



**Worthing Borough Council
Community Infrastructure Levy
Viability Assessment**

December 2012



Nationwide CIL Service

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Executive Summary

1.1 The report will provide an assessment of the viability of the principal categories of development in Worthing and the ability of those developments to make contributions to new infrastructure through a Community Infrastructure Levy.

Study Area

1.2 The study area covers the whole of the administrative area of Worthing Borough Council. The assessment first considers the existence of economic sub-market areas for residential and commercial development within the Borough boundary as a basis for considering whether a fixed rate CIL system would be appropriate or a differential system with variable category rates and charging zones.

Methodology

1.3 The study seeks to assess the ability of different categories of development in Worthing to make contributions via a Community Infrastructure Levy. In essence the study assesses the costs and value of development and having made an allowance for a reasonable developers profit return, determines whether any additional margin is available for CIL contributions.

1.4 The study involves a comprehensive assessment of market values for all categories of development in Worthing, together with an assessment of any sub-markets that might exist with differential areas of similar value. In the event that such sub-markets do exist they will be used to consider whether a Fixed Rate or Charging Zone based system would be appropriate.

1.5 The viability appraisal considers three principal land value benchmarks from which development is likely to emerge – greenfield, brownfield and recycled land (eg development which emerges from regenerated land in the same use).

1.6 The study also includes an assessment of Worthing's infrastructure requirements to determine the Infrastructure Funding Deficit that CIL aims to bridge.

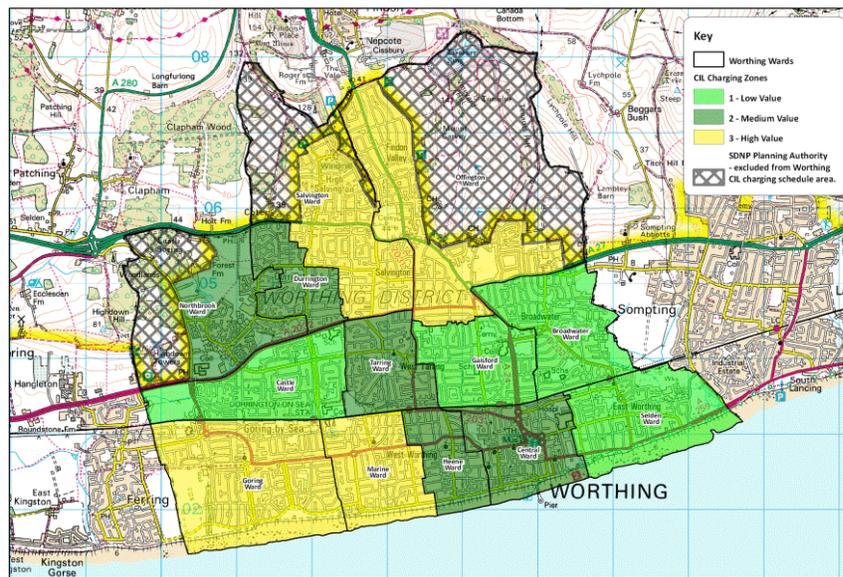
1.7 The study determines the maximum potential rates of CIL (per sqm) that could be applied to every category of development in any differential Charging Zone that might emerge. The study will also consider whether a Fixed Rate or Differential Rate CIL system is most appropriate for Worthing. The study will assess the scope for CIL by comparing test CIL rates against the projected development floorspace for each Chargeable category over the plan period. This will give an indication of total CIL revenue and illustrate that rates have been set at a level which does not exceed the identified Infrastructure Funding Deficit. Where a category or location of development is shown to be unviable, a zero CIL rate will be recommended.

1.8 For residential assessment, the study factors in the Authority's affordable housing targets. Affordable Housing is exempt from CIL charges and this is also factored into the CIL Revenue projections.

Executive Summary

Key Findings - Residential Development

1.9 The assessment of residential land and property values in Worthing indicated that the variable economic viability of residential development in the Borough has the potential to justify a differential rate CIL system based on Charging Zones but that an alternative and simpler Fixed Rate CIL system may be equally appropriate in Worthing. The assessment of residential land and property values indicated that the Borough could be divided into three principal sub-market areas and formed the basis for the viability testing. The differential value areas, based on Ward boundaries within the Borough are illustrated on the following plan :-



1.10 The study firstly factored in Worthing's affordable housing target of 30% with a tenure split of 35% Intermediate, 30% Social Rent and 35% Affordable Rent. The study considered five different residential development scenarios to reflect the type of residential that might emerge over the plan period. These included mixed residential (apartments, 2, 3, 4 and 5 bed housing), high rise apartments, low rise apartments, mid range 2-3 bed housing and executive housing. The executive housing scenario tested a 5 unit development below the affordable housing threshold.

1.11 The viability results illustrated that high rise apartment blocks are not generally viable in current market circumstances and that low rise apartments are not viable in the low value sub-market area. The results reflect the differential between the relatively high build cost assumption for the high rise apartments compared to the assessed sale value. It should be stressed that the median assumptions used reflect a general overview and do not mean that all high rise apartments are unviable in Worthing. There will be significant variations dependent on specification, construction methods and associated build cost and indeed sales rates which will make some forms of high rise apartments viable.

Executive Summary

1.12 The executive housing appraisals demonstrated very significant potential for CIL (£116 - £526 per sqm dependent on the land value benchmark). These results should, however, recognise that no affordable housing provision was applied and do not therefore give a general overview of residential viability.

1.13 The general housing scenarios, where full affordable housing targets were applied, illustrated that maximum CIL rates of £39-£96 could be achieved in the low value sub-market area; £41-£310 in the medium value sub-market and £78-£427 in the high value sub-market area. The results demonstrate that most brownfield and greenfield development is viable and can stand CIL in all zones but that CIL may threaten the viability of some forms of residential development on recycled urban land.

1.14 The results illustrate maximum potential CIL rates which could be applied without threatening the economic viability of development. The appraisals are necessarily generic tests which do not make allowance for site specific abnormal costs or other planning obligation contributions. As such we would recommend that CIL rates are set significantly within the identified viability margins to take account of these unknown factors, setting the appropriate balance within the context of Worthing where there is a clear and over-arching aim to deliver regeneration across the Borough.

Key Findings – Commercial Development

1.15 The valuation study concluded that any variations in the value of commercial locations in the Borough are not significant enough to warrant a differential charging zone approach to commercial CIL rates. The viability appraisals also illustrated that most forms of categories of commercial development are not viable in current market circumstances in Worthing, which is evident by the lack of activity in these sectors.

1.16 Industrial, food supermarket retail and general retail were all assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development. The industrial appraisals indicate potential CIL rates of £55-£95 per sqm. Industrial development is often undertaken direct by occupiers where the developers profit allowance in the appraisals may be set aside. In these circumstances development may be capable of accommodating significantly higher levels of CIL. Food supermarket retail indicated potential rates of £681-£744 per sqm and general retail of £865-£927 per sqm. We would recommend some caution in respect of retail rates. Whilst the study has made a reasoned assessment of land values, transactional evidence is low due to lack of activity in the sector. As specific retail projects emerge it is likely that landowners will expect significant premiums in order to release sites, which may reduce viability levels significantly and this should be taken into consideration in rate setting.

1.17 As with the residential appraisals, the results illustrate maximum potential CIL rates which could be applied without threatening the economic viability of development. The appraisals are necessarily generic tests which do not make allowance for site specific abnormal costs or other planning obligation contributions. As such we would recommend that CIL rates are set significantly within the identified viability margins to take account of these unknown factors.

Executive Summary

Infrastructure Assessment

1.18 WBC provided WYG with a comprehensive set of documentation from which to produce a schedule of infrastructure schemes potentially eligible for CIL funding. Schemes have been assessed against a range of criteria and a 'traffic light' system used to summarise the findings, where:

Green – means the scheme is eligible for CIL funding based on the available evidence

Amber – anticipated to be eligible for CIL funding, subject to further information to confirm this

Red – not considered to be eligible for CIL funding (normally because it seeks to address an existing issue and is not required to support planned growth).

1.19 At the time of writing this report (August 2012) a total of 104 infrastructure schemes have been identified by WBC and their partners for potential CIL funding. The breakdown of these is summarised below and discussed in more detail later in this report:

Green – 2 schemes

Amber – 70 schemes

Red – 32 schemes

Total = 104 schemes

1.20 The total estimated Infrastructure Funding Deficit from **Green** schemes currently stands at circa £1.5m. The total estimated Infrastructure Funding Deficit from **Green** and **Amber** schemes combined currently stands at circa £20m.

1.21 Additional Infrastructure planning work is being undertaken to determine which of the currently identified Amber schemes can reasonably be included in the Infrastructure Funding Deficit and to identify any further infrastructure required to support growth that CIL may be justified on funding. At this stage it is considered there is sufficient evidence of a potential Infrastructure Funding Deficit to progress publication of a Preliminary Draft Charging Schedule to demonstrate potential CIL rates based on a viability assessment. It is acknowledged that additional evidence will be required to support the Infrastructure Funding Deficit at Submission and Examination stage.

