ROGER TYM & PARTNERS
Planners and Development Economists
Part of Peter Brett Associates LLP

Roger Tym & Partners
Oxford Place, 61 Oxford Street
Manchester
M1 6EQ

t: 0161 245 8900
f: 0161 245 8901
e: manchester@tymconsult.com
w: www.tymconsult.com

RYEDALE
DISTRICT
COUNCIL

Ryedale Community Infrastructure Levy Viability Assessment

Final Report August 2013

27711-002

CONTENTS

EXECUTIVE SUMMMARY

1. To meet legal requirements and satisfy the independent examiner, a CIL charging schedule should:

> *'Aim to strike what appears to the charging authority to be an appropriate balance between the need to fund infrastructure and the impact of CIL'*; and *'Not put at serious risk the overall development of the area'*.

2. In terms of infrastructure evidence, charging authorities must identify the total cost of infrastructure that it desires to fund in whole or in part from the levy. In order to do this, the charging authority must use the 'appropriate available evidence'[1] to consider:

   - what additional infrastructure is needed in its area to support the development and growth needs set out in the Local Plan, and
   - what other funding sources are available (for example, core Government funding for infrastructure, which will continue following the introduction of a levy; anticipated section 106 agreements; and anticipated necessary highway improvement schemes funded by anyone other than the charging authority)

3. The total infrastructure requirements in Ryedale to date are estimated at just under £64m. This funding gap is significantly larger than the projected revenues from CIL over the plan period of £14.6m

4. As explained in official guidance, CIL may reduce development by making certain schemes unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.

5. Regulation, legislation and guidance also advise that:

   - Charging Authorities (CAs) should avoid setting charges up to the margin of viability for the bulk of sites;
   - CIL charging rates may vary across geographical zones and land uses. But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying infrastructure costs; it should not introduce undue complexity; and it should have regard to State Aid rules.
   - Charging rates should be informed by 'appropriate available evidence', which need not be 'fully comprehensive or exhaustive';
   - While charging rates should be consistent with the evidence, they are not required to 'mirror' the evidence[2]. In this and other ways, CAs have significant discretion in setting charging rates.

[1] DCLG (April 2013) CIL Guidance para 12.

[2] Planning Act 2008 (Section 212 (4) (b))

6. In our analysis and recommendations below, we aim both to meet these legal requirements and to maximise achievement of the council's own priorities, using the discretion that the legislation and guidance allows.

7.

8. Our approach to assessing the viability of development can be summarised as follows:

Net development value *Minus* **Reasonable land acquisition costs** *Minus* **Total development costs** *Equals* **Residual developer's margin** (Determines ability to pay for a CIL)

9. Separate assessments of the viability of residential and non-residential development in Ryedale have been undertaken, using different models that take account of the key characteristics of each.

10. Our assessments sought initially to establish the maximum potential charge rates (consistent with maintaining viability) in a number of difference residential scenarios. As mentioned above, it is then a decision for the CA as to how far from this theoretical ceiling it wishes to set the charge. In the scenarios modelled, the maximum potential charge rates range between £91 - £217 per sq. m.

11. Clearly, there is a need to draw down from the theoretical maxima in proposing actual charge rates in order to ensure that the majority of planned growth will remain viable in the context of any CIL charges. Our approach is to draw down by between 25-50% from the lowest common denominator of the theoretical maxima in order to achieve and appropriate balance between the need to fund the infrastructure required to enable growth, and the need to maintain the viability of development in Ryedale.

12. In respect of non-residential development, a number of development types were assessed using a simple high-level model to reveal the surplus/residual profit or deficit after all development costs (including the developer's margin) have been taken into account. The following types of development were assessed:

- Town centre office
- Business park office
- Industrial and warehousing
- Town centre comparison retail
- Retail warehousing
- Convenience retail

13. Again, where development types were found to be viable, we sought to establish the maximum potential charge rates, consistent with development remaining viable. Where the assessment showed a deficit, no maximum charge rate is identified. Our findings are as follows:

- Town centre offices – £0
- Business park offices – £0
- Industrial/warehouse – £0
- Retail in the defined town centres – £0
- Retail Warehousing - £93
- Supermarkets - £167

14. The viability of other, less common uses and forms of development has also been considered in order to inform the proposed charging schedule set out below.

15. As discussed above, it is at the discretion of the CA to determine how far below this theoretical maximum any charges should be set. The charges set out below reflect the viability evidence and comply with the CIL regulations in every respect, as we understand them. We believe that it is exactly this kind of clarity and simplicity that is being and will be sought by inspectors.

Proposed Charging Schedule

Use	**Proposed CIL charge (per sq. m)**
Private market houses:	
Lower Value Zones	£55
All Other Zones	£70
Supermarkets	£120
Retail Warehouses	£60
Public/Institutional Facilities as follows: education, health, community and emergency services	£0
All other chargeable development	£0

1 INTRODUCTION

1.1 Roger Tym & Partners was commissioned by Ryedale District Council (hereafter referred to as 'the council') to provide specialist services for the development and preparation of a Community Infrastructure Levy (CIL) Viability Assessment.

