and access to dwellings, aligned to optional technical standards under Building Regulations Part M4 (2) and potentially also under M4 (3) required consideration as an added development cost too. The extent of influence of this will be dependent on the requirements ultimately sought by ECDC. Therefore sensitivity testing was undertaken for this assessment on the scenarios of 100 dwellings initially (as included in Appendix II results tables 1h to 1j, and further appraisals could be run if required by ECDC. The sensitivity test results may be compared with those within the base 100 dwellings tests set shown at table 1f.
- 3.1.14 In each case, the affordable housing included for the re-testing was assumed on the basis of a usual pre-'Starter Homes' / 'Affordable Home ownership' understanding of its tenure and mix – i.e. currently affordable rented (at 70% of the re-tested AH content) and intermediate affordable housing; the latter assumed in the form of shared ownership (making up 30% of the AH content).
- 3.1.15 Although the detail for the implementation, and therefore also the viability implications, of the Government's 'Starter Homes' and subsequent similar 'Affordable Home Ownership' initiatives were not known, in common with our other concurrent assessments we also included for ECDC's information an additional set of sensitivity tests using the 100 dwellings base scenario (results at Appendix II, Table 1g). As with the M4 (2) and (3) test sensitivities, the additional results may be viewed in comparison with the 100 dwellings base scenario tests at table 1f.
- 3.1.16 Assuming at the time of sensitivity testing a baseline national requirement for 20% starter homes as a "top-slice" coming out of the overall scheme mix, consistent with general expectations of the potential national policy position, this meant looking at relative viability with 20% starter homes; 20% starter homes plus 10% affordable housing; 20% starter homes plus 20% affordable housing (in each case with the additional affordable housing following the base assumptions on a "best fit" basis as far as possible. It must be noted again, however, that still the assessment stage considerations on this provide uncertain indications only, so these were not a focus of the exercise or reporting. It may be possible or necessary to develop these tests

and indications at any subsequent stage of viability assessment work, depending on ECDC next steps and further national policy development.

3.2 Guide to the Appendix II Results Tables

- 3.2.1 The tables (1a to 1j) at Appendix IIa set out the results by increasing development size (number of dwellings within each assumed scenario). For each scenario, the results according to 'Test Area (1 to 5)' based on the existing CIL zones are set out following the tests carried out with 20%, 30% and 40% affordable housing – moving across the tables from left to right.
- 3.2.2 Each table cell (box) as seen at the right-hand side of the Appendix IIa tables, contains in the white (un-coloured/non-shaded) a RLV result (in £s) and in the table areas including the green coloured cells the same RLV expressed in £/Ha terms based on the indicative density and approximate land-take assumptions used.
- 3.2.3 The results are displayed by assumed value level (VL) – as assumed for the appraisals carried out to inform the FDLP stage - rising from 1 (lowest) to 3 (highest). As above, those VLs represent a reduction of 10% from and an increase of 10% to the assumed base level values (VL 2) for each test Area (reflecting the CIL charging zones). To recap, the VLs are the market sales value levels that were assumed for those dwellings within each test scenario – broad scenario tests range as per Appendix IIa; not revisited on finalising the assessment. So the outcomes can be viewed according to the influence of the CIL charging zone and potential values variation within that zone, in combination with the tested affordable housing percentage as shown.
- 3.2.4 For the wider sensitivity tests as noted at 3.1.13 to 3.1.16 above, the particular test details (e.g. on Building Reg.s M4(2) and (3) and assumed starter homes/affordable housing content) are outlined at the relevant table headings and rows or columns. The percentage of affordable housing shown is the total – i.e. includes the starter homes element where relevant.
- 3.2.5 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, the stronger the indicative outcome, as it reaches or exceeds the level of the higher viability tests. This indicates a scenario likely to be workable with increased frequency – i.e. across a wider range of site types and circumstances.

3.2.6 This is considered a reasonable and appropriate approach, again consistent with DSP's established and supported approach to strategic level viability assessments.

Commercial / non-residential development commentary

3.2.7 At this stage we have not added updated commercial/non-residential scenarios to the appraisals scope, following our work in the district on CIL, so there are no tables provided with results on those here.

3.2.8 We reiterate that review of the CIL Charging Schedule was not being considered at the assessment point.

3.2.9 From our assessment stage review of the market and updated information gathering, we remain of the view that we would not expect to see materially different viability scenarios compared with those that informed the adopted CIL across the main relevant development use types, and particularly the key finding that pointed clearly to the £0/sq. m charge (nil-rating) of employment (B Use) development.

3.2.10 However, over time and as the Council continues to monitor delivery across a range of development forms, and more information becomes available (including on national policy direction), the available information relevant to both residential and non-residential / commercial development viability may be considered again. Some matters influencing viability will inevitably be outside the Council's scope of influence, but further consideration may need to be given as to how to develop any further positions or guidance.