Executive Summary

Conclusions

1.22 It is acknowledged that the variations in residential value could potentially justify a differential zone approach to setting residential CIL rates. However, in a tightly constrained primarily urban area like Worthing, specific Charging Zone boundaries will always be difficult to justify. There will always be anomalies within the 'ward' test areas and specific zoning of differential value zones in such close proximity may be difficult to justify taking account of the 'area base overview approach' recommended by the CIL Charging Setting and Charging Schedule Procedures.

1.23 Taking account of the development strategy in Worthing where the majority of development is likely to emerge in the medium and high value sub-market areas it is considered that a single CIL rate of £100 per sqm would be appropriate for residential development. It is acknowledged that a £100 CIL rate could potentially threaten the viability of some residential development in the low value sub-market area.

1.24 The CIL Charge Setting and Charging Schedule Procedures advise that :-

Charging authorities should use an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging authorities should take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk. It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area.

1.25 In the context of this guidance, the viability assessment assumes that 30% Affordable Housing will be delivered prior to the imposition of the Community Infrastructure Levy. It should be recognised that the 30% Affordable Housing rate represents a target that may be varied subject to viability considerations. In circumstances where a £100 CIL could potentially threaten the viability of residential development (eg in the low value sub-market area) then consideration may need to be given to reducing Affordable Housing requirements for specific developments. This can be properly assessed at planning application stage by employing site specific viability appraisal.

1.26 The alternative viability testing undertaken with no allowance for Affordable Housing (see Viability Testing Results at Section 5) illustrates that the low value sub-market area has potential to accommodate CIL rates of £158-£206 on brownfield housing sites and £228-£271 on Greenfield sites (having discounted apartment development). As such it is considered that a CIL rate of £100 per sqm would not threaten the viability of residential development as a whole in Worthing as competing contributions can be adjusted if necessary at planning application stage.

Residential	£100sqm
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Executive Summary

1.27 It is recommended that a single zone approach is taken to setting commercial CIL rates. It is considered that industrial development will be capable of accommodating a CIL rate of £30 per sqm without threatening viability. The differential between food supermarket and general retail viability is not considered significant and therefore a single CIL rate is recommended for all forms of retail development. Taking account of the factors expressed in paras 1.16-1.17 a retail CIL rate of £150 per sqm recommended.

Industrial (B1b,B1c,B2,B8)	£30sqm
Retail (A1-A5)	£150sqm

1.28 Based on the above rates it is estimated that, based on development projections in each chargeable category, the following CIL revenues could be raised over the plan period to

Residential	£10,404,300
Industrial	£420,000
Retail	£6,536,250
Total	£17,360,000

1.29 The total projected CIL revenue of £17.4 Million does not exceed the currently identified Infrastructure Funding Deficit of £20 Million (which is likely to increase as further infrastructure assessment is completed) and it is therefore considered that the proposed CIL rates strike the appropriate balance between funding infrastructure and maintaining the economic viability of development as required by the CIL Regulations.

2 Introduction

2.1 The Community Infrastructure Levy was introduced in 2010 as a means for Local Authorities to raise revenue from development to fund the infrastructure required to support growth in their area. The rates of CIL that are charged must relate to the Infrastructure Funding Deficit - the funding gap between the total cost of required infrastructure and the infrastructure delivered or financed by external partners and agencies.

2.2 Authorities wishing to introduce the levy should propose CIL rates which do not put at serious risk the overall development of their area. They will need to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy upon the economic viability of development across their area. Charging authorities should prepare evidence about the effect of the levy on economic viability in their area to demonstrate to an independent examiner that their proposed rates, for the levy, strike an appropriate balance.

2.3 CIL Rates are set in £ per square metre on the net increase in floorspace of any development. All new dwellings will be subject to CIL and any other development over 100 sq metres gross internal floor area (subject to some minor exceptions). A Charging Authority may set a fixed rate of CIL or differential rates for different types of development and different locations. Some categories or locations may be zero rated dependent upon economic viability evidence. The rates will be published in a Charging Schedule which is subject to public consultation and independent Examination.

The CIL Regulations and Statutory Guidance

2.4 The legislation governing the Community Infrastructure Levy is enshrined in the Planning Act 2008 (Part 11, Sec 105-225), the CIL Regulations April 2010 and CIL Amendment Regulations April 2011. The primary statutory guidance into the practicalities of establishing a CIL system is contained in the Charge Setting and Charging Schedule Procedures March 2010 (CSCSP). The key guidance may be summarised as follows.

2.5 The initial stage of preparing a charging schedule focuses on determining the CIL rates. When a charging authority submits its draft charging schedule to the CIL examination, it must provide evidence on economic viability and infrastructure planning (as background documentation for the CIL examination). Charging authorities are required to demonstrate that they have:

2 Introduction

- Complied with the requirements under Part 11 of the Act, in particular sec 211(2) and (4) and regulations 13 and 14 governing setting rates. Regulation 14 requires that a charging authority, in setting CIL rates, *'must aim to strike what appears to the charging authority to be an appropriate balance between' the desirability of funding infrastructure from CIL and 'the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area'*; and
- *'Used appropriate available evidence to inform the draft charging schedule'* (sec 212(4)(b)).

2.6 It is for charging authorities to decide how to present appropriate evidence on how they have struck an appropriate balance between the desirability of funding infrastructure from CIL and the potential effects of the imposition of CIL on the economic viability of development across their area. Charging authorities will need to summarise evidence as to economic viability in a document as part of their background evidence that shows the potential effects of their proposed CIL rates on the economic viability of development across their area.

2.7 The legislation (section 212 (4)(b)) requires a charging authority to use *'appropriate available evidence'* to inform their draft charging schedule. It is recognised that the available data is unlikely to be fully comprehensive or exhaustive. Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by *'appropriate available'* evidence and consistent with that evidence across their area as a whole.

2.8 Charging authorities can rely largely on existing published data to prepare the evidence on viability to inform their charging schedule, but they may also want to ensure that their proposed CIL rate (or rates) takes account of recent changes in land values over the last 12 months before they publish a charging schedule (for example by supplementing published data with limited sampling information from recent market transactions), particularly if land values have been significantly falling or rising. The best guarantee that a CIL is set at an appropriate level for practical purposes is a thorough understanding of the local property market and the nature of the sites that are likely to come forward for development. This helps to ensure that any viability assessment is properly grounded in local realities.

2.9 A Charging Authority's proposed CIL rate should appear reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence, for example, if the evidence pointed to setting a charge right at the margins of viability. Charging Authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area - *'there is some room for pragmatism'*.

2 Introduction

2.10 An Authority may adopt a fixed rate of CIL for all types of development or it may adopt differential rates of CIL for different categories of development or for different geographical zones, or a mixture of both. Whilst there is considerable leeway in interpreting the appropriate balance between generating revenue for infrastructure and impacting on the economic viability of development, there is more stringent guidance on setting rates in the event a differential CIL system is adopted.

2.11 In the event a differential rate system is adopted, the CSCSP states that Charging Authorities should not exempt or set a zero rate for a particular zone or category of development from CIL, unless they can demonstrate that this is justifiable in economic viability terms. However, if the evidence shows that their area includes a zone or category of development of low viability, charging authorities should consider setting a low CIL rate in that area or for that category (consistent with the evidence).

2.12 Charging schedules should not impact disproportionately on a particular sector or small group of developers. Differential rates must be set in such a way so as not to give rise to notifiable State Aid – one element of which is selective advantage. Thus, authorities who choose to differentiate rates by class of development or by reference to different areas, should do so only where there is consistent evidence relating to economic viability that constitutes the basis for any such differences in treatment. It will be the responsibility of charging authorities to ensure that their charging schedules are State Aids compliant.

2.13 In practical terms this guidance means that CIL must be based solely on economic viability considerations and should not be used to further planning policy or political objectives. There is potential for legal challenge to any CIL system beyond CIL Examination under European State Aid legislation and CIL rate setting in a manner that is consistent with the viability evidence is very important.

2.14 Section 206 of the Planning Act 2008 confers the power to charge CIL on ‘Charging Authorities’ which will be each individual LPA. The charging authority’s responsibilities are to:

- Prepare and publish a ‘Charging Schedule’ which will set the rates of CIL which will apply in the authority’s area. This will involve consultation and independent examination;
- Collect and manage CIL payments;
- Apply the CIL revenue it receives to funding infrastructure to support the development of its area;
- Report to the local community on the amount of CIL revenue collected, spent and retained each year.

3 Methodology

The Process

3.1 There are a number of key stages to CIL Economic Viability Assessment which may be set out as follows.

1) Evidence Base – Land & Property Valuation Study

3.2 Establish an area wide evidence base of land and property values for every category of development in each sub-market area. The valuation evidence will provide an indication of potential Charging Zones. The approach and methodology for the evidence base is set out in the Valuation Study at Appendix 1.

