Briefing Note on the Community Infrastructure Levy

Economic Development and Enterprise Overview and Scrutiny Committee – 20 March 2013

Introduction

Following the consideration of the report on the Community Infrastructure Levy (CIL) Viability Study at the 19 December 2012 Economic Development and Enterprise meeting the Council has commissioned further work to take into account new CIL guidance published on 14 December 2012.

The consultants, commissioned by the City Council and the Borough Council to undertake the original CIL Joint Viability Study, advised that changes to the viability calculations and supporting report needed to be made. The historic section 106 payments made on various forms of development have been added to the viability calculations and minor changes have been made to the Viability Study Report. This report focuses on the amendments to the Report and its findings.

Key findings

Residential development

Following a comprehensive assessment of market values, the borough was split into four Charging Zones based on Ward boundaries so that different CIL rates could be charged for housing development in different parts of the Borough. Due to differences in house prices either side of the M6 in the Halmer End Ward it has been decided to split this ward along the M6. A map showing this change and the other zones will be provided prior to the meeting.

In the very low value zone (zone 1), all residential development was shown to be unviable with no margin for CIL. In current market circumstances the development of apartments is not generally viable in either Authority other than in the highest value zone in Newcastle. However the report makes it clear that there may be exceptions to this and there will be significant variations dependent on specification, construction methods, associated build cost and sales rates, which may make some forms of apartments viable.

Commercial development

The assessment of commercial land and property values indicated that one zone should cover the whole of Newcastle and Stoke for commercial development.

The viability appraisals illustrated that most forms of commercial development are not viable in current market circumstances in Newcastle or Stoke and this is reflected in the lack of activity in these sectors.

However food supermarket retail and general retail were assessed to be viable and capable of accommodating CIL across the study area. Retail development illustrated high viability with rates ranging from £155-£705 per sqm, dependent on existing land use. However it should be noted that this range is based on a limited number of transactions due to the lack of activity in the sector and as specific retail projects emerge it is likely that landowners will expect significant premiums in order to release sites. This will reduce viability levels significantly and this should be taken into consideration in rate setting.

It is not recommended that a separate CIL rate category is adopted for supermarkets; the differential between supermarket (food retail) and non food retail is being increasingly scrutinised in recent CIL examinations. Although in most cases supermarkets command higher values both in terms of land price and rate per sq m than other retail uses, a case can be made to counter this position. This is commonly done by analysing 'best case' non food retail evidence and contrasting with lower quality food retail evidence. Consequently, it can not be guaranteed that in each and every instance food and retail always command higher values.

For these reasons it has been recommended that a single retail rate to cover Use Classes A1-A5 is used to present an entirely robust position at CIL Examination. However, this rate should allow for Section 106 contributions to be made for Food Retail development if required.

It should also be noted that for the same reasons it is not possible to create a disincentive to out-of-town retailing by charging a higher CIL rate than town centre development, although Section 106 contributions could still be requested.

Draft CIL rates

The viability results show **maximum potential** CIL rates which could be applied without threatening the economic viability of development now and through the economic cycle. However the appraisals are generic tests, which do not make allowance for site specific abnormal costs.

Having factored in the Section 106 information all of the viability results were altered and the new tables have been inserted into the report. Although the margins of viability have been squeezed in a couple of the zones the report recommends that no changes are made to the draft rates.

The recommended rates covering both authorities have been set accordingly and are outlined below:

Residential Rates C3		
Zone 1	Very Low	£0sqm
Zone 2	Low	£20sqm
Zone 3	Medium	£50sqm
Zone 4	High	£80sqm

Retail Rates (A1-A5)	
District wide	£100sqm

Projected CIL revenue

Based on the above rates and retail projections from the adopted Core Spatial Strategy and the latest housing projections in each chargeable category, is estimated that, the following CIL revenues could be raised over the plan period in Newcastle:

Newcastle under Lyme Total Revenue (estimate)	
Residential	£1,866,600
Retail	£1,100,000
Total	£2,966,600

These projections will form the evidence that is required to prove the need for CIL at examination. There is a need to demonstrate the aggregate infrastructure gap i.e. the potential gap between CIL income and the cost of infrastructure. The Viability Study Report does not make recommendations on how any revenue is spent,or on how the

CIL will be administered; we will need to determine that ourselves at a later stage but prior to the CIL examination.

Please note that these projections are based on the best case scenario where the housing and retail targets set out in the Core Spatial Strategy are achieved. To date these targets are not being met. Furthermore the residential projections apply the proposed rates to an average house type of 90sqm and make allowance for Affordable Housing exemption at the relevant proportion of affordable housing for the CIL Charging Zone. The residential and retail projections should be regarded as maximum figures as no allowance is made for CIL relief from the re-use or demolition of existing buildings.

Sites that are developed using planning permission granted prior to the adoption of the CIL Charging Schedule (which sets out the CIL rates) are not liable to pay CIL. However following the adoption of the Charging Schedule, CIL will be payable on small 'windfall' developments which are currently not subject to planning obligations including individual new dwellings, some changes of use and large house extensions (over 100 sqm).

It should also be noted that the viability appraisals are necessarily generic tests and some forms of commercial development, for example, may still be viable and able to support Section 106 Contributions such as NTADS which the Council will still charge until 31 March 2014.

<u>Consultation on Preliminary draft Charging Schedule</u>
In accordance with the Community Infrastructure Regulations 2010 a charging authority must consult on its preliminary draft charging schedule.

The intention is to undertake a joint consultation with Stoke in late April 2013 for 6 weeks involving key stakeholders such as developers and agents. This will be an important process of engaging early with developers and being clear about their infrastructure needs and how they will be paid for. However, in the Borough the County Council, parish and town councils will also be consulted as statutory consultees.

The Planning Policy Business Unit is satisfied that the viability assessment has been undertaken in accordance with the CIL statutory guidance and that the recommended rates should be put forward for consultation.

Appendix 1

<u>Newcastle-under-Lyme Residential Zones</u>

Map to be added

Zone 1	Zone 2	Zone 3	Zone 4
Low			High

Four differential value zones were identified in Newcastle-under-Lyme whilst only three were identified in Stoke-on-Trent.