3.2.11 In respect of non-residential development, it is also worth noting that ECDC and other planning authorities have considerably less influence over matters that typically effect viability, compared to the extent of impact the local approach and policies tend to have on residential development. As with residential, the strength of the market and therefore of the strength of relationship between development values and costs is key; the most significant factor. However, away from residential there are considered to be no significant instances of ECDC local policy influence that will have a direct development cost and therefore a clear negative viability impact compared with a typical approach that we see.

3.2.12 Although key information will be contained within other assessments and data contributing to the evidence base, we have some general points to offer as the Council considers the employment and other commercial/non-residential development aspects of its Plan-making process. These will be picked up briefly below.

3.3 FINDINGS - SUMMARY

3.3.1 Above all, the CIL charging zones – resulting in the fixing of the adopted CIL charging rates as appraisal input costs - are the key determinant at this point for considering the viability of various policy positions, most importantly in looking at the scope to reconsider the affordable housing policy.

3.3.2 The results are seen to be mixed, with sensitivity to the assumed value level (aligned to CIL charging zone) an important factor throughout.

Affordable Housing Threshold(s)

3.3.3 As discussed above, the testing of affordable housing on schemes of 11 dwellings upwards at the assessment stage reflected the likely local adoption of the general minimum national policy threshold in place of ECDC's existing threshold of 10 dwellings. The policy within the latest NPPF is now considered to align with ECDC's 2015 adopted approach in terms of this threshold. We have also noted, in any event, that there is little material difference in terms of viability between these positions (development at 10 and 11 dwellings) unless other adopted policy costs / criteria come into play.

3.3.4 While, from experience, there is no discernible difference in viability terms between such policies impacting at 11 rather than 10 dwellings, of course by definition marginally fewer schemes may be "caught" and any policy threshold such as this may well influence the approach to particular planning application proposals.

3.3.5 Whilst the charging of CIL on the market dwellings and not on the affordable may have some compensating effect on viability, and any future review of CIL might consider the switch in viability produced by the affordable housing threshold (wherever that is set), a threshold will inevitably encourage the progression of schemes that fall below rather than above it. The secondary 1,000 sq. m threshold element noted under national policy may have some influence here, and in this

respect there could be a role for a financial contributions mechanism – e.g. in respect of smaller developments of larger dwellings. This could be considered further in due course but may be a matter more for supplementary work undertaken to amplify the use of planning policies – e.g. through SPD or similar.

- 3.3.6 Overall we suggest that an affordable policy threshold headline at 10 or 11 dwellings would continue be a suitable approach in East Cambridgeshire, with the influence of viability necessarily acknowledged so that the policies may be operated with some flexibility where the need for that is robustly justified. This, we consider, would amount to a typical and appropriate approach.
- 3.3.7 We will now run through the results as inform our recommendations for consideration by ECDC on the affordable housing (AH) percentage (%) targets – i.e. the levels of affordable to be sought, expressed as a proportion of the overall market development led scenario in each case. This is consistent with the earlier stage emerging and then draft report stage findings that were shared and discussed with ECDC officers, and takes account of the fixed CIL charging that is in place, alongside all other development costs as per the assumptions outlined above.

Affordable housing target (%): Test Area 1 – Higher CIL Zone – C North (£90/m²)

- 3.3.8 Representing the north of the District outside Ely, the adopted policy seeks 30% AH.
- 3.3.9 For the scenario of 11 dwellings (table 1a), we can see that viability test 5 is met or exceeded at value levels (VLs) 2 (marginally) and 3 (comfortably) with 40% AH. However, this outcome is sensitive to reduced values, whereas at 30% AH the result is seen to hold up better to that sensitivity (VL 1) and is viewed with much greater confidence at VL 2, bearing in mind the land values likely to be associated with smaller developments on PDL.
- 3.3.10 Essentially, as expected, the same trends (albeit with some fluctuations according to the dwelling mix assumed) are seen through the results representing Test Area 1.
- 3.3.11 In our view the results are not strong enough to support an increase in the current affordable housing targets (e.g. to or towards 40%) based on the current understanding of affordable housing tenure.

- 3.3.12 Overall, the results provisionally indicate that before any site-specific abnormalities or additional s.106 (over the current stage £3,000/dwelling assumption) are considered, although some outcomes potentially support a 40% AH target, at the base values there are also some that are marginal and that fall short of the upper PDL benchmark with 40% AH included (i.e. viability test 5, associated with most confidence in results across a range of scenarios).
- 3.3.13 The majority of the scenarios should however be workable on straightforward smaller (non-strategic) greenfield sites at 30% AH; and particularly with 20% starter homes (SH) assumed as a top-slice (note the improvement in the results seen between the 100 dwellings tests base set at table 1f and the “with starter homes” sensitivities included at table 1g).
- 3.3.14 So overall, for example, 30% AH or 20% AH plus 20% SH looks potentially workable as a target at this stage.
- 3.3.15 For this area, we noted that earlier proposals included a headline of 30% AH in accordance with the above, alongside explanatory wording that suggested scope to increase this to 35% with starter homes included; again within the scope of our findings.