2) Evidence Base – Construction Cost Study

3.3 Establish an area wide evidence base of construction costs for each category of development relevant to the local area. The study will also indicate construction rates for professional fees, warranties, statutory fees and construction contingencies. The approach and methodology for the evidence base is set out in the Construction Cost Study at Appendix 2.

3) Charging Zone Formation

3.4 The Valuation Evidence will indicate potential sub-markets within the study area which could form CIL Charging Zones.

4) Viability Appraisal

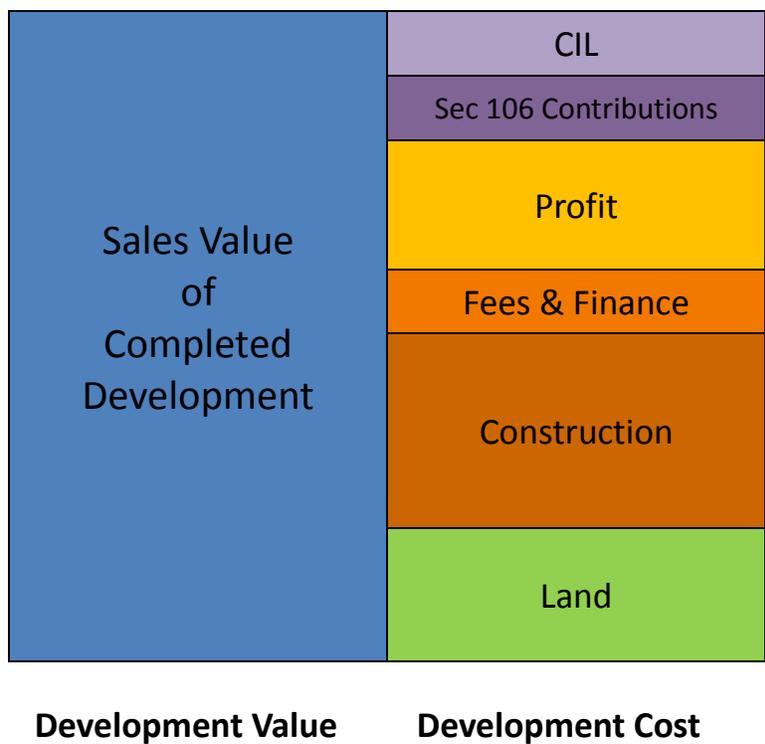
3.5 Appraisal of every category of development in the identified charging zones using a Residual Appraisal Model to determine the margin available for CIL contributions.

5) Maximum CIL Rates

3.6 Tabulation of the Viability Appraisal results to illustrate the maximum rates of CIL that may be levied without threatening the economic viability of development

3 Methodology

The Development Equation



3.7 The appraisal model is illustrated by the above diagram and summarises the ‘Development Equation’. On one side of the equation is the development value ie the sales value which will be determined by the market at any particular time. The variable element of the value in residential development appraisal will be determined by the proportion and mix of affordable housing applied to the scheme. Appropriate discounts for the relevant type of affordable housing will need to factored into this part of the appraisal.

3.8 On the other side of the equation, the development cost includes the ‘fixed elements’ ie construction, fees, finance and developers profit. Developers profit is usually fixed as a minimum % return on gross development value generally set by the lending institution at the time. The flexible elements are the cost of land and the amount of developer contribution (CIL and Planning Obligations) sought by the Local Authority.

3.9 Economic viability is assessed using an industry standard Residual Model approach. The model subtracts the Land Value and the Fixed Development Costs from the Development Value to determine the margin available for CIL.

3 Methodology

Viability Assessment Model

3.10 A residual assessment model is used to test the ability of each category of development to make CIL contributions. The model draws on the valuation and construction cost evidence base and is based on the following inputs:-

Development Value (Based on Floor Area) Eg 2000sqm Unit x £1,100per sqm	£2,200,000
Development Costs	
Land Value	£400,000
Construction Costs	£900,000
Abnormal Construction Costs (Optional)	£0
Professional Fees (% Costs)	£90,000
Legal Fees (% Value)	£30,000
Statutory Fees (% Costs)	£30,000
Sales & Marketing Fees (% Value)	£40,000
Contingencies (% Costs)	£50,000
Section 106 Contributions (Optional)	£0
Finance Costs (% Costs)	£100,000
Developers Profit (% Return on GDV)	£350,000
Total Costs	£1,990,000
Output	
Gross Margin	£210,000
CIL Rate (Maximum Levy per sqm) = Gross Margin / Devt Floorspace	£105

3.12 The model will calculate the gross margin available for developer contributions. The maximum rate of CIL that could be levied without rendering the development economically unviable is calculated by dividing the gross margin by the floorspace of the development being assessed.

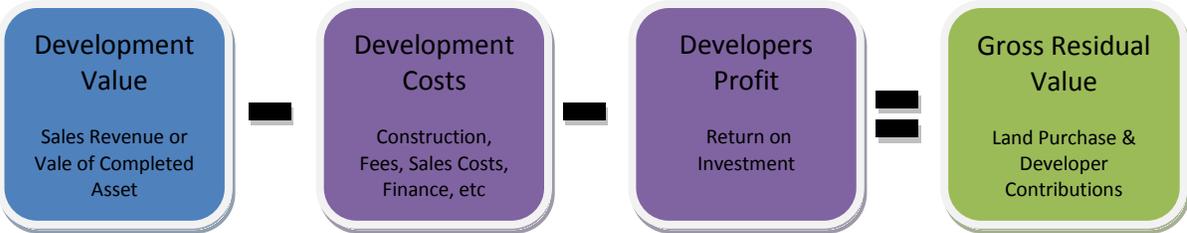
3.13 The approach to the assumptions behind the viability assessment is set out in the following sections.

3 Methodology

Land Value Assumptions

3.14 It is generally accepted that CIL, will be extracted from the residual land value (ie the margin between development value and development cost including a reasonable allowance for developers profit). This is the point at which base land value is established to ascertain the remaining margin for contributions.

Stage 1 – Residual Valuation



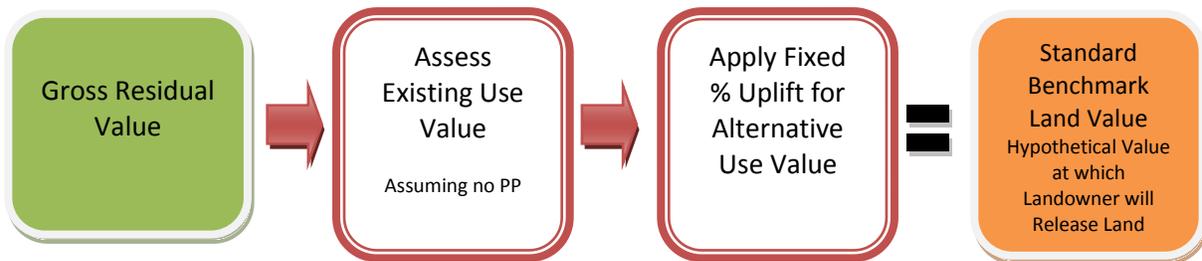
3.15 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any CIL viability appraisal. It is proposed to adopt a market realistic approach to establishing the Land Value element of the viability appraisal which may be categorised as ‘Market Value Benchmarking’.

Stage 2 – Establishing Base Land Value



3 Methodology

Standard Benchmarking vs Market Value Benchmarking



Standard Benchmarking

3.16 This is a widely used standard approach which relies on assessing existing use value (EUV) and then applying a fixed % uplift to simulate the ‘benchmark’ alternative use value (AUV) at which a landowner will be sufficiently incentivised to sell the land. The key difficulty is fixing a realistic existing/alternative use value to cover the majority of development scenarios and, more importantly, a % uplift that realistically reflects the reasonable aspirations of the landowner.

3.17 This approach is often used to establish Affordable Housing targets – which will be subject to further viability appraisal at planning application stage. This approach may be less robust with CIL. Once adopted, CIL is a fixed levy which will not be subject to further viability assessment. It may therefore be unrealistic to take a ‘lowest common denominator’ approach to land value as it is unlikely to reflect the majority of market circumstances that are likely to guide landowner’s decisions.

3.18 The NPPF has brought a new focus on this particular issue when considering viability appraisal in planning. It states at paragraph 173 :-

“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 land owner and willing developer to enable the development to be deliverable”.

3.19 The Local Housing Delivery Group (comprising, inter alia, the Local Government Association, the Homes and Communities Agency and the House Builders Federation) has published some helpful guidance on determining threshold land values in response to the new direction of the NPPF. ‘Viability Testing Local Plans’ published in June 2012 states :-

“Another key feature of a model and its assumptions that requires early discussion will be the Threshold Land Value that is used to determine the viability of a type of site. This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax)”.

Different approaches to Threshold Land Value are currently used within models ,including consideration of:

3 Methodology

- Current use value with or without a premium.
- Apportioned percentages of uplift from current use value to residual value.
- Proportion of the development value.
- Comparison with other similar sites (market value).