1.2 This study is structured in the following way.

- In Section 2 we set out the legal requirements that a CIL Charging Schedule must comply with. This work informs the rest of the report.
- Section 3 examines the planning and development context in order to ensure that CIL supports development. This work has important implications for the structure of the Charging Schedule.
- Section 4 sets out the approach taken in the assessment of infrastructure requirements that will be used to determine the CIL infrastructure funding target.
- Sections 5 to 9 look at the viability of different kinds of development in different parts of Ryedale.
- Section 10 sets out analysis of the charge rate options.
- Section 11 then takes this analysis, summarises it, and translates these assessments into recommendations for a Preliminary Draft CIL Charging Schedule (PDCS) and makes some very broad projections of revenue arising from the CIL charge.
- Section 12 details how the CIL Charging Schedule, if adopted by the council, can be implemented taking into account exceptional circumstances, discretionary relief, instalment policy, administration charges, monitoring and review.

1.3 For the purposes of CIL, the 'Charging Authority' will generally be the planning authority. In that case, this report, and any CIL that is introduced for Ryedale, will cover the area within Ryedale District's planning authority jurisdiction. It therefore excludes the North York Moors National Park area, where the National Park Authority is the planning authority. Worth adding that although Helmsley is split by this boundary, we are working jointly with NYMNP to ensure that inf needs of Helmsley are considered together through the emerging Helmsley Plan.

2 LEGAL REQUIREMENTS

Introduction

2.1 The Community Infrastructure Levy (CIL) is a new planning charge that came into force on 6 April 2010. The levy allows local authorities in England and Wales to raise contributions from developers to help pay for infrastructure that is needed as a result of development. Local authorities who wish to charge the levy must produce a draft charging schedule setting out CIL rates for their areas – which are to be expressed as pounds (£) per square metre, as CIL will be levied on the gross internal floorspace of the net additional liable development. Before it is approved by the Council, the draft schedule has to be approved by an independent examiner.

2.2 The requirements which a CIL charging schedule has to meet are set out in:

- The Planning Act 2008 as amended by the Localism Act 2011
- The CIL Regulations 2010[3],as amended in 2011[4]and 2012[5]
- The CIL Guidance issued under S221 of the Planning Act 2008, which is statutory guidance, i.e. it has the force of law and the authority must have regard to the guidance[6].

2.3 To help charging authorities meet these requirements, the government has also produced non-statutory information documents, comprising:

- CIL overview documents; and[7]
- Documents on CIL relief and on collection and enforcement[8].

2.4 Below, we summarise the key points from these various documents.

Finding the balance

2.5 Regulation 14 requires that a charging authority '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… cost of infrastructure required to support the development of its area… and

b) The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

---

[3] http://www.legislation.gov.uk/ukdsi/2010/9780111492390/pdfs/ukdsi_9780111492390_en.pdf

[4] http://www.legislation.gov.uk/ukdsi/2011/9780111506301/pdfs/ukdsi_9780111506301_en.pdf

[5] http://www.legislation.gov.uk/uksi/2012/2975/pdfs/uksi_20122975_en.pdf

[6] DCLG (April 2013) *Community Infrastructure Levy Guidance* *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/36743/Community_Infrastructure_Levy_guidance_Final.pdf*

[7] http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf

[8] http://www.communities.gov.uk/documents/planningandbuilding/pdf/19021101.pdf; http://www.communities.gov.uk/documents/planningandbuilding/pdf/1995794.pdf

2.6 By itself, this statement is not easy to interpret. The statutory guidance explains its meaning. This explanation is important and worth quoting at length:

'By providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area. In deciding the rate(s) of the levy for inclusion in its draft charging schedule, a key consideration is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing the levy upon development across their area. The Community Infrastructure Levy regulations place this balance of considerations at the centre of the charge-setting process. In meeting the requirements of regulation 14(1), charging authorities should show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant Plan and support the development of their area. As set out in the National Planning Policy Framework in England, the ability to develop viably the sites and the scale of development identified in the Local Plan should not be threatened'.[9]

2.7 In other words, the 'appropriate balance' is the level of CIL which maximises the quantum of development in the area. If the CIL charging rate is above this appropriate level, there will be less development than there could be, because CIL will make too many potential developments unviable. Conversely, if the charging rates are below the appropriate level, development will also be less than it could be, because it will be constrained by insufficient infrastructure.

2.8 The above quote from the statutory Guidance sets the development of the area firmly in the context of delivering the Local Plan. This is linked to the plan viability requirements of the NPPF, particularly paragraphs 173 and 174. This point is given emphasis throughout the Guidance. For example, in guiding examiners, the Guidance makes it clear that the independent examiner should establish that:

'…..evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole.''[10]

2.9 Common sense suggests that an appropriate balance is not easy to find, and must be a matter of judgment as much as rigorous calculation. It is not surprising, therefore, that charging authorities are allowed discretion in this matter. This is set out in the legislation and guidance. For example, Regulation 14 requires that in setting levy rates, the Charging Authority:

'must aim to strike what appears to the charging authority to be an appropriate balance…'

and the statutory guidance says

'The legislation… requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed levy rate (or rates)

[9] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 8)
[10] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 9)

should be reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism.'[11]

2.10 Regulation 14 effectively recognises that the introduction of CIL may put some potential development sites at risk. The focus is on seeking to ensure development envisaged by the Local Plan can be delivered. Accordingly, when considering evidence the guidance requires that charging authorities should '*use an area based approach, which involves a broad test of viability across their area*', supplemented by sampling '*…an appropriate range of sites across its area…*' with the focus '*...in particular on strategic sites on which the relevant Plan relies…..*'[12]

2.11 This reinforces the message that charging rates do not need to be so low that CIL does not make any individual development schemes unviable. The levy may put some schemes at risk in this way, so long as, in aiming to strike an appropriate balance overall it avoids threatening the ability to develop viably the sites and scale of development identified in the Local Plan.