Affordable housing target (%): Test Area 2 – Littleport - Lower CIL Zone – A North (£40/m²)

- 3.3.16 Specifically representing the town of Littleport (including any future adjoining development) within the northern area and therefore currently with a requirement for 30% AH alongside the lower rate CIL, these results are quickly seen to be significantly weaker and the weakest of the range produced – owing to the lowest anticipated development (sales) values been applicable there overall, typically.
- 3.3.17 These results consistently indicate likely marginal viability on greenfield land with up to 20% AH (with a lower proportion possibly achievable in at least some cases based on current assumptions and of course dependent on how the site-specific value/cost relationships work out. The general tone of these results is not due to the imposition of the CIL or to the AH requirement, but reflects more the often difficult looking relationship between development values and costs in a typically relatively low value area – inherent viability challenges. This is a common finding in such areas – not just in the typically lower value areas of East Cambridgeshire. Nevertheless, we consider

that these findings will be most appropriately reflected through a notably lower AH requirement – compared with both Test Area 1 and with the existing 30% policy target.

3.3.18 This picture is based on current (base) values assumptions. We can see, however, indications that the upper VL tests (i.e. base sales values +10%) move the outcomes sufficiently so that on greenfield land (or lower value PDL only – e.g. former commercial rather than existing residential probably) at least some scenarios should be workable but with not more than 20 to maximum 30% AH – again as a target. This suggests that over varying economic cycles across the Plan period, in accordance with the guidance, achieving viable development that includes a meaningful proportion of AH is potentially workable, but may prove a challenge in the short term and in our view it will be most appropriate to continue to acknowledge this through the development of the Council’s approach.

3.3.19 Draft table 1g at Appendix II indicates the potential viability uplift that could come from the inclusion of starter homes (SH), although again at the base values assumption this does not necessarily have a sufficiently positive affect to ensure the 20% AH in the form of SH, where we see that the low-end greenfield enhancement value (at £250,000/ha) is just achieved with 20% AH (assumed as starter homes).

3.3.20 Overall, for Littleport we recommend the consideration of a reduced AH target at 20% and similarly we noted that the earlier version emerging (former) policy set made proposed provision for this, whilst acknowledging again the proposal to uplift this target by 5% to 25% in this location with starter homes potentially part of the mix in future. As discussed above, these earlier stage findings now need to be considered in the context of the subsequent government policy and consultation messages; and acknowledging also that national policy may further change in these and other respects. At the final reporting stage, where we mention ‘starter homes’, this now also needs to be read in a wider updated context – i.e. ‘affordable home ownership’, all as noted above.

Affordable housing target (%): Test Area 3 – Soham - Lower CIL Zone – A North (£40/m²)

3.3.21 The currently applicable policy and carried forward CIL requirements influencing viability in the town of Soham (and likewise in respect of any adjoining development) are as per those relevant to Littleport, as above.

- 3.3.22 Supported by expected typically higher values, the results are generally improved over those seen for Littleport, as above. Essentially, as can be seen from the Appendix II tables, the results representing this are at intermediate levels between those for the typically lower still and higher value areas (e.g. test areas 2 and 1 respectively).
- 3.3.23 We see base (VL 2) results in this case similar to or usually slightly better than the upper value test (VL 3) results representative of Littleport currently, as would be anticipated following the placing of our assumptions on values.
- 3.3.24 We consider this means that we could reasonably expect broadly similar outcomes to those for Littleport, but with the combined costs and requirements potentially more readily deliverable in the short term – for example across a wider range of host site types and / or with slightly more capacity to bear other obligations or costs including any site-specific abnormalities perhaps.
- 3.3.25 Overall in respect of Soham our view is that this is likely to be more about increased potential security / regularity of outcomes including up to 20% AH and based on that as a target rather than on the same 30% as is currently applicable to the remainder northern part of the District (aside from Littleport) and would remain so under the advice presented above, consistent also with the earlier stage policy proposals of the now withdrawn (former) new plan version
- 3.3.26 Given affordable housing need, we consider it appropriate that the targets should be challenging but for the towns of Littleport and Soham a 20% headline (potentially subject to potential revision upwards with starter homes or similar included) would represent an appropriately amended scenario. The Council may wish to consider that no level of lower target could actually guarantee full policy compliance and yet if placed too low might not strike a suitable balance with aiming to meet the needs either.