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 (noting the exceptions below).

The precise figure that should be used as an appropriate premium above current use value should be determined locally. But it is important that there is evidence that it represents a sufficient premium to persuade landowners to sell. This is in line with the reference in the NPPF to take account of a "competitive return" to a willing land owner, as this will be one that would lead to a market transaction, discounting abnormal purchases or cases where landowners are selling under distressed circumstances.

It is widely recognised that this approach can be less straight forward for nonurban sites or urban extensions, where land owners are rarely forced or distressed sellers, and generally take a much longer term view over the merits or otherwise of disposing of their asset.

This is particularly the case in relation to large greenfield sites where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations. Accordingly, the uplift to current use value sought by the landowner will invariably be significantly higher than in an urban context and requires very careful consideration. It should also be recognised that landowners' expectations are not necessarily related directly to the economic circumstances of the locality, given that farmland of equivalent quality has a broadly similar intrinsic value irrespective of its geographic location within the country.

Therefore, for sites of this nature, it will be necessary to make greater use of benchmarks, taking account of local partner views on market data and information on typical minimum price provisions used within developer/site promoter agreements for sites of this nature. If such benchmarks are disregarded, there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound. Furthermore, if local market evidence is that minimum price provisions are substantially in excess of the initial benchmark assumptions, then the plan will be at significant risk unless Threshold Land Values are placed at a higher level, reflecting that market evidence".

Market Value Benchmarking

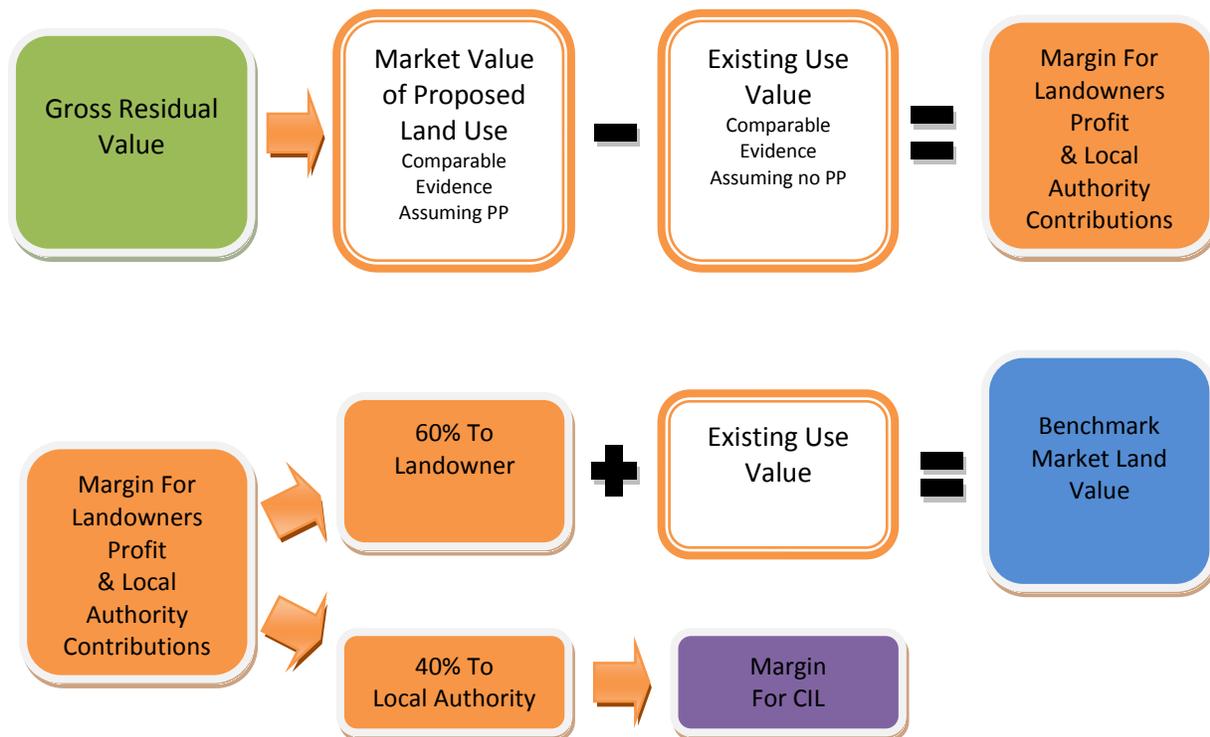
3.20 In recognition of the above advice we advocate an alternative approach to establishing an appropriate premium over existing use value to establish threshold land value. This involves first considering the value of land with planning permission for the chargeable category under consideration but tempering that consideration with the reasonable expectations of the Local Authority that new development land will contribute to infrastructure and affordable housing in recognition that the grant of planning consent generates an uplift in value.

3 Methodology

3.21 This approach acknowledges that Landowners will generally have an aspirational value based on the planning permission that might be achieved. This is considered a more pragmatic approach and better reflects the realities of the property market. The approach also acknowledges that Local Authorities will expect to obtain contributions towards infrastructure from the uplift in value. In order to establish a Market Value Benchmark the value of land for the proposed development use is assessed from market research of comparable evidence. The existing use value is then subtracted to determine the uplift in value and the margin available for Local Authority Contributions and landowner profit.

3.22 The assessed margin is then apportioned to give the landowner a sufficient return to incentivise the release of the site but also allowing a significant proportion of the uplift in value to be levied by the Local Authority for infrastructure

Market Value Benchmark Process



3.23 It has been agreed that for the purpose of the Worthing assessment a 60:40 split in favour of the landowner is a reasonable benchmark and will generate base land values that are fair to both landowners and Worthing BC. The split acknowledges that the greater share of the uplift will need to go to the landowner in order for sites to be released.

3 Methodology

3.24 The approach uses a mix of market valuation which will reflect the knowledge and aspirations of landowners but tempers this with a benchmarking exercise that provides a fair contribution to Local Authorities from the uplift in value resulting from planning permission. This is considered to be a robust approach to land valuation for the purpose of CIL Viability assessment.

Benchmark Land Value Scenarios

3.25 In order to establish robust land value inputs into the viability appraisal it will be necessary to test a range of land value scenarios that represent a reasonable range for sites that are likely to come forward in Worthing. The 'Market Value Benchmarking' approach recognises that different levels of uplift will be available for CIL dependent on the existing use starting point. For instance, a greenfield site will generate the most potential for CIL because of the difference between the starting land use value (eg agricultural) and the end use value (eg residential)

3.26 In to represent the likely range of benchmark scenarios for the appraisal it was decided to use a greenfield scenario (based on agricultural use value), a low value brownfield scenario (based on industrial use value) and a 'no change' scenario where the end use emerged from recycled land the same use class (ie no uplift in value). This is considered to represent the full scope of land value scenarios in that change from a high value use (eg retail) to a low value use (eg industrial) is unlikely. In most cases three benchmark tests were carried out for each development scenario.

Residential

Benchmark 1 Greenfield – Residential

Benchmark 2 Industrial – Residential

Benchmark 3 Residential – Residential

(NB Affordable Housing Land has been allocated zero value in the appraisals)

Commercial

Benchmark 1 Greenfield – Proposed Use

Benchmark 2 Industrial – Proposed Use

Benchmark 3 Proposed Use – Proposed Use

For some commercial categories only 1 or 2 benchmarks were tested due to scarcity of sites and that type of development.

3.27 The viability study generally assumes that affordable housing land has no value because development costs generally exceed affordable housing sales value. However in high value areas (where sales values exceed £2500 per sqm) this will not be the case and allowance for affordable housing land value is made in the cost assessment.

3 Methodology

Property Sales Values

3.28 The sale value of the development category will be determined by the market at any particular time and will be influenced by a variety of locational, supply and demand factors as well as the availability of finance. The study uses up to date comparable evidence to give an accurate representation of the market circumstances on which the CIL system will be based. The methodology relies primarily on current market research rather than published data tables which may often be out of date (see Evidence Base section).

4 Viability Appraisal Assumptions

Development Categories

4.1 In order to ensure that the study is sufficiently comprehensive to inform a Differential Rate CIL system, all categories of development in the Use Classes Order will be considered, including a relevant sample of Sui Generis uses to reflect typical developments in Worthing, as follows :-

Residential (C3) - Based on varying residential development scenarios and factoring in the affordable housing requirements of each Authority. Land values are assessed based on house type plots. Sales values are assessed on per sqm rates.

Commercial - The following categories are considered. Land Values and Gross Development Values are assessed on sqm basis.