Keeping clear of the ceiling

2.12 The guidance advises that CIL rates should not be set at the very margin of viability, partly in order that they may remain robust over time as circumstances change:

'*Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should show, using appropriate available evidence, including existing published data, that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole at the time of charge setting and throughout the economic cycle.'*[13]

2.13 We would add two further reasons for a cautious approach to rate-setting, which stops short of the margin of viability:

i Values and costs vary widely between individual sites and over time, in ways that cannot be fully captured by the viability calculations in the CIL evidence base.

ii A charge that aims to extract the absolute maximum would be strenuously opposed by landowners and developers, which would make CIL difficult to implement and put the overall development of the area at serious risk.

Varying the charge

2.14 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by use of buildings, or both. (It is worth noting that the phrase 'use of buildings' indicates something distinct from 'land use')[14]. As part of

---

[11] DCLG (April 2013) *Community Infrastructure Levy Guidance* (para 28)

[12] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Paras 23 and 27)

[13] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 30)

[14]. The Regulations allow differentiation by "uses of development". "Development" is specially defined for CIL to include only 'buildings', it does not have the wider 'land use' meaning from TCPA 1990, except where the reference is to development of the area, in which case it does have the wider definition. See S 209(1) of PA 2008, Reg 2(2), and Reg 6.

this, some rates may be set at zero. But variations must reflect differences in viability; they cannot be based on policy considerations. Nor should differential rates be set by reference to the costs of infrastructure.

2.15 The guidance also points out that there are benefits in keeping a single rate, because that is simpler, and charging authorities should avoid 'undue complexity'.[15]

2.16 Moreover, generally speaking, 'it would not be appropriate to seek to differentiate in ways that '*impact disproportionately on particular sectors, or specialist forms of development*'[16], otherwise the CIL may fall foul of State Aid rules.

2.17 It is worth noting, however, that the guidance is clear that '*In some cases, charging authorities could treat a major strategic site as a separate geographical zone where it is supported by robust evidence on economic viability*.'[17]

Supporting evidence

2.18 The legislation requires a charging authority to use 'appropriate available evidence'[18] to inform their charging schedules. The statutory guidance enlarges on this, explaining that the available data '*is unlikely to be fully comprehensive or exhaustive*'.[19]

2.19 These statements are important, because they indicate that the evidence supporting CIL charging rates should be proportionate, avoiding excessive detail. One implication of this is that we should not waste time and effort analysing types of development that will not have significant impacts, either on total CIL receipts or on the overall development of the area as set out in the Local Plan. This suggests that the viability calculations may leave aside geographical areas and types of development which are expected to see little or no development over the plan period.

Chargeable floorspace

2.20 CIL will be payable on '*most buildings that people normally use*'.[20] It will be levied on the net additional floorspace created by any given development scheme.[21]Any new build that replaces existing floorspace that has been in recent use on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old.

What the examiner will be looking for

2.21 According to statutory guidance, 'the independent examiner should check that:

- The charging authority has complied with the requirements set out in legislation

[15] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 37)
[16] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 37)
[17] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 34)
[18] Section 211 (7A) of the Planning Act 2008
[19] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para25)
[20] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 37)
[21] DCLG (Nov 2010) *Community Infrastructure Levy – An Overview* (paragraph 38)

- The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence
- The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and
- Evidence has been provided that shows the proposed rate would not threaten delivery of the relevant Plan as a whole.'[22]

Policy requirements

2.22 Above, we have dealt with legal and statutory guidance requirements which are specific to CIL. More broadly, the CIL Guidance says that charging authorities 'should consider relevant national planning policy (including the NPPF in England) when drawing up their charging schedules'. In addition, where consideration of development viability is concerned, the CIL Guidance draws specific attention to paragraphs 173 to 177 of the NPPF.

2.23 The only policy requirements which relate directly to CIL are set out at paragraph 175 of the NPPF, covering, firstly, working up CIL alongside the plan making where practical; and secondly placing control over a meaningful proportion of funds raised with neighbourhoods where development takes place. Whilst important policy considerations, these two points are outside our immediate remit in this study.

Summary

2.24 To meet legal requirements and satisfy the independent examiner, a CIL charging schedule should:

'Aim to strike what appears to the charging authority to be an appropriate balance' between the need to fund infrastructure and the impact of CIL on the economic viability of development in the area'; and

'Not threaten delivery of the relevant plan as a whole'.

2.25 As explained in statutory guidance, this means that the net effect of the levy on total development across the area should be positive. CIL may reduce development by making certain schemes which are not plan priorities unviable. Conversely, it may increase development by funding infrastructure that would not otherwise be provided, which in turn supports development that otherwise would not happen. The law requires that, in the judgment of the local authority, the net outcome of these two impacts should be positive. This judgment is at the core of the charge-setting process.