Affordable housing target (%): Test Area 4 – Ely - Mid CIL Zone – B North (£70/m²)

- 3.3.27 Within the northern area of the District in policy terms, developments in Ely are currently required (again under adopted policy) to provide 30% AH.

- 3.3.28 Driven by a similar range of potentially applicable development values to those assumed for the northern area more widely, as per Test Area 1, the results for Ely (and, similarly, representative of any adjoining development) are very similar in relative strength to those seen for that wider area; consistent also with the Council's previously determined approach to the affordable housing policy differential.
- 3.3.29 The emerging findings suggest that for straightforward (non-strategic) greenfield development and most PDL scenarios, scenarios should be workable with up to 40% AH (and particularly where including 20% SH i.e. with half of the AH in that format).
- 3.3.30 However, we can also see that at the base (current) values assumptions some results appear only marginally viable or become potentially unworkable with as much as 40% AH considered in its current mixed tenure guise as per the assessment base assumptions (i.e. uncertainty as to confidence in the results except potentially where the tests include 20% as SH). This effect is seen at the base VL (2) in some cases, as well as at VL 1 which overall indicates sensitivity to the levels of value that may be achieved across a range of developments.
- 3.3.31 With this in mind, it appears that 30% AH as a baseline or 20% SH plus 20% AH – as per Test Area 1, north more generally - would be appropriate as a continued target again – a differential above the supportable AH target levels for Littleport and Soham again appears warranted in viability terms.

Affordable housing target (%): Test Area 5 – Higher CIL Zone – C South (£90/m²)

- 3.3.32 The sales values achievable here are typically the highest seen in the District, consistent with previous viability assessment work and policy development leading to a combination of higher AH requirements (at 40%) and the application of the higher CIL charging rate.
- 3.3.33 However, the values within this area are variable. This is true of all areas, but in reconsidering the potential requirements and options in light of the subsequently introduced potential economic and market uncertainty and with the higher rate CIL in place, viability outcomes here will be variable through a mix of site-specific factors and wider conditions. Driven to some extent by higher development values, some higher land values than those represented by our viability tests may be seen more frequently in the south than in other areas, which will also tend to add to the viability pressures in some circumstances.

- 3.3.34 Therefore, in our view it may be prudent at this stage to view the results for this typically / generally higher value area in the context of our lower and lower to mid values trial assumptions (VL 1 – 2). Whilst the range VL 2 – 3 will be seen on some schemes, in considering policy we suggest that reliance should not be placed on the high-end values that can be seen in the District. The sensitivity of results to reduced values can be seen.
- 3.3.35 While most results indicate the potential scope for supporting up to 40% AH (and certainly where assumed at a trial to include 20% SH), some indicate marginal outcomes or highest viability tests missed with 40% AH – at VL1. This indicates that the 40% AH outcomes are quite vulnerable to any fall in sales values compared with the base VL2 levels.
- 3.3.36 By the time any increase in costs, abnormals occurrence or similar becomes relevant then it does seem likely that here too a target continued to be operated at 40% will need some flexibility and, overall, unless starter homes are settled as an accepted part of the mix, then a sub-40% AH target might be more workable here overall too. Looking at it like this would leave more scope for support of other planning requirements and objectives, and for the CIL differentiation to continue to act in balance with the likely improved viability compared with that seen in other areas.
- 3.3.37 We consider that a policy target nearer to or at 30% AH would again form a more appropriate headline than a continuation of the adopted 40%, so put forward as a suggestion in place of that and based on the current understanding of a mixed AH tenure. Overall, however, generally there are still likely to be more policy options available given the typically stronger viability seen in this southern area compared with others.
- 3.3.38 The direction of emerging policy development was again within these parameters therefore; the review by ECDC to date in looking again at its AH positions is positive from a viability point of view.

Starter homes (or ‘affordable home ownership’)

- 3.3.39 On balance, the potential for Starter Homes or similar to make-up a substantial proportion of the overall ‘affordable housing’ content under a new expanded definition, and to bolster viability outcomes, is a factor alongside the level of

affordable housing needs that suggests the AH targets should be maintained at challenging though achievable levels – i.e. not be set beneath the revised parameters that we have noted above.

Sheltered / retirement housing

3.3.40 Assumed as part of the wide spectrum of C3 dwellings provision by the market, we can see that the achievable values are likely to be the key determinant of viability for such schemes; rather than the AH % level, or indeed the CIL charging rate. This is a trend that we see from our wider work on viability, including broad ranging experience on site-specific reviews, whereby premium values for a location are generally needed to support the typically higher development costs for this scheme type.

3.3.41 The results indicate that values at or towards the highest levels within our overall range of assumptions are probably going to be needed to support such schemes on a regular basis, and this may well determine their frequency and distribution locally.