Industry (B1(b)B1(c), B2, B8)

Offices (B1a)

Food Supermarket Retail (A1)

General Retail (A1, A2, A3, A4, A5)

Hotels (C1)

Residential Institutions (C2)

Institutional and Community (D1)

Leisure (D2)

Agricultural

Sui Generis - Vehicle Sales

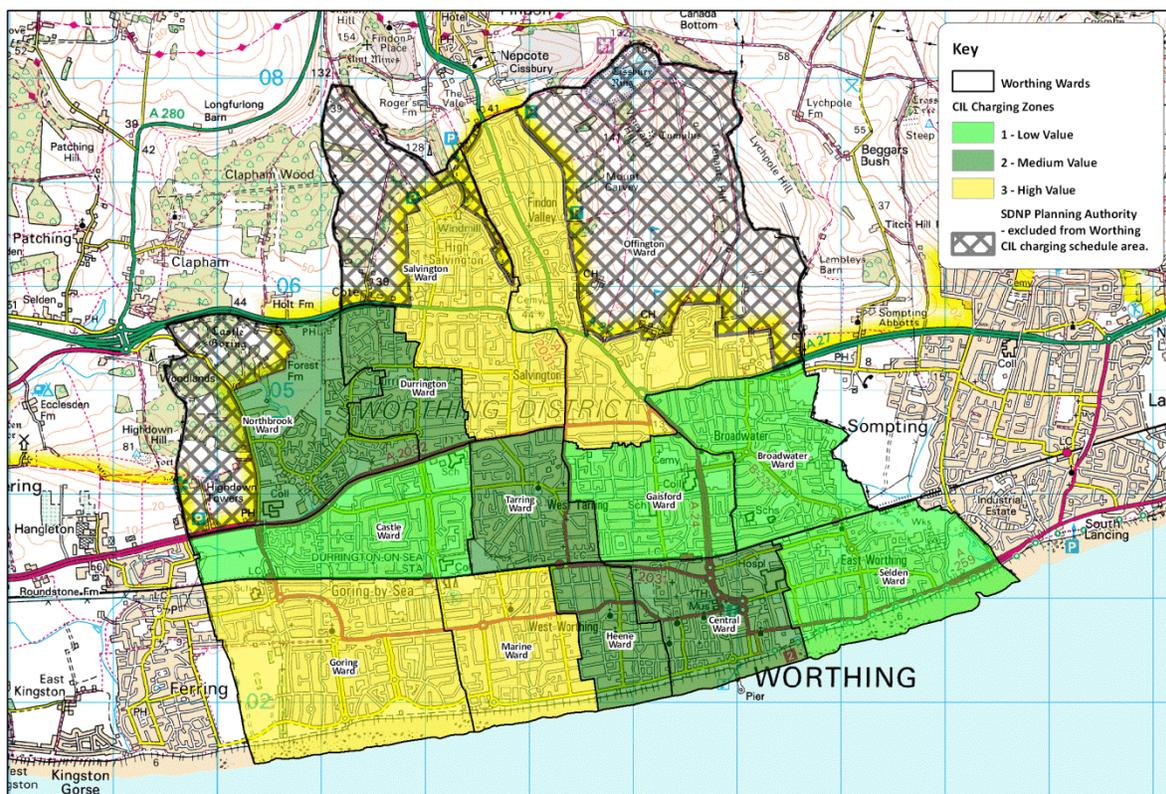
Sui Generis – Car Repairs

Sui Generis – Builders Yard

Potential Charging Zones

4.2 The valuation study considered evidence of residential land and property values across Worthing and did gather evidence which indicated the presence of differential residential values which could be broadly divided into three principal sub-market areas. These sub-markets, based on Ward boundaries within the Borough, are illustrated on the following plan :-

4 Viability Appraisal Assumptions



Residential Sub Market Areas

Lower Value Wards

Medium Value Wards

Higher Value Wards

Broadwater, Castle, Gaisford, Selden

Central, Durrington, Heene, Northbrook, Tarring

Goring, Marine, Salvington

It should be stressed that the sub-market areas represent an overview of property value and there will be distinctions within many of the Wards.

4.3 The valuation study concluded that any variations in the value of commercial locations in the Borough are not significant enough to warrant a differential charging zone approach to commercial CIL rates.

4 Viability Appraisal Assumptions

Affordable Housing

4.4 The residential viability tests factor in affordable housing in accordance with the Borough's relevant policy on proportion and mix. The following extract from a residential viability appraisal model illustrates how affordable housing is factored into the residential valuation assessment. The relevant variables (eg unit numbers, types, sizes, affordable proportion, tenure mix etc) are inputted into the highlighted cells. The model will then calculate the overall value of the development taking account of the relevant affordable unit discounts.

DEVELOPMENT SCENARIO	Mixed Residential Development				Apartments	10
BASE LAND VALUE SCENARIO	Greenfield to Residential				2 bed houses	20
DEVELOPMENT LOCATION	Urban Zone 1				3 Bed houses	40
DEVELOPMENT DETAILS	100	Total Units			4 bed houses	20
Affordable Proportion	30%	30	Affordable Units		5 bed house	10
Affordable Mix	30%	Intermediate	40%	Social Rent	30%	Affordable Rent
Development Floorspace	6489	Sqm Market Housing	2,163	Sqm Affordable Housing		
Development Value						
Market Houses						
7	Apartments	65	sqm	2000	£ per sqm	£910,000
14	2 bed houses	70	sqm	2200	£ per sqm	£2,156,000
28	3 Bed houses	88	sqm	2200	£ per sqm	£5,420,800
14	4 bed houses	115	sqm	2200	£ per sqm	£3,542,000
7	5 bed house	140	sqm	2200	£ per sqm	£2,156,000
Intermediate Houses						
		60%	Market Value			
3	Apartments	65	sqm	1200	£ per sqm	£210,600
5	2 Bed house	70	sqm	1320	£ per sqm	£415,800
2	3 Bed House	88	sqm	1320	£ per sqm	£209,088
Social Rent Houses						
		40%	Market Value			
4	Apartments	65	sqm	800	£ per sqm	£187,200
6	2 Bed house	70	sqm	880	£ per sqm	£369,600
2	3 Bed House	88	sqm	880	£ per sqm	£185,856
Affordable Rent Houses						
		50%	Market Value			
3	Apartments	65	sqm	1000	£ per sqm	£175,500
5	2 Bed house	70	sqm	1100	£ per sqm	£346,500
2	3 Bed House	88	sqm	1100	£ per sqm	£174,240
100	Total Units					
Development Value						£16,459,184

4 Viability Appraisal Assumptions

4.5 The following Affordable Housing Assumptions have been agreed for the purpose of the residential viability appraisals. The assumptions relate to the overall proportion of affordable housing, the tenure mix between Intermediate, Social Rent and Affordable Rent housing types. Finally the transfer values in terms of % of open market value is set out for each tenure type.

Affordable Housing				
Sub Market Area	Proportion %	Tenure Mix %		
		Intermediate	Social Rent	Affordable Rent
1 Low	30%	35%	30%	35%
2 Medium	30%	35%	30%	35%
3 High	30%	35%	30%	35%
Transfer Values		70%	40%	60%

4.6 The affordable assumptions were applied to all residential scenario testing with the exception of the 5 unit executive housing development with is below the affordable housing threshold.

Development Density

4.7 Density is an important factor in determining gross development value and land value. Density assumptions for commercial development will be specific to the development category. For instance the floorplate for industrial development is generally around 50% of the site area to take account of external servicing, storage and parking, Offices will vary significantly dependent on location, town centre offices may take up 100% of the site area whereas out of town locations where car parking is a primary consideration, the floorplate may be only 25% of the site area. Food retailing generally has high car parking requirements and large site areas compared to floorplates.

The land : floorplate assumptions for commercial development are as follows:-

Industrial	2:1
Offices	2:1
General Retail	1.5:1 (shopping parades, local centres etc)
Food retail	3:1
Leisure	3:1

4 Viability Appraisal Assumptions

Hotels	2:1
Residential Institutions	1.5:1
Community Uses	1.5:1
Other Uses	2:1

4.8 Residential densities vary significantly dependent on house type mix and location. Mixed housing developments may vary from 10-50 dwellings per Hectare. Town Centre apartment schemes may reach densities of over 150 units per Hectare. We generate plot values for residential viability assessment related to specific house types. The plot values allow for standard open space requirements per Hectare.

4.9 The density assumptions for house types related to plot values are as follows :-

Apartment	120 units per Ha
2 Bed House	50 units per Ha
3 Bed House	40 units per Ha
4 Bed House	25 units per Ha
5 Bed House	20 units per Ha

House Types and Mix

4.10 The study uses the following standard house types as the basis for valuation and viability testing as unit types that are generally reflective of market circumstances in Worthing.

2 Bed Apartment	66 sqm
2 Bed House	77 sqm
3 Bed House	93 sqm
4 Bed House	106 sqm
5 Bed House	140 sqm

4.11 Housing values and costs are based on the same gross internal area. However apartments will contain circulation space (stairwells, lifts, access corridors) which will incur construction cost but which is not directly valued. We make an additional construction cost allowance of 20% to reflect the difference between gross and net floorspace.

4 Viability Appraisal Assumptions

Development Scenarios

Residential

4.12 The study tests a series of residential development scenarios to reflect general types of development that are likely to emerge over the plan period in Worthing.