2.26 Legislation and guidance also set out that:

- Authorities should avoid setting charges up to the margin of viability for the bulk of sites;
- CIL charging rates may vary across geographical zones and building uses (and only across these two factors). But there are restrictions on this differential charging. It must be justified by differences in development viability, not by policy or by varying

[22] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 9)

infrastructure costs; it should not introduce undue complexity; and it should have regard to State Aid rules.

- Charging rates should be informed by ‘appropriate available evidence’, which need not be ‘fully comprehensive or exhaustive’;
- While charging rates should be consistent with the evidence, they are not required to ‘mirror’ the evidence[23]. In this and other ways, charging authorities have discretion in setting charging rates.

2.27 In our analysis and recommendations below, we aim both to meet these legal and statutory guidance requirements and to maximise achievement of the Council’s own priorities, using the discretion that the legislation and guidance allow.

[23] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para28)

3 PLANNING AND DEVELOPMENT CONTEXT

Introduction

3.1 To help ensure that the CIL supports the development of Ryedale in general and delivery of the council's priorities in particular, we need to understand the nature of this development and their objectives. In this section we therefore first review recent patterns of development – which provide a broad indication of what may happen in the future – and then review the objectives and proposals set out in the Council's Local Plan Strategy (LPS). This plan is now at an advanced stage following receipt of the Inspector's report following its Examination. The LPS is proposed to be adopted by the Council shortly.

3.2 At the end of this section, we look at the implications of this analysis for the charging schedule.

History

3.3 Patterns of past development provide one guide to the likely patterns of future development. Table 3.1 below analyses the amount of net residential completions over the period 2004/5 to 2012/13. The table shows a fluctuating pattern of housing delivery with some years seeing significant levels of delivery whilst others are low. The pattern shown broadly reflects the impact of the economic downturn.

Table 3.1 Ryedale Housing Completions

Year	Gross Housing Completions	Net Housing Completions
2004/5	113	94
2005/6	121	96
2006/7	202	170
2007/8	233	208
2008/9	106	100
2009/10	151	138
2010/11	173	169
2011/12	240	233
2012/13	209	208

Source: Ryedale SHLAA Update 2012 and Housing Monitoring data

3.4 Over the period 2004/5 to 2012/13 a total of 1,416 net additional dwellings were completed. Assuming an average dwelling size of 110 sq. m (informed by analysis later in the report), equates to a total residential floorspace delivered of 155,760 sq. m.

3.5 For the period covering up to the end of the proposed plan timeframe, the total number of units proposed to be delivered is a minimum[24] of 3,000 (200 per annum), which would potentially lead to an additional 330,000 sq. m of residential floorspace.

Future Development and the Local Plan Strategy

3.6 The Council's LPS sets out the vision and strategy for development across the District over the period to 2027. Essential to the delivery of an effective policy document is a clear vision which is supported by concise objectives. A clear statement taken from the council's vision reads '*Our communities will be better balanced and provided with wider choices of homes, jobs, shops and access to the services on which they depend.*' This gives a definite indication as to what is key to the delivery of the plan.

3.7 New housing and commercial development is to be focussed principally on Malton and Norton. As previously stated the plan sets out a requirement of minimum of 200 net additional dwellings per annum, of which approximately 70[25] should be affordable homes. A requirement of up to an additional 45 ha of allocated employment land is proposed in the market towns across the District.

Development Central to the Delivery of the Local Plan

3.8 A review of the Local Plan Strategy suggests that there are core development types that will be critical to the delivery of the overall aims of the plan. These types of development will deliver the overwhelming majority of growth across the district over the plan period. These will be identified as allocations through the Local Plan Sites Document and the Helmsley Plan. These key uses are discussed further below.

3.9 In this review it is important to not focus on the floorspace alone. Some developments sought in the plan might not represent a significant proportion of floorspace delivery, but might be important for the local aspirations for the communities and the local economy.

Residential development

3.10 Local Plan Strategy Policy SP 2: 'Delivery and Distribution of new housing' highlights the housing requirement and where this requirement will be distributed.. .

3.11 The majority of housing will be focussed in the principal towns of Malton and Norton with a lower proportion attributed to the smaller settlements. The breakdown is as follows:

- Malton and Norton 50%
- Pickering 25%
- Kirkbymoorside 10%
- Helmsley 5%

[24] The Council's LPS also sets out a 'zone of tolerance' of up to 25% above the annual figure of 200 to ensure that the target is met

[25] Assuming 35% affordable housing is achieved on site. However it should be noted that in higher value areas and sites under the on-site threshold for the provision of affordable housing, contributions will be sought for the provision of off-site affordable housing.

- Service villages 10%

Office and industrial development

3.12 Local Plan Strategy Policy SP 6: 'Delivery and Distribution of Employment/Industrial Land and Premises' makes provision for the development of up to 45 ha of allocated employment land over the plan period (on top of existing commitments). The policy goes on to suggest the areas where the council believe this provision should be distributed. The primary focus will be in the areas of Malton, Norton and Old Malton (80%), then Pickering (15%), with the remaining to be provided in Kirkbymoorside and Helmsley (5%).

3.13 The policy highlights the importance of developing '*sites within, adjacent to and on the outskirts of the built up areas of the Towns*' ensuring the redevelopment of existing sites.

