

1. Response to Warwick District Council Preliminary Draft Charging Schedule, June 2013 on behalf of The King Henry VIII Endowed Trust

1.1 Introduction

AMEC, on behalf of The King Henry VIII Endowed Trust (hereafter referred to as The Trust) welcomes the opportunity to comment on Warwick District Council's (WDC's) Preliminary Draft Charging Schedule (June 2013). The Trust has a number of landholdings in the District.

The Trust's response to the document is set out below under the relevant headings used in the consultation document itself.

1.2 Infrastructure Needs and Delivery

1.2.1 Infrastructure Delivery Plan (IDP)

At paragraph 1.10, the consultation document states that "...*The following sections outline how the Council has set what it considers to be an appropriate rate of CIL in light of the available evidence on infrastructure (needs, costs and available funding) and viability*". The document then goes on to state at Paragraph 2.3 that "*Not all infrastructure requirements have been costed at this time*". It is clear from looking at the evidence base and the consultation document that the Council has limited information, much of which is based on a different development strategy and one which sets out a different level of growth to that currently proposed and will have different infrastructure requirements.

Paragraph 2.2 of the consultation document refers to the Infrastructure Delivery Plan (IDP) that will accompany the Local Plan and that will identify new and improved infrastructure that is considered to be required to mitigate the proposed level of new development. A draft IDP was consulted on by WDC in May 2012.

The Draft Charging Schedule also states at paragraph 2.2 that '*Much of the proposed infrastructure is included within the Revised Development Strategy document*'. There is, however, infrastructure referred to in the draft IDP that does not form part of the Revised Development Strategy (RDS). For example, the draft IDP refers to a proposed Leamington Northern Relief Road (LNRR), a particular expensive piece of infrastructure which, if carried forward to inform the Draft Charging Schedule, undermines the basis and robustness of the Schedule.

It is important that the final IDP is updated to reflect the content of the RDS, and indeed the final strategy that is taken forward. The IDP forms the evidence basis for setting the CIL charge. If the IDP includes infrastructure that is not now proposed to be taken forward, then clearly the cost of this infrastructure should not be included in the figures that the CIL charge is calculated from. This is clearly set out in paragraph 13 of the DCLG Community Infrastructure Levy Guidance (April 2013) (hereafter referred to as the DCLG Guidance) which states that:

“Information on the charging authority area’s infrastructure needs should be directly related to the infrastructure assessment that underpins their relevant Plan, as that planning identifies the quantum and type of infrastructure required to realise their local development and growth needs.”

The draft IDP states at paragraph 1.2 that *‘further work still needs to be done’*, specifically stating that the infrastructure proposals need to be costed more accurately and tested for viability. The draft IDP further states that some aspects of the infrastructure proposals will need further work to be carried out once the scale and location of development has been more securely established. Given these circumstances, we question how the Draft Charging Schedule can be consulted on at this stage without an up to date IDP, and with an IDP that does not reflect the scale and location of development now proposed to be taken forward. By consulting on the Draft Charging Schedule prior to a final list of projects that CIL could be spent on also risks overlap between S106 and CIL contributions, particularly as WDC does not currently have clear policy guidance on S106 requirements.

1.2.2 Funding Gap

Paragraph 14 (1) (a) of the Community Infrastructure Levy Regulations 2010 states that:

“In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between -

- (a) The desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, **taking into account other actual and expected sources of funding...** (Author’s emphasis)*

The Trust has concerns that a thorough Funding Gap Analysis has not been undertaken by WDC. The DCLG Guidance states at Paragraph 14 that:

“...The focus should be on providing evidence of an aggregate funding gap that demonstrates the need to levy the Community Infrastructure Levy.”

Paragraph 2.4 of the consultation document refers to how the funding gap will be established and the evidence used in the assessment. Clearly this assessment should have been undertaken to inform the draft CIL charge. This evidence should be made publicly available and a Funding Gap Analysis published so that there is transparency.

1.2.3 Viability

The Trust broadly welcomes the fact that the Viability Study (Final Report June 2013, BNP Paribas Real Estate) is based on current market conditions and that it has considered a range of different scenarios including strategic sites. The assessment takes into account the higher allowances for strategic sites in relation to Section 278 and Residual S106 charges and higher on site infrastructure costs. We broadly consider that this approach is appropriate, although more detailed comments are set out below.

The Trust is supportive of WDC's intention to review the levels of CIL in response to future changes in the market.

It is noted that the CIL rates are based on the assumption of 40% affordable housing on all sites over 10 units. Although sensitivity analysis has been undertaken for affordable housing levels at 30%, 20% and 10%, we would question how realistic the 40% affordable housing assumption is. The Council's own Affordable Housing Viability Assessment (DTZ, November 2011), which considers the viability of different levels of affordable housing for different sites/market areas, concludes that for urban extensions where 50% or more of the sites are viable, at a mid market position, only 30% affordable would be viable on some urban extension sites. Furthermore, under an assumed baseline market position DTZ note that affordable housing levels would need to be 0% for schemes to be viable; only under an improved market position does it increase to 40%. It is therefore perhaps surprising that the BNP Paribas Viability Study results indicate that 40% affordable housing, coupled with a CIL charge, is now viable on proposed urban extension sites within the District.