4.13 For residential development, five scenarios were considered. The list does not attempt to cover every possible development in the 7 Authority areas but at least 3 of the 5 scenarios are considered to be represented in each Authority.

1. Mixed Housing (Apt, 2, 3, 4 & 5 Bed Housing)	100 Units
2. High Rise Apartments (2 Bed Apts)	100 Units
3. Low Rise Apartments Block (2 Bed Apts)	25 Units
4. Executive Housing (3 & 4 Bed Housing)	5 Units
5. Suburban Housing Estate (2 & 3 Bed Housing)	40 Unit

The relevant affordable housing requirements are applied to scenarios 1,2,3 & 5. Scenario 4 is below the threshold and no affordable housing targets were applied.

Commercial

4.14 The following sample developments have been used for the viability assessments.

Industry	1000sqm Factory
Offices	2000sqm Office Building
Food Retail (supermarket)	3000sqm Supermarket
General Retail	300sqm Roadside Retail Unit
Hotels	3000sqm Mid Range Hotel
Residential Institutions	4000sqm Care Facility
Institutional and Community	200sqm Community Centre
Leisure	2500sqm Bowling Alley
Agricultural	500sqm Farm Store
Sui Generis - Vehicle Sales	1000sqm Car Showroom
Sui Generis – Car Repairs	300sqm Car Repair Garage

4 Viability Appraisal Assumptions

Code for Sustainable Homes

4.15 The study adopts CoSH 3 to reflect the base standard for residential construction in Worthing.

Construction Costs

4.16 The construction rates will reflect allowances for external works, drainage, servicing preliminaries and contractor's overhead and profit. The viability assessment will include a 5% allowance for construction contingencies.

Abnormal Construction Costs

4.17 Most development will involve some degree of exceptional or 'abnormal' construction cost. Brownfield development may have a range of issues to deal with to bring a site into a 'developable' state such as demolition, contamination, utilities diversion etc. Viability assessment is a generic test and it would be unrealistic to make assumptions over average abnormal costs to cover such a wide range of scenarios. It is considered better to bear the unknown costs of development in mind when setting CIL rates and not fix rates at the absolute margin of viability.

Planning Obligation Contributions

4.18 CIL is likely to replace some if not all planning obligation contributions. The purpose of the study is to test the maximum margin available for CIL that is available from various types of development. CIL, once adopted, will represent the first 'slice' of tax on development. Planning Obligations may be used to top up contributions on a site specific basis subject to viability appraisal at planning application stage. It is not therefore proposed to pre-empt this process by making assumptions on planning obligation contributions in the viability appraisals.

Developers Profit

4.19 Developers profit is generally fixed as a % return on gross development value or return on the cost of development to reflect the developer's risk. In current market conditions, and based on the minimum lending conditions of the financial institutions, a 20% return on GDV is used in the residential viability appraisals to reflect speculative risk. A 17.5% return is applied to commercial development in recognition that most development will be pre-let or pre-sold with a reduced level of risk.

5 Viability Appraisal Results

5.1 The results of the CIL Viability Testing are set out in the tables on the following pages. The residential results are illustrated for the five residential development scenarios.

5.2 The residential table illustrates the potential CIL rates in £ per sqm for the three identified Charging Zones. The commercial table illustrates the potential CIL rates across the whole Authority area.

5.3 Each category of development produces up to 3 results in each test area. These results reflect the benchmark land value scenario. The first result assumes greenfield development which generally represents the highest uplift in value from current use and therefore will produce the highest potential CIL Rate. The second result assumes that development will emerge from low value brownfield land. The third result assumes development will occur on recycled brownfield sites in similar value use with little or no uplift in land value – the worst case CIL position.

5.4 It should be recognised that the CIL Rates that have emerged from the study are maximum potential rates, based on optimum development conditions. The viability tests are necessarily generic and do not factor in site specific abnormal costs that may be encountered on many development sites. The tests produce maximum contributions for infrastructure and therefore ultimate CIL charges may need to allow for additional planning obligation contributions for site specific infrastructure.

5 Viability Appraisal Results

 Maximum Residential CIL Rates per sqm					
Sub Market /Base Land Value	Mixed Residential Development	High Rise Apartments	Low Rise Apartment Block	Executive Housing	Suburban Housing
1 Low					
Greenfield to Residential	£104	-£1,287	-£321	£271	£96
Industrial to Residential	£39	-£1,314	-£347	£206	£40
Residential to Residential	-£34	-£1,342	-£375	£136	-£20
2 Medium					
Greenfield to Residential	£310	-£904	£66	£513	£336
Industrial to Residential	£245	-£930	£40	£437	£275
Residential to Residential	-£27	-£1,045	-£75	£162	£41
3 High					
Greenfield to Residential	£271	-£636	£332	£526	£427
Industrial to Residential	£206	-£663	£305	£459	£370
Residential to Residential	-£134	-£803	£168	£116	£78

5 Viability Appraisal Results

		Maximum Residential CIL Rates per sqm Zero Affordable Housing				
		Mixed Residential Development	High Rise Apartments	Low Rise Apartment Block	Executive Housing	Suburban Housing
1 Low						
Greenfield to Residential	£228	-£285	-£143	£271	£271	
Industrial to Residential	£158	-£336	-£170	£206	£180	
Residential to Residential	£90	-£387	-£196	£136	£122	
2 Medium						
Greenfield to Residential	£683	£189	£359	£717	£717	
Industrial to Residential	£615	£137	£332	£650	£626	
Residential to Residential	£479	£33	£274	£515	£506	
3 High						
Greenfield to Residential	£529	£211	£643	£528	£528	
Industrial to Residential	£461	£159	£615	£459	£627	
Residential to Residential	£121	-£100	£474	£116	£318	

5 Viability Appraisal Results

 Maximum Commercial CIL Rates per sqm					
Sub Market/Base Land Value	Industrial (B1b B1c B2 B8)	Office (B1a)	Food Supermarket (A1)	General Retail (A1-A5)	Hotel (C1)
Boroughwide					
Greenfield	£96	-£1158	£744	£927	-£649
Brownfield	£55	-£1193	£681	£897	-£684
Recycled in Same Use	£55	-£1272	-£169	£865	-£705

 Maximum Commercial CIL Rates per sqm					
Sub Market/Base Land Value	Residential Institution (C2)	Community (D1)	Leisure (D2)	Agricultural (A1-A5)	Sui Generis
Boroughwide					
Greenfield	-£1214	-£390	-£1073	-£344	
Brownfield			-£1173		Car Repairs £5
Recycled in Same Use	-£1241	-£402	-£1137		Car Sales -£8

6 Infrastructure Funding Deficit

6.1 Worthing Borough Council (WBC) provided WYG with a comprehensive set of documentation to review and use to produce a schedule of infrastructure schemes potentially eligible for CIL funding. These were:

- Draft Blue Book, January 2012 (Ardur and Worthing Councils);
- WBC and Adur District Council (ADC) Budget Book 2011/12;
- Worthing Strategic Infrastructure Package;
- West Sussex County Council (WSSCC) Sustainable Travel Towns bid 2011;
- West Sussex Investment Strategy – document not yet published but discussions were held in August 2012 with West Sussex County Council’s consultant for the project, Parsons Brinckerhoff;
- Worthing County Local Committee Area Infrastructure Plan;
- WSSCC Planning Schools Places 2011/12

6.2 A number of consultation responses have also been returned to WBC. These comments have been incorporated into the latest assessment. Correspondence regarding the draft CIL list has been received from:

- Highways Agency;
- West Sussex County Council;
- NHS Sussex.

6.3 The available evidence base demonstrates that WBC has already begun to consider the requirements of CIL in some detail. We have reviewed all of the existing available infrastructure evidence and can conclude that ‘reasonable infrastructure planning’ has been undertaken in compliance with the principles of the NPPF.

6.4 In order to establish which infrastructure schemes are potentially eligible for CIL funding a summary schedule has been produced. It is expected that this will be maintained as a ‘live’ document and updated as infrastructure requirements change in the future. This schedule is also expected to guide production of the Draft Infrastructure List for the CIL public examination and the subsequent Regulation 123 List. A copy of the current version of the infrastructure schedule can be found in Appendix A. Specific schemes on the schedule are discussed in Section 3 of this report.

6.5 The infrastructure schedule at Appendix 3 has been developed to consider the following questions, critical to identifying eligibility for CIL funding:

- Is the infrastructure scheme required to support the growth identified in the adopted Core Strategy DPD (as CIL can only be used to help pay for infrastructure required to facilitate growth, not to address existing problems).
- What is the estimated cost to provide the infrastructure?
- Which body or department is responsible for delivery and funding of the infrastructure?
- Have timescales been identified for infrastructure delivery?

6 Infrastructure Funding Deficit

- Is there any alternative funding available? If so what is the value of available funding?
- Has an aggregate infrastructure funding deficit been identified and quantified? (This is the fundamental question as this establishes the overall need for CIL).