Retail development

3.14 SP 7 'Town Centres and Retailing' highlights the retail requirements for the district. Whilst involving a relatively lower scale of development in comparison to residential and office/industrial development, it remains an important part in delivering the overall strategy.

3.15 With regards to comparison retail, it is suggested that approximately 7,700 sq. m will be needed over the life of the plan minus current commitments. 70% of this provision is directed towards Malton and Norton, 15% brought forward in Pickering, with the final 15% developed in Kirkbymoorside and Helmsley.

3.16 Malton is to be the focus of convenience retail development. There is indicatively 1,890 sq. m of convenience retail required, however this is minus current commitments.

Uses less likely to come forward

3.17 Some uses are currently considered unlikely to come forward to a substantial degree over the plan period. These do not currently merit special treatment but will be kept under review. They are as follows:

- Hostels
- Scrapyards
- Petrol filling stations
- Selling and/or displaying motor vehicles
- Nightclubs
- Launderettes
- Taxi businesses
- Amusement centres
- Casinos

Implications

3.18 We have shown above that the great majority of Local Plan Strategy development is expected to fall within a limited number of development types. These development types will create the greatest amount of new floorspace in Ryedale over the plan period, or be strategically important to the broader objectives.

3.19 The most important development types are:

- Residential
- Town centre office
- Business park office
- Industrial and warehousing
- Comparison retail
- Convenience retail

3.20 The above analysis suggests that we should focus the CIL evidence base on these types of developments, aiming to ensure that they remain broadly viable after the CIL charge is levied. As long as our viability evidence shows that these main components are deliverable, then we will pass this (central) element of the examination. However, we do *not* need to prove that *each and every* development in these categories will be deliverable: instead, we need to show that the main elements of these types of development are viable, when seen at a district-wide level.

4 INFRASTRUCTURE EVIDENCE

Introduction

4.1 The core purpose of CIL is to support the delivery of growth by ensuring the infrastructure is we provided, funded (wholly or partly) by owners or developers of land, in a way that does not make development of that area economically unviable.

4.2 The CIL guidance (2013, para 8) expands on this by stating that 'by providing additional infrastructure to support development of an area, the levy is expected to have a positive economic effect on development across an area' and benefit the local community. It is recognised from the outset that CIL cannot be expected to pay for all the infrastructure required, but it is expected to make a significant contribution.

4.3 The justification for a Community Infrastructure Levy (CIL) is based on having an infrastructure funding gap after all other known sources of funding have been taken account of. The following extract from paragraph 17 of the statutory CIL Charge Setting and Charging Procedures Guidance (April 2013) highlights this point:

'…the CIL examiner will only need to test that the (infrastructure) evidence is sufficient in order to confirm the aggregate infrastructure funding gap and total target amount that the authority proposes to raise through CIL'.

Infrastructure Definition

4.4 The 2008 Planning Act section 216 (2) provides an 'inclusive' list of types of infrastructure for the purposes of CIL calculation and spending. Infrastructure is defined to include the following:

- roads and other transport facilities;
- flood defences;
- schools and other educational facilities;
- medical facilities;
- sporting and recreational facilities; and
- open spaces

4.5 However, as this list is 'inclusive', the Act effectively gives a very broad definition of infrastructure, covering all generally understood meanings of the term and certainly those things listed.

4.6 Amendments to s216(1) of the Planning Act 2008 made by the Localism Act 2011, and consequential changes to the CIL regulations have widened the provision setting out how CIL may be spent on infrastructure. Spending can now include 'relevant revenue costs'. Amended Regulation 59[26] now states *"A charging authority must apply CIL to funding the provision, improvement, replacement, operation or maintenance of infrastructure"*

[26] Definition of infrastructure was amended in the 2012 CIL Regulation following the Localism Act.

4.7 The terms 'provision, improvement, replacement, operation and maintenance' are not defined in the legislation. They take their usual meaning in English and so give charging authorities wide discretion over the way their CIL is spent on infrastructure to support the development of their area, (providing there is justification to do in the development needs identified in the Core Strategy).

Evidence for Examination

4.8 The CIL Guidance (April 2013) sets out what infrastructure evidence is needed. It states that a charging authority needs to identify the total cost of infrastructure that it desires to fund in whole or in part from the levy. In order to do this, the charging authority must use the 'appropriate available evidence'[27] to consider:

- what additional infrastructure is needed in its area to support the development and growth needs set out in the Local Plan, and
- what other funding sources are available (for example, core Government funding for infrastructure, which will continue following the introduction of a levy; anticipated section 106 agreements; and anticipated necessary highway improvement schemes funded by anyone other than the charging authority)

4.9 It is important to note that the 'role' of the infrastructure evidence for the CIL examination is not to show the Local Plan Strategy is deliverable - that is the role of the Local Plan examination. The purpose of the CIL examination is to show that the intended CIL funding target is justifiable given local infrastructure needs and is based on appropriate evidence.

4.10 It is also not necessary, for CIL purposes, to identify the entire infrastructure needed to support growth. Rather, a selection of projects can be included as an indication of the type of work likely to be undertaken. The legislation recognises that there will be uncertainty in pinpointing other infrastructure funding sources, particularly beyond the short-term.