3.3.42 On this basis, and consistent with the approach to the CIL setting, we would not suggest that a differentiation be made on affordable housing requirements for these scheme types. The same will apply to other residential development standards.

3.4 Housing Standards Review - Optional Housing / Technical Standards

Dwelling size – Nationally Described Space Standard

3.4.1 Although not included in (withdrawn) draft policy by ECDC at the stage of setting assumptions, and including requirements within the policy set would also be subject to proven need, the inclusion of dwelling size assumptions aligned at least to the minimums within the recently introduced optional Nationally Described Space Standard is a contingency measure within the assessment.

3.4.2 On this basis only, and for the Council's information, dwelling sizes meeting those standards have been assumed throughout, and looking at viability the results indicate scope to support these (across all new dwellings) if they are to be required and are appropriate locally.

3.4.3 In our experience so far, this typically has only a very small negative impact on viability and is more of an early stage planning and design consideration rather than

an obstacle to viability. In any event, the assumptions cater adequately for the usual affordable housing dwelling size requirements of the relevant providers.

- 3.4.4 This information is provided from a viability viewpoint only. We have not considered the needs aspects, which the Council would also need to do if it decides to considering using the standards in due course.

Dwellings with higher access standards

- 3.4.5 In terms of enhanced accessibility standards with regard to Build Regulations Approved Document Part M4 (2) - Category 2: Accessible and adaptable dwellings - we have included a range of testing within the wider set of appraisals (results at Appendix II, tables 1h to 1j – 100 dwellings scenario sensitivities).
- 3.4.6 The results indicate that for Part M4(2) there is a relatively minor impact on viability and we are of the opinion that the sensitivity of the results to the change in costs is not one that can be easily differentiated. On that basis it is unlikely that this requirement would lead to a previously viable scheme becoming unviable.
- 3.4.7 In contrast, the impact of applying a policy requiring even a small proportion of dwellings to meet the requirements of Part M4 (3) – providing wheelchair accessibility – is greater. Applied at the tested 5% of dwellings, this again is unlikely to tip a viable scenario into non-viability.
- 3.4.8 However, once again the collective development costs come into play and we have to bear in mind the level of values typically available to support scheme viability in East Cambridgeshire. A combination of the two policies (i.e. seeking dwellings to separately meet M4(2) and (3) standards) as tested does start to impact on scheme viability, before all or most dwellings are considered at M4(2) standards. This suggests that for this district a firm requirement for M4(3) compliance at any level may be going too far in viability terms. An open / aspirational approach to that may well be more appropriate, as appeared consistent with the Council's policy drafting work for the earlier stages (withdrawn) policy proposals.
- 3.4.9 For this reason in our view the inclusion of such requirements within the Council's approach would in our view also further fit with the case for setting affordable housing policies at reduced or certainly not higher levels compared with the adopted

policy targets; particularly prior to any role and influence of starter homes or similar becoming clear.

3.4.10 Further viability testing can be carried out if necessary in this regard – many iterations of policy and assumptions based results are possible in these respects, although interpolation of results is also informative given a predictable impact by % dwellings requirement with fixed cost assumptions in place. In all cases the Council needs to bear in mind the cumulative or collective impact of requirements on development viability, and as with any other requirement take into account whether the need for the provision can be shown. It is important that the need for the requirements be evidenced rather than based on viability alone.

3.4.11 Alongside the viability implications, we are of the view that other factors on practical aspects and the workability of policies are also relevant here.

3.4.12 On this, numbers rounding and the “product” of the calculation dwelling number and policy percentage appears potentially relevant, just as it does in the context of affordable housing. Additionally, in our view a planning authority should also be mindful of the potential combination of requirements and property types sought, bearing in mind that the key to delivery will be the market and potentially the need to consider scope for producing a reasonable number of properties unfettered by various use / type restrictions (thinking here of the unit numbers available after considering affordable housing, self-build (see below) and enhanced accessibility, etc. It may be that some of these potential policy strands could usefully be viewed together – e.g. through affordable accessible dwellings. We assume in any event that again the approach would be target based, particularly in respect of any M4(3) compliance sought, and potentially with respect to high proportions of dwellings required to meet M4(2).

Sustainable construction – Energy and water usage efficiency

3.4.13 The same applies at this stage to the sustainable construction based assumptions. We assumed all dwellings built to (former) Code for Sustainable Homes Level 4 equivalent standards under the Building Regulations – for energy and water usage efficiency.

3.4.14 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, means that appropriate standards have been allowed for in this respect.