6.6 With these issues in mind the table has the following column titles in place:

- Infrastructure Type – schemes have been grouped into 11 categories to capture all types of infrastructure and to provide a quick means of assessing which type of infrastructure will get the most, or least funding from CIL. The 11 categories applied are; transport, highways, education, flood defences, healthcare, utilities, energy, leisure, community, green infrastructure and land remediation.
- Total Cost Estimate – this has been summarised wherever cost information is available in the evidence base. This also provides a flag for schemes considered as likely to be eligible for CIL funding but either no cost estimate is available, or it is unclear whether the cost estimate is entirely applicable for the Borough (e.g. for a County-wide or Region-wide project). In these instances the cost entry has been highlighted in the schedule to flag that consultation will be required with the responsible body to produce or refine the cost estimate, or to note that additional cost estimation work will be required to enable a robust aggregate infrastructure funding deficit to be established.
- Available Funding Sources – this summarises any identified funding sources (as described in the background documents) but does not imply funding has already been secured or confirmed. It also includes some likely future funding sources.
- Available Funding (£ and %) – this summarises the amount of funding available from existing and likely future sources.
- Funding Gap (£ and %) – where information is available this summarises the gap between estimated scheme cost and available funding. The total at the foot of this column represents the aggregate infrastructure funding deficit that CIL will be expected to fund.
- Evidence Base – a note of which evidence base document(s) the infrastructure requirement has been taken from. A supplementary list has also been provided to reference document page numbers, to make it easier to find more detail of the evidence.
- Is the Infrastructure required to Support Growth? – summarises our findings of whether the available evidence base demonstrates that each infrastructure scheme is required (in whole or part) to support planned growth. Where there is insufficient evidence to confirm a response this cell has been highlighted on the schedule.
- Delivery responsibility – summarise which organisation is responsible for the delivery of each infrastructure scheme (taken from the information available in the evidence base) and provides a rough guide on where to obtain further information.

6 Infrastructure Funding Deficit

- Timescales/Priority for Delivery – has been shown wherever the evidence base documents have indicated a delivery period/date. This information will help to determine when schemes are required within the Borough to facilitate growth. Cells in the schedule have been highlighted to flag where no timescale information is currently available in the evidence base.
- Comments – this column provides an overall summary comment on each scheme and has been highlighted using the ‘traffic light’ system described at the beginning of this section.

6.7 Infrastructure Projects have been assessed against a range of criteria and a ‘traffic light’ system used to summarise the findings, where:

Green – means the scheme is eligible for CIL funding based on the available evidence

Amber – anticipated to be eligible for CIL funding, subject to further information to confirm this

Red – not considered to be eligible for CIL funding (normally because it seeks to address an existing issue and is not required to support planned growth).

6.8 At this stage a total of 104 infrastructure schemes have been identified by WBC and their partners for potential CIL funding. The breakdown of these is summarised below and discussed in more detail later in this section

:

Green – 2 schemes

Amber – 70 schemes

Red – 32 schemes

Total = 104 schemes

6.9 The current infrastructure summary schedule is presented in Appendix 3. This section of the report provides a brief commentary on the individual infrastructure schemes and how ‘CIL ready’ they are, based on the information available in the existing evidence base. This Section has been ordered by the ‘traffic light’ system described in the Executive Summary at the start of this report, to explain which schemes are considered eligible for CIL funding, which schemes may be eligible and which schemes are unlikely to be eligible for CIL, with rationale provided to explain how each scheme has been categorised.

GREEN SCHEMES

6.10 There are 2 schemes on the draft list which are deemed to be suitable for CIL funding, in both cases this is subject to minor levels of additional information being provided. The first scheme is the behaviour change programme (transport). This is a programme developed by WSCC and partners to encourage less reliance on private car use and enhancements to accessibility through more sustainable transport. As future growth will undoubtedly increase the need to travel, this is a project which is likely to be eligible for CIL funding in the future. No funding gap has been confirmed but an assumption of 50% to be provided through existing/likely sources such as the Local Transport Plan and 50% from CIL has been made in the infrastructure schedule.

6 Infrastructure Funding Deficit

6.11 The other scheme is new healthcare facilities to support development. Sussex Primary Care Trust, who for the Worthing area from April 2013 will be known as the Coastal West Sussex Clinical Commissioning Group, have provided an evidenced sum for contributions towards new healthcare facilities from future development. A preliminary figure of £1,408,905 from CIL would be required for Worthing based upon the anticipated level of development.

AMBER SCHEMES

6.12 The majority of schemes (70) on the draft list fall within this category. The evidence provided has demonstrated that all or some of the infrastructure cost for these schemes could be eligible for future CIL funding, however more robust information is required to confirm this.

6.13 In particular, the following evidence is currently unavailable for many schemes:

- No scheme cost estimate;
- Existing funding source identified, but level of investment or timescale for contribution to infrastructure not confirmed;
- If either of the above items are missing the funding gap for CIL cannot be shown;
- Existing evidence base has not been supplied or is not clear as to how the scheme could relate to assisting future growth in Worthing;
- The scheme appears to be for the whole of West Sussex – should a proportion of the estimated costs be attributed to Worthing only and if so how is this to be calculated?;
- No timescale has been provided for when the infrastructure is required.

RED SCHEMES

6.14 There are 32 schemes provided in the evidence documents which have been deemed unsuitable or not relevant for CIL funding. The rationale for this is either because they are schemes required to alleviate existing issues, full funding is already available, or because they will be delivered as part of a development anyway.

FUNDING GAP

6.15 The current version of the infrastructure summary schedule (Appendix 3) has total scheme costs of circa £135m. However, there are a number of issues with this figure, as identified above, namely some schemes having no cost estimate at all, with others being scheme estimates for West Sussex as a whole and therefore unlikely to be the correct figure to be used for the Worthing Borough area only.

6 Infrastructure Funding Deficit

6.16 The current aggregate infrastructure funding deficit stands at circa £20m. However, this figure only represents two infrastructure projects as funding gaps cannot be confirmed for all the other schemes on the list due to currently unavailable information. It is therefore important that the infrastructure providers and relevant stakeholders are consulted to seek to provide the missing information, or additional cost estimation work is commissioned, to enable a robust aggregate infrastructure funding deficit to be demonstrated as the CIL system progresses to Submission.

6.17 The Table below summarises the 104 projects listed in the schedule and classifies them by infrastructure type and our conclusions as to how 'CIL ready' they are based upon the existing evidence base.

Type of Scheme	Number of Schemes	Schemes Classed as 'Green'	Schemes Classed as 'Amber'	Schemes Classed as 'Red'
Transport	13	1	10	2
Highways	32	0	30	2
Education	7	0	7	0
Flood Defence	1	0	1	0
Healthcare	1	1	0	0
Utilities	1	0	1	0
Energy	1	0	1	0
Sport & Leisure	10	0	4	6
Community	20	0	10	10
Green Infrastructure	17	0	5	12
Housing	1	0	1	0
Total	104	2	70	32

6.18 Additional Infrastructure planning work is being undertaken to determine which of the currently identified Amber schemes can reasonably be included in the Infrastructure Funding Deficit and to identify any further infrastructure required to support growth that CIL may be justified on funding. At this stage it is considered there is sufficient evidence of a potential Infrastructure Funding Deficit to progress publication of a Preliminary Draft Charging Schedule to demonstrate potential CIL rates based on a viability assessment. It is acknowledged that additional evidence will be required to support the Infrastructure Funding Deficit at Submission and Examination stage.

7 CIL Revenue Projection

Residential Unit Projections

7.1 For the plan period 2012- 2026, the total Housing requirement is 2,664 (-700 dwellings at West Durrington). Of the balance of 2,000 dwellings, there is likely to be 2 years of delivery until CIL is in place giving a further balance of 1,700. It is estimated that approximately 20% of Worthing's housing delivery comes through changes of use and redevelopment of existing buildings (which are likely to be exempt from a CIL charge by virtue of the relief for re-use/demolition of existing floorspace). This indicates an adjusted net figure of 1,360 dwellings.

7.2 Affordable housing is exempt from CIL, though it is not considered appropriate to apply the 30% requirement in full as some of the schemes already discounted above and developments of 5 or less units would not deliver affordable housing. Therefore, it is considered that a further discount of 15% should be applied giving a net figure of dwellings likely to qualify for a CIL charge of 1,156 between 2014 and 2026.

7.3 In order to estimate residential CIL revenue over the relevant part of the plan period the recommended CIL rate is applied to an average dwelling size of 90 sqm, as illustrated in the following table. The projected revenue is based on current rates and does not allow for indexation.

Charging Zone	Residential CIL rate	Av Dwelling Size (sqm)	Eligible Dwellings 2014-2026	CIL Revenue
1 Boroughwide	£100	90sqm	1156	£10,404,300

Retail Unit Projections

7.6 Retail floorspace predictions are difficult to estimate in Worthing as much will depend on the ability to bring forward key sites – particularly the opportunity to deliver a new retail heart at Union Place which could potentially deliver 34,000sqm of new retail floorspace.