Infrastructure Delivery and Developer Expectations

4.11 The Government expects charging authorities to work proactively with developers to ensure they are clear about the charging authorities' infrastructure needs, what developers will be expected to pay for and through which route (i.e. CIL or s106). Developers need to make informed decisions about the total cost of their development and the amount they can afford to pay/bid for land. To do this, they need transparency about the infrastructure and policy requirements so that these costs can be factored into their site appraisals.

4.12 Regulation 123 of the CIL regulations provides for charging authorities to set out a list (commonly known as the Regs 123 list) of those projects or types of infrastructure that they intend to fund through CIL[28] (and so will not double charge using s106). Indeed we consider it is important to start thinking about the funding mechanism to be adopted from

[27] DCLG (April 2013) CIL Guidance para 12.

[28] Note it does not necessarily follow that if an infrastructure item is on the Regs 123 list then it will automatically be funded - the decisions on how spend the CIL proceeds will be for the Charging Authority to determine based on assessed priorities at any given point in time. However the aim of the list is to avoid double funding using s106 and CIL proceeds.

the early stages of the CIL charge setting process so that a charging authority has a clear plan of how to enable the delivery of growth to take place.

4.13 The intended consequence of CIL is that S106 requirements should be scaled back to dealing with those matters that are directly related to a specific site (and are not in a regulation 123 list). Used appropriately, CIL can bring the following benefits:

- Firstly ensuring the cumulative impact of growth on infrastructure is met by a wider range of developments. CIL does not have a threshold and so almost all qualifying development would be liable to the charge once in place. This means that the vast majority of smaller developments which have a cumulative impact on infrastructure will also be liable to pay some CIL charge – so making it a much fairer and more transparent system.
- Secondly, developers will have upfront knowledge about precisely what they will have to pay for infrastructure and Local Plan policy requirements without having to enter protracted negotiations – saving time for the developer and the local authority and enabling better cost estimation. For transparency a charging authority should set out how their s106 policies will be revised once CIL is in place.
- Thirdly, the Charging Authority can plan effectively for infrastructure delivery as it too can estimate the likely income expected to fund infrastructure through CIL.
- Finally, the infrastructure service providers can have some certainty about likely CIL income to pay for specific projects and so can use the anticipated CIL income as a lever to bid for other sources of funding and so better plan infrastructure delivery.

DCLG consultation on further reforms to CIL

4.14 DCLG have recently consulted (April 2013) on possible reforms of the CIL Regulations (possibly for 2014). There are a number of items within the consultation that could impact on the infrastructure evidence preparation which the charging authorities should be mindful of now. The main areas of possible change are outlined below.

Early preparation of the Regs 123 List

4.15 The early preparation and consultation of the 'infrastructure spending list' (Regs 123 list) – the suggestion is that for transparency reasons, the Regs 123 list should be published along with the preliminary draft charging schedule and should be part of the appropriate available evidence to inform the draft charging schedule at examination. The charging authority will also need a better understanding of how infrastructure is likely to be funded - via s106 or CIL. We consider it is wise to commence early thinking on this and the evidence gathered for Ryedale has already started to distinguish the collection mechanism between s106 and CIL.

Treatment of S278 highway costs

4.16 The possible consideration of S278 requirements in the Regs 123 list – this relates to agreements made under the Highways Act to ensure delivery of necessary highway works. Currently the limitations on planning obligations in Regulation 123 do not apply to s278 agreements. We consider it maybe will be difficult to estimate site specific s278 requirements stemming from development at this strategic level. For now our viability appraisals have assumed that these type of works will be factored into development appraisals to reflect the value paid for land.

Payment in kind considerations

4.17 A further area for consultation relates to payment in kind in the form of either land or actual infrastructure instead of cash for CIL. Currently, charging authorities can accept land payment for CIL, however the consultation looks to extend this to include infrastructure as an in-kind payment mechanism - where both the developer and charging authority agree. The charging authority may prefer this as it takes the burden of infrastructure provision away from them, but there could be issues of still passing 'cash' as a meaningful proportion onto neighbourhoods. The consultation document raises a number of issues relating to how to calculate the cost of providing the infrastructure and EU procurement rules. The charging authority should consider how these issues will affect their delivery of infrastructure.

Infrastructure Assessment for Ryedale

4.18 The infrastructure assessment for Ryedale has been based on the recently examined Local Plan. This assessed the infrastructure requirements stemming from the growth needs set out in the plan and forms the basis for estimating the infrastructure costs and known available funding to determine the CIL infrastructure funding target.

4.19 Table 4.1 overleaf provides a summary of some of the key elements of CIL Infrastructure schedule for Ryedale – note that further information maybe be added to this over the coming months, but this table represents the currently known information about infrastructure costs and funding.

Infrastructure Funding Gap

4.20 Table 4.1 shows that the estimated total infrastructure requirements in Ryedale to date are estimated at just under £64m. Funding that has already been secured using S106 towards identified infrastructure has been included in the assessment. Currently no mainstream funding has been included in the assessment and there are no other known mainstream sources of funding.

4.21 The funding gap of £64m is significantly larger than the projected revenues from CIL over the plan period of £14.6m, as set out in Section 10 of this report. The infrastructure funding gap is to be expected, and indeed necessary to justify the CIL. It is never the intention of CIL to entirely plug the aggregate infrastructure funding gap.

4.22 A key component of the funding gap is strategic transport improvements at Malton and Norton cumulatively estimated at £25m. The basis for this is identified in the Local Plan Strategy (see paragraphs 3.18 to 3.20).