3.4.15 As noted above, in regard to water usage efficiency it is considered that there are no costs significant enough to be appraised and measured in this assessment or the wider policy setting context. The overall costs assumptions used are considered appropriate to also reflect that potential requirement, (i.e. all new dwellings to be built so as to enable a maximum water usage of not more than 110 litres per person (occupant) per day (lpppd)).

Self / Custom-build

3.4.16 As has been noted through the preparation of the methodology and assumptions reporting above, we consider that it should be possible to viably accommodate a drive for serviced, ready to develop, self-build plots as part of larger scale development – subject to monitoring of demand which we understand can be highly variable from area to another. From initial consideration of such matters, it appears likely to remain a profitable aspect of the overall development activity and have a broadly neutral effect on viability provided there are not too many restrictions on its workings.

3.4.17 We are of the view that capacity and viability are more likely to vary in relation to particular allocations or larger sites. Again, specific thresholds or cut-offs are difficult to identify. As an indication, and unless on specifically allocated and tailored smaller sites intended for this form of development (if infrastructure provision / development mitigation can be overcome) it appears likely that up to say 10% of plots on larger schemes (of say 50 to 100 dwellings minimum) might represent a maximum from a practical and market point of view. This relates also to the points made above about considering a reasonable quantum of relatively “unfettered” outright market development being possible on sites with affordable housing, and any M4(3) standards housing in particular being encouraged rather than the subject of rigid requirements beyond a small number on larger developments.

3.4.18 Therefore the Council’s former emerging approach to seek 5% of plots for self-build use on sites providing 100 or more dwellings is within what we consider likely to be a workable approach in viability terms; in combination with other objectives and requirements.

3.5 Potential larger / strategic sites and planning obligations

- 3.5.1 We noted at the previous reporting stage that it may be appropriate to consider further development scenario viability tests moving forward.
- 3.5.2 As above, 4 no. larger scale ('strategic') sites likely to accommodate in each case 500 to 1,200 dwellings indicatively, were put forward.
- 3.5.3 As an extension of the process of carrying out appraisals to review viability for a range of residential development typologies, for strategic-scale sites (e.g. schemes of 500 or more dwellings) the viability assessment made reference to specific draft site allocations proposed by the now withdrawn Local Plan. We have noted that following withdrawal of East Cambridgeshire's draft Local Plan, these sites no longer have the status of 'draft site allocations'.
- 3.5.4 However, the information relating to the appraisal of scenarios representative of strategic-scale sites has been retained in this Interim Policy Support statement to aid understanding of the viability issues affecting strategic-scale developments. We stress again that the continued inclusion of sites within this re-issued assessment information does not imply that such sites have any formal status in planning terms, beyond that set out by the Local Plan 2015.
- 3.5.5 Previously we noted that from the earlier review work undertaken – assessment and draft reporting to December 2016, whilst we would not normally anticipate a need for adjustment to the above discussed policy set for such sites, in some cases this may also depend on the likely interaction with the CIL charges already in place. There is no zoned or other CIL differentiation for strategic sites, because no such sites were relevant at the time of considering the CIL Charging Schedule. We acknowledged that the effect of collective development costs may be of particular relevance where proposals are of a strategic nature, and may involve very significant site-specific infrastructure / development mitigation (e.g. through s.106 and at levels potentially significantly exceeding the £3,000/dwelling appraisal assumption used for the broad range of non-strategic sites testing).

- 3.5.6 As noted above, whilst the more recent strategic sites appraisals that produce the Appendix IIb results necessarily include the CIL, their outputs are the scale of any remaining potential surplus for s.106 and / or other matters.
- 3.5.7 The 2 columns at the right-hand end of the Appendix IIb summary indicate firstly the total (scheme-wide) estimated potential surplus and then that sum expressed as an amount per dwelling (£/dwelling) equivalent – i.e. potentially available to support additional cost, based on also allowing for the stated AH% level and the CIL.
- 3.5.8 We can see that these indicative outcomes vary by scheme, as influenced by the particular combination of assumptions – including on values, affordable housing content by previously assessed area and therefore related AH%, and the differential (area zoned) CIL. Rounded figures (nearest £1,000 are provided below for ease of reference).
- 3.5.9 On this basis, the potential surpluses per dwelling are shown to range from around £5,000 to £9,000 at Littleport and Soham, and are indicatively upwards of about £10,000 at Kennett.
- 3.5.10 As noted above, the hybrid land value approach sees the base circa £10,000/dwelling outcome related to market land value (i.e. prospective development value enhancement to greenfield) rise to approximately £22,000/dwelling (hybrid land cost assumption) and to approximately £30,000/dwelling (so an additional £20,000/dwelling over base) with the land cost assumed at existing use value for agriculture.
- 3.5.11 To give the Council a further feel for the assumptions and the degree to which this range of potential surpluses may support costs and obligations beyond those allowed for (as current unknowns), the appraisal inputs made for CIL in each of these cases are:
- (Kennet) – 500 dwellings - CIL assumption £3,147,278 (equivalent to £6,295/dwelling overall);
 - (Littleport – W of Highfields) – 600 dwellings – CIL assumption £1,892,942 (equivalent to £3,155/dwelling overall);

- (Littleport – S of Grange Lane) – 1,200 dwellings – CIL assumption £3,785,785 (equivalent to £3,155/dwelling overall);
- (Soham) – 550 dwellings – CIL assumption £1,734,267 (equivalent to £3,153/dwelling overall).