The value bands for market housing assumed are £2,307 per square metre in Warwick and £2,981 per square metre in Leamington. These appear to be reasonable assumptions, and we broadly agree with the approach taken to include sensitivity testing to reduce these by 5% should the market drop in the short term. However, it is also considered that further sensitivity testing should be undertaken to reduce sales rates further.

The Trust has recently obtained local market advice on house prices in the Warwick area. This market advice indicates that if the market returned to previous levels of supply (i.e. levels before 2007) then prices in the area could fall by around 5%. Furthermore, the significant scale of proposed housing in the RDS, around 4,000 new homes to the south of Leamington/Warwick, could also see prices drop by a further 5%. This reduction is essentially on account of the increased supply and choice in the area, particularly as a number of the proposed developments in this area could start to come forward at the same time. This will further deflate the market. This will certainly have viability implications for the strategic sites, and possibly for other sites if the wider Warwick/Leamington market is affected by the increase in supply. The viability study does not appear to have factored this in, and it assumes that development will be spread more evenly throughout the District and around Warwick/Leamington.

Build costs at around £810 per sq.m for houses with an additional £149 for external works and other costs are considered to be too low. It is noted that around 6% of base costs is allowed for Code for Sustainable Homes Level 4. It is not clear if this is included in the build costs or if this is in addition to the build costs. This should be in addition to the build costs. It is also not clear whether or not any allowance has been made for zero carbon which could impact on larger developments that will be constructed over a number of years. It is also not clear if the 6% for Code Level 4 makes any allowance for building to Lifetime Homes standards. These should be factored into the viability study.

A developer return of 20% of Gross Development Value (GDV) has been assumed for market houses and 6% for affordable houses. 20% is considered to be too low in the current housing market, and 25% is considered to be more reasonable. The principle of sensitivity testing to reflect differing market conditions is supported.

Whilst we recognise that not all scenarios and sites can be considered as part of the viability study, we have concerns about the strategic sites that have been tested and their relationship to the Revised Development Strategy (June 2013). Five strategic sites have been tested as follows:

- Land at Grove Farm, extension to Leamington (664 units);
- Land at Blackdown, extension to Leamington (1,165 units);
- Gallows Hill/Europa Way, extension to Warwick (377 units);
- Southcrest Farm, Glasshouse Lane, extension to Kenilworth (319 units); and
- Lodge Farm, Westwood Heath, extension to Coventry (324 units)

Of the above, land at Blackdown, to the north of Leamington is not included in the Revised Development Strategy as a development site. This site would likely have a much higher value than sites to the south of Leamington and Warwick. Therefore it is not appropriate that this site is included in the results.

Given the overall scale of development proposed in south Warwick/Leamington (around 4,000 units) in comparison with the rest of Warwick District, it would seem logical to test more than two strategic sites (one of which is a relatively small strategic site) in this particular area.

1.2.4 Proposed CIL Charging Rates

WDC has accepted the recommendation from the Viability Study that there should be a separate charging rate for different geographical zones, including a separate zone for strategic sites. This is supported, as is WDC's decision to select the rate at the lowest end of the recommended range of rates for strategic sites, for example £90 for strategic residential sites in Zone B, as opposed to the Viability Study recommendation of between £90 and £110.

The reference to production of an instalments policy is welcomed by the Trust as the timing of payment of CIL charges will have a significant impact on developer's cashflow.

1.3 Conclusions and Recommendation

The Trust supports the concept of CIL in principle, but it has a number of concerns about the timing of the District Council producing a Draft Charging Schedule in advance of having a robust evidence base in place. At present the Charging Schedule is based on incomplete evidence, historic assumptions and associated anticipated infrastructure requirements.

With regard to the viability study, the Trust has the following concerns:

- Whilst sensitivity testing has been undertaken at lower levels of affordable housing, the assumption of 40% affordable across all sites is not considered to be realistic, and also seems to contradict the Council's own previous evidence on viability.

- The sensitivity testing to reduce house prices by 5% is not considered to be enough, based on local market advice that the Trust has received. This advice suggests that prices could drop further if supply increases to pre 2007 levels and still further due to the significant proposed supply of new housing coming forward in one area over a relatively short time frame. Sensitivity testing should have also included a 10% and 15% reduction in prices, even if only in relation to the Strategic sites to which such reductions are more applicable.
- We would question whether any allowances have been made for the costs associated with achieving zero carbon which will affect strategic sites that are developed out over a number of years.
- The strategic sites that have been tested do not reflect the Revised Development Strategy, as a site to the north of Leamington which will achieve much higher values has been included, but is not included in the development strategy. More strategic sites to the south of Warwick/Leamington should have been tested to reflect the focus of the development strategy which proposes around 4,000 houses in this area.

The King Henry VIII Endowed Trust therefore considers that the Draft Charging Schedule should therefore not be taken further until a robust evidence base is in place to support it.