4.23 It is worth noting that the A64 Brambling Fields junction improvements included in the infrastructure list is critical to the delivery of the growth strategy and is being forward funded using public funding. North Yorkshire County Council and Ryedale District Council will recoup this funding from developer contributions (CIL) over time (see paragraph 3.19 of the Ryedale Local Plan). This is in consistent with CIL Regulations, which state that a charging authority may apply CIL to reimburse expenditure already incurred on infrastructure.

Table 4.1 CIL Infrastructure Funding Gap

Ryedale District Council - CIL Funding Gap Infrastructure List						
		A	B	C	D	A - B - C - D = E
AREA	**CIL or s106**	**Estimate Cost (£)**	**S106 secured already (£)**	**S106 anticipated (£)**	**Other available or anticipated funding**	**CIL funding gap (£)**
Strategic - area wide						
Transport						
Brambling Fields A64 junction improvement	CIL	£6,100,000	£1,000,000	£800,000		£4,300,000
Strategic road link Malton - Norton	CIL	£25,000,000	£0			£25,000,000
Tow n centre complementary measures	CIL	£500,000	£0	£0		£500,000
Malton and Norton						
Communication						
Transport						
Internal Junction Improvements	CIL	£100,000	£0	£0	0	£100,000
Public realm improvements to Malton tow n c	CIL	£2,800,000	£0	£0	0	£2,800,000
Health and Education						
New primary school at Malton	CIL	£6,000,000	£0	£0		£6,000,000
New primary school at Norton	CIL	£6,000,000				£6,000,000
Local Projects						
Milton Rooms	CIL	£8,300,000				£8,300,000
Pickering						
Health and Education						
New primary school at Pickering	CIL	£8,000,000				£8,000,000
Kirkbymoorside						
Health and Education						
Primary education	CIL	£1,000,000				£1,000,000
Helmsley						
Open Space, Recreation Space and Burial Space						
Indoor Sports Facilities	s106	£500,000		£500,000		
Health and Education						
Primary education	CIL	£200,000				£200,000
Service Villages						
Health and Education						
Primary education	CIL	£1,670,000				£1,670,000
TOTAL CIL FUNDING GAP		**£66,170,000**	**£1,000,000**	**£1,300,000**	**0**	**£63,870,000**

Source: Ryedale Council 2013 – Emerging infrastructure funding gap

5 RESIDENTIAL VIABILITY ASSESSMENT

Introduction

5.1 This section sets out the findings of the viability assessment for residential developments and considers the implications of this on the variable CIL charge options. In the case of both residential and non-residential development, we have classified the likely viability using a traffic light system. Green represents viable development, amber represents development at the margins of viability and red represents development that is unlikely to be viable[29].

Market Context

5.2 We have gathered and analysed a wide range of available data on residential property market conditions (including in relation to sales values, land costs and build costs, amongst other factors) that provide the evidence base for the assumptions that underpin our assessments.

5.3 Our analysis of houses currently being market across the district suggests that larger properties of three and four bedrooms are being constructed. These are typically detached and semi-detached dwellings.

5.4 The majority of housing will be focussed at the principal town of Malton and Norton with smaller proportions distributed to local service centres. The breakdown is as follows:

- Malton and Norton 50%
- Pickering 25%
- Kirkbymoorside 10%
- Helmsley 5%
- Service villages 10%

Heat Maps

5.5 The heat mapping shown below gives a visual representation of the average achieved sales prices of properties across the district at ward level. The data covers a two year period from September 2010 to September 2012 and shows areas of relative strength and weakness in sales values in the local market.

[29] This traffic light assessment must be treated with caution, as explained in the previous section; the appraisals are based on a strategic approach and in no way prejudice any site specific valuations.