3.5.12 The above CIL inputs can be seen at page 3 of each Argus appraisal summary found to the rear of Appendix IIb - within the costs entries at page 3.

3.5.13 So, to inform an idea of potential overall s.106 and CIL viability scope (such scope also likely to be supporting any other currently unidentified costs) it is possible to add the surplus indications to the above CIL assumptions. This information is provided in a viability (financial indications only sense) and currently of course the Council would need to be mindful of all practical implications – for example as related to the CIL Regulations, including the pooling restrictions relating to the use of s.106 obligations.

3.5.14 We have also used the high level strategic site appraisals to run a ‘sensitivity analysis report’ in each case – seen at page 5 of each Argus appraisal summary. The grids shown there provide indicative alternative outcomes based on varying combinations of adjusted construction costs (vertical axis) and / or sales values (horizontal axis of each grid). The base result is reported as £0 in the centre of each grid, i.e. showing no additional surplus (or deficit (bracketed figures) with the base assumptions used. The construction costs are altered at 2.5% increments downwards and upwards from base; with sales values altered at £250/sq. m increments downwards and upwards from base in each case. This provides wider indications only, but may help to give a feel for how the reported surplus outcomes (as per the Appendix IIa main summary table) could move with varying key value and build cost inputs over time e.g. as market conditions move around and influence these aspects that are amongst the main influences on viability. This comes back to continuing to consider the strength of the relationship between development values and costs that is available to support viability (the core of the study); and how that can vary.

3.5.15 In any event, the findings based on the earlier and later stage assumptions and outcomes support the application of the draft assessment stage key findings and recommendations on affordable housing targets – at 20 and 30%.

3.5.16 Similarly, these more recent appraisals also indicate viable prospects for development.

3.5.17 As in all cases of this type, it is not possible to guarantee that all policy requirements will be fully met – without any element of compromise. Depending on how the more detailed planning for and assessment of sites and their infrastructure needs etc. develops as delivery approaches, it may be the case that ECDC has to consider priorities and some trade-offs in looking at overall planning and community objectives but this will only be known over time. Certainly, at this stage, we consider the approach that was emerging to be suitable and a realistic looking basis for setting expectations, including as will usually be used in discussions with landowners and others.

3.6 Commercial/non-residential Development/requirements and policy considerations

3.6.1 Our earlier stage focus has been on residential development and, as expected, this has continued to be the case. This reflects the area over which a local planning authority typically has by far the greatest scope of influence on development viability. This also responds to the expected nature of development in the district, and is consistent with our commentary here on the degree to which the CIL viability assessment stage appraisal assumptions needed to change in order to support materially different findings.

3.6.2 So, as is generally the case (i.e. is not East Cambridgeshire specific), the reach of policies relating to residential development are the key areas where an individual planning authority can have a significant influence over matters effecting viability – directly through policy selection. The same does not apply to a significant extent in respect of other forms of development and to date this appears the case here.

3.6.3 In respect of other development, it still appears more to be case of being open, incentivising and interacting with the market as far and productively as possible – for example from aiming to review and promote or protect / select the most appropriately and accessible sites for relevant uses, seeking necessary development that also meets other strategies and policies, and so forth. Unfortunately it is necessary to acknowledge that, particularly when viewed using assumptions appropriate to strategic level local authority viability work, viability for many such forms of development looks likely to continue being presented as challenging. As has been noted through earlier work, however, this does not mean that suitable schemes will not come forward. Generally, however, it means that the Council should look to

proceed in a way that presents to the market and requires the least additional development cost measures over and above usual planning and design criteria, including national base standards.