7.7 For the purposes of this assessment the retail capacity forecasts are used from the 2010 retail study which informed the Core Strategy (based on Scenario 1 figures representing no change in market share as a consequence of new developments) as follows.

Convenience Goods: 7,250sqm

Comparison Goods: 50,850sqm

Total 2010 to 2026 = 58,100sqm

7 CIL Revenue Projection

7.8 It is assumed that some delivery will take place prior to CIL adoption. Based on a pro-rata rate applied to the Plan period when CIL is likely to be in place (2014-2026) the floorspace figure has been adjusted to 43,575sqm. It is assumed that most floorspace will be delivered from new build floorspace with no significant exemption for redevelopment floorspace.

Industrial Unit Projections

7.9 The Core Strategy includes a target of 780,000 sq ft of industrial and warehousing floorspace up to 2026. It is acknowledged that approximately 600,000 sq ft of this demand is likely to be met through the renewal of poorer quality and derelict premises on existing industrial estates (therefore the bulk of this is likely to be subject to CIL Relief). It is considered that for the purpose of revenue projection 14,000sqm of industrial floorspace is likely to be subject to CIL charges over the plan period.

Charging Zone	Category	CIL Rate	Eligible Floorspace	CIL Revenue
Boroughwide	Industrial	£30sqm	14000	£420,000
Boroughwide	Retail	£150sqm	43575	£6,536,250
			Total	£6,956,250

8 Conclusions & CIL Rates

Key Findings - Residential Development

8.1 The residential viability testing illustrated that, in general terms, most forms of residential development in all locations in Worthing are viable and can accommodate CIL charges, having factored in the Council's Affordable Housing targets.

8.2 The testing showed that high rise apartment blocks are not generally viable in current market circumstances and that low rise apartments are not viable in the low value sub market areas. The results reflect the differential between the relatively high build cost assumption for the high rise apartments compared to the assessed sale value. It should be stressed that the median assumptions used reflect a general overview and do not mean that all rise apartments are unviable in Worthing. There will be significant variations dependent on specification, construction methods and associated build cost and indeed sales rates which will make some forms of high rise apartments viable.

8.3 The executive housing appraisals demonstrated very significant potential for CIL (£116 -£526 per sqm dependent on the land value benchmark). These results should, however, recognise that no affordable housing provision was applied and do not therefore give a general overview of residential viability.

8.4 The general housing scenarios, where full affordable housing targets were applied, illustrated that maximum CIL rates of £39-£96 could be achieved in the low value areas; £41-£310 in the medium value areas and £78-£427 in the high value areas. The results demonstrate that most brownfield and greenfield development is viable and can stand CIL in all zones but that CIL may threaten the viability of some forms of residential development on recycled urban land.

Key Findings - Commercial Development

8.5 The valuation study concluded that any variations in the value of commercial locations in the Borough are not significant enough to warrant a differential charging zone approach to commercial CIL rates.

8.6 The viability appraisals also illustrated that most forms of categories of commercial development are not viable in current market circumstances in Worthing, which is evident by the lack of activity in these sectors.

8.7 Industrial, food supermarket retail and general retail were all assessed to be viable and capable of accommodating CIL in both greenfield and brownfield development. The industrial appraisals indicate potential CIL rates of £55-£95 per sqm. Industrial development is often undertaken direct by occupiers where the developers profit allowance in the appraisals may be set aside. In these circumstances development may be capable of accommodating significantly higher levels of CIL. Food supermarket retail indicated potential rates of £681-£744 per sqm and general retail of £865-£927 per sqm.

8 Conclusions & CIL Rates

8.8 We would recommend some caution in respect of retail rates. Whilst the study has made a reasoned assessment of land values, transactional evidence is low due to lack of activity in the sector. As specific retail projects emerge it is likely that landowners will expect significant premiums in order to release sites, which may reduce viability levels significantly and this should be taken into consideration in rate setting.

General Conclusions

8.9 It is acknowledged that the variations in residential value could potentially justify a differential zone approach to setting residential CIL rates. However, in a tightly constrained primarily urban area like Worthing, specific Charging Zone boundaries will always be difficult to justify. There will always be anomalies within the 'ward' test areas and specific zoning of differential value zones in such close proximity may be difficult to justify taking account of the 'area base overview approach' recommended by the CIL Charging Setting and Charging Schedule Procedures.

8.10 Taking account of the development strategy in Worthing where the majority of development is likely to emerge in the medium and high value sub-market areas it is considered that a single CIL rate of £100 per sqm would be appropriate for residential development. It is acknowledged that a £100 CIL rate could potentially threaten the viability of some residential development in the low value sub-market area.

8.11 The CIL Charge Setting and Charging Schedule Procedures advise that :-

"Charging authorities should use an area-based approach, which involves a broad test of viability across their area as the evidence base to underpin their charge. Charging authorities should take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk. It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure, and the potential implications for the economic viability of development across their area".

8.12 In the context of this guidance, the viability assessment assumes that 30% Affordable Housing will be delivered prior to the imposition of the Community Infrastructure Levy. It should be recognised that the 30% Affordable Housing rate represents a target that may be varied subject to viability considerations. In circumstances where a £100 CIL could potentially threaten the viability of residential development (eg in the low value sub-market area) then consideration may need to be given to reducing Affordable Housing requirements for specific developments. This can be properly assessed at planning application stage by employing site specific viability appraisal.

8.13 It is important to recognise that Policy Requirements for developer contributions generally represent targets which are normally subject to further viability appraisal at planning application stage. Conversely, CIL will be a fixed levy which will not be subject to further viability appraisal at planning application stage and which should therefore be seen as the 'first slice' of contribution with affordable housing and planning obligation contributions topping up subject to viability

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considerations. Nevertheless, it should be made clear that the CIL viability assessments have factored in Worthing Council's policy on Affordable Housing provision. The alternative viability testing undertaken with no allowance for Affordable Housing (see Viability Testing Results at Section 5) illustrates that the low value sub-market area has potential to accommodate CIL rates of £158-£206 on brownfield housing sites and £228-£271 on Greenfield sites (having discounted apartment development). As such it is considered that a CIL rate of £100 per sqm would not threaten the viability of residential development as a whole in Worthing as competing contributions can be adjusted if necessary at planning application stage.

8.14 It should be recognised that the CIL Rates that have emerged from the study are maximum potential rates, based on optimum development conditions. The viability tests are necessarily generic and do not factor in site specific abnormal costs that may be encountered on many development sites. The tests produce maximum contributions for infrastructure and therefore ultimate CIL charges may need to allow for additional planning obligation contributions for site specific infrastructure.

8.15 The results in each test area reflect different benchmark land value scenarios. The first result assumes greenfield development which generally represents the highest uplift in value from current use and therefore will produce the highest potential CIL Rate. The second result assumes that development will emerge from low value brownfield land. The third result assumes development will occur on recycled brownfield sites in similar value use with little or no uplift in land value – the worst case CIL position. It is acknowledged that the majority of development in an essentially urban environment like Worthing is likely to emerge from brownfield development sites and CIL rates should be set accordingly.

8.16 Finally the development strategy in Worthing envisages that 75% of new residential development is likely to emerge in the medium and high value sub-market areas of the Borough and therefore CIL rates which could potentially threaten the viability of some development in the lower value sub-market areas would be unlikely to threaten the delivery of residential development as a whole over the plan period.

Recommended CIL Rates

8.17 Taking account of the difficulties in justifying charging zone boundaries in a constrained urban area, it is considered that a single residential rate would be appropriate in Worthing at a level that reflects overall viability across the identified sub-markets. Taking account of the viability results, the generic nature of the tests and acknowledging that much of the new development in Worthing is likely to emerge on brownfield sites we would recommend the following residential CIL rate:-

Boroughwide Residential	£100sqm
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8.18 It is similarly recommended that a single zone approach is taken to setting commercial CIL rates. It is considered that industrial development will be capable of accommodating a CIL rate of £30 per sqm without threatening viability. The differential between food supermarket and general retail viability is not considered significant and therefore a single CIL rate is recommended for all forms of retail development. Taking account of the factors expressed above in para 7.7 a retail CIL rate of £150 per sqm recommended. We recommend that all remaining categories of development (eg offices, leisure, community, education, institutional etc) be zero rated.

Industrial (B1b,B1c,B2,B8)	£30sqm
Retail (A1-A5)	£150sqm

8.19 Based on the above rates it is estimated that, based on development projections in each chargeable category, the following CIL revenues could be raised over the plan period to

Residential	£10,404,300
Industrial	£420,000
Retail	£6,536,250
Total	£17,360,000

8.20 The total projected CIL revenue of £17.4 Million does not exceed the currently identified Infrastructure Funding Deficit of £20 Million (which is likely to increase as further infrastructure assessment is completed) and it is therefore considered that the proposed CIL rates strike the appropriate balance between funding infrastructure and maintaining the economic viability of development as required by the CIL Regulations.

Valuation Study

Construction Cost Study

Infrastructure Schedule