Figure 5.1 Average Sales Prices – Detached

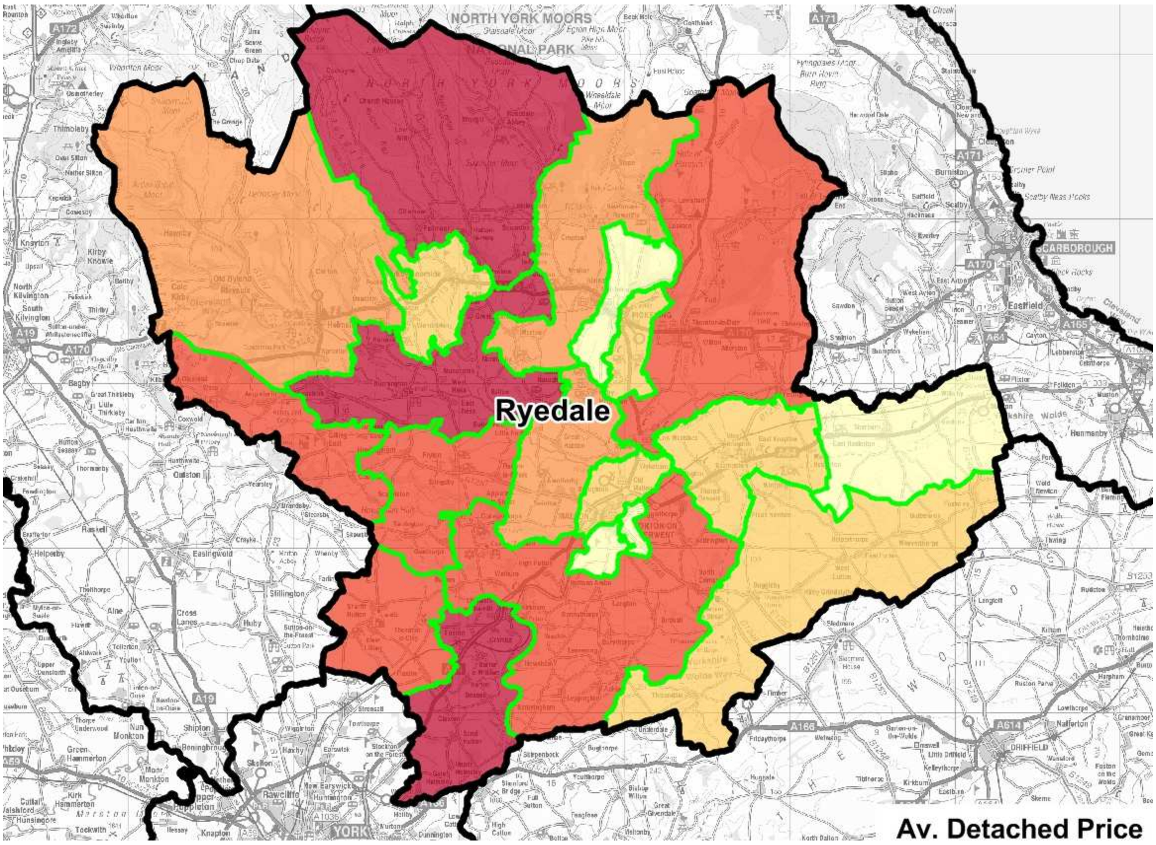


Figure 5.2 Average Sales Prices – Semi Detached

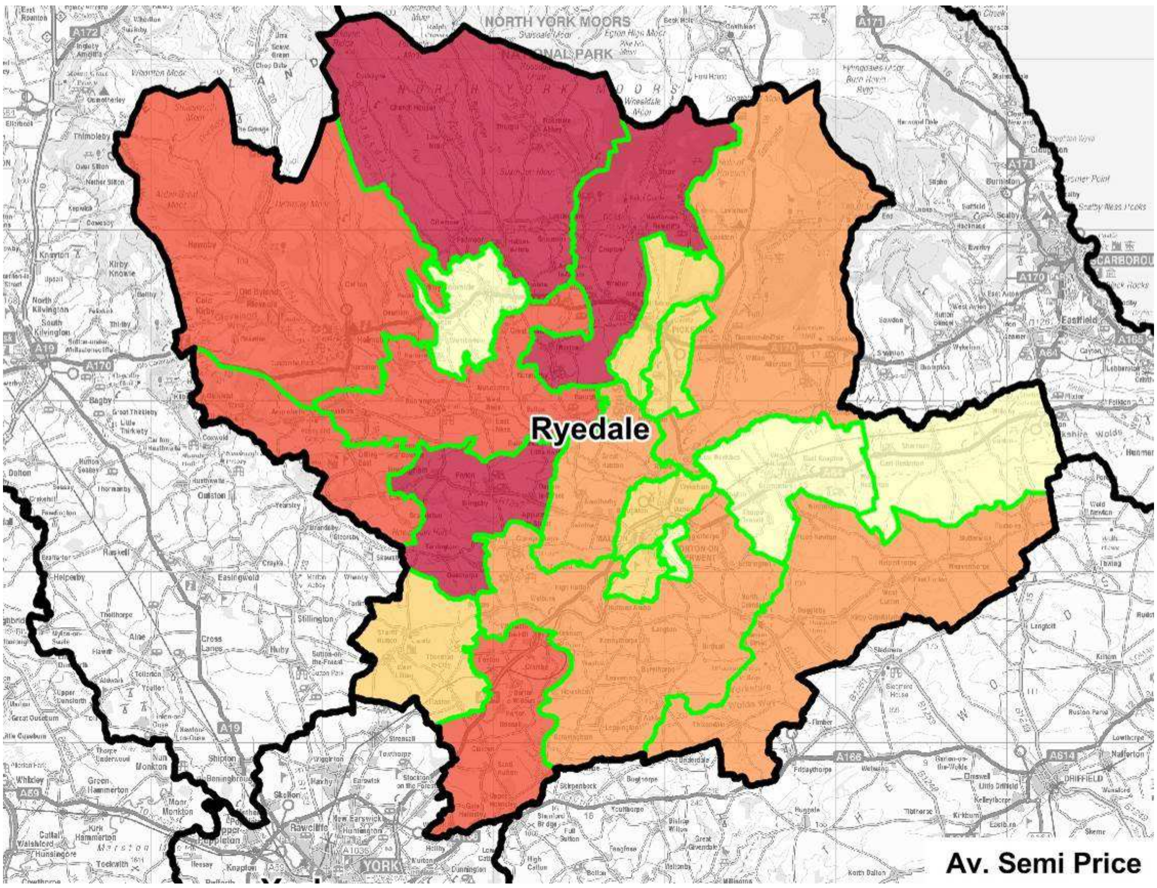


Figure 5.3 Average Sales Prices – Terraced