- 3.6.4 In the meantime, as noted above, there may be some aspects of strategy that ECDC can usefully consider in looking further at the evidence gathered on employment land need and supply, for example.
- 3.6.5 At the national level, prior to the Brexit decision the commercial sector remained generally positive but the lead up to the Brexit vote had led to some uncertainty in the market. Whilst the future direction of the commercial market following the outcome in June 2016 is uncertain, we noted previously that the Quarter 2 2016 RICS UK Commercial Property Market Survey stated: *‘a significant deterioration in market sentiment following the Brexit vote. The heightened sense of caution is visible across both investment and occupier sides of the market, with uncertainty pushing rental and capital value projections into negative territory. Whether or not the adverse hit to sentiment is a knee-jerk reaction that will unwind as the result is digested, or the start of a more prolonged downturn, remains to be seen’*. Note that on re-issue this or similar content on context has not been updated, although broadly of course a high-level of wider economic uncertainty continues (comment April 2019).
- 3.6.6 Whilst commercial property market conditions were showing signs of picking up in the intervening period, the current very mixed signals suggest a continued period of uncertainty to follow.
- 3.6.7 As above, in looking at commercial property development, in many instances we must acknowledge the probable short-term challenge around delivery of significant new development, and particularly on a speculative basis.
- 3.6.8 We also note that, as is typical, the Council’s approach will continue to develop themes of promoting and encouraging development focussed on improvements to the offer presented by the main towns and other locations that serve a more local catchment through local shopping etc., including a focus on Ely as a commercial centre, whilst acknowledging the role of the smaller villages in this way too.
- 3.6.9 We reiterate that difficult looking findings from such an assessment (as per the CIL viability work that was undertaken here) do not necessarily mean that development

will not be delivered – e.g. through flexibility in development appraisal inputs and negotiations. So, factors that might be viewed in different ways by the market or particular property / occupier interests and that we cannot assume in prudently assessing viability for strategic level local authority purposes.

3.6.10 Overall, therefore, we are of the opinion that previous themes identified through the Council’s available evidence for its CIL are likely to continue to be largely valid.

3.6.11 In addition to seeking to ensure that the approach to planning obligations (including any future CIL) does not add unduly to the viability pressures uncertainty to potential investment, the Council could continue to consider the following types of areas and initiatives (outside the formal scope of the brief for this assessment, but put forward purely as practical indications):

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;
- Work with the market – be responsive etc. as suitable opportunities are identified;
- Regenerate / improve and protect key existing employment areas;
- Provide land where assessed to be most needed;
- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;
- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for. Focus on the most accessible, best and most valuable locations for particular uses;
- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) or other development – balance the element in deficit or with reduced viability;
- Scenarios for particular / specialist uses – e.g. the local knowledge based employment economy; or that may be non-viable as developments but are business-plan / economic activity led;
- Explore any local specialisms or particular industries / sectors from which economic advantage and stimulation of other activity can be made;
- As with residential, consideration of the planning obligations packages again including their timing (triggers) as well as their extent.
- A likely acceptance that business development overall is unlikely to be a significant regular contributor to general community infrastructure provision in the short-term at least.
- Seek other investment and consider incentive schemes.

3.7 Additional Commentary

3.7.1 We consider that the above identifies appropriate scope to continue to deal with housing site opportunities with reasonable prospects of viability (and therefore delivery); and, in doing so, 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 In our view, at an overall level, looking at the range of development scenarios and approach likely to be supporting ongoing delivery, these appear to be capable of meeting the requirements of the NPPF.
- 3.7.4 Our continued and reaffirmed assessment is that the Council does not appear to be seeking requirements and criteria that are likely to go too far collectively in viability terms – looking at the proposed 20% & 20% mixed tenure (pre-starter homes / newer potential ‘affordable home ownership’ view) based potentially adjusted affordable housing targets that have been considered of late, and in combination with other requirements. Reviewing the potential cumulative impact of the requirements that were under development, these appear directed towards schemes continuing to be able to be developed viably. This is provided that ECDC maintains an approach of not adding unduly to the national baseline requirements together with addressing its local affordable housing needs as far as is practical, and adopted CIL. We have also noted that, as a further ingredient, landowners’ expectations also need to be at realistic levels - reflecting the requirements and constraints as well as the opportunities side.
- 3.7.5 Wherever pitched, the approach will need to be accompanied and explained by appropriate wording and guidance that sets out the strategic context and nature of the targets but also recognises the role of viability in implementation. Where robustly justified by a developer, a practical approach may need to be acknowledged - which can be responsive to particular circumstances - those will continue to be highly variable with site specifics.
- 3.7.6 The need for this type of approach is likely to be particularly important in the event of ongoing economic and market uncertainty such as we still appear to have at the current time, although very latest post-Brexit market indications appear now to be more mixed and still perhaps more positive overall than were initially predicted. As previously noted, only time will tell how these matters play out, however.
- 3.7.7 This viability information will need to be considered in conjunction with the ECDC wider evidence on housing needs and the shape of site supply (type, location and size of sites coming forward), infrastructure needs and planning, employment land and so on.

3.7.8 Keeping the picture informing the delivery topical, it will be also be essential to monitor, review and keep up to date evidence associated with the approach. This will in due course contribute to future development plan work by the Council.

Interim Policy Support – Viability Information Report ends – DSP v2 – Final version
April 2019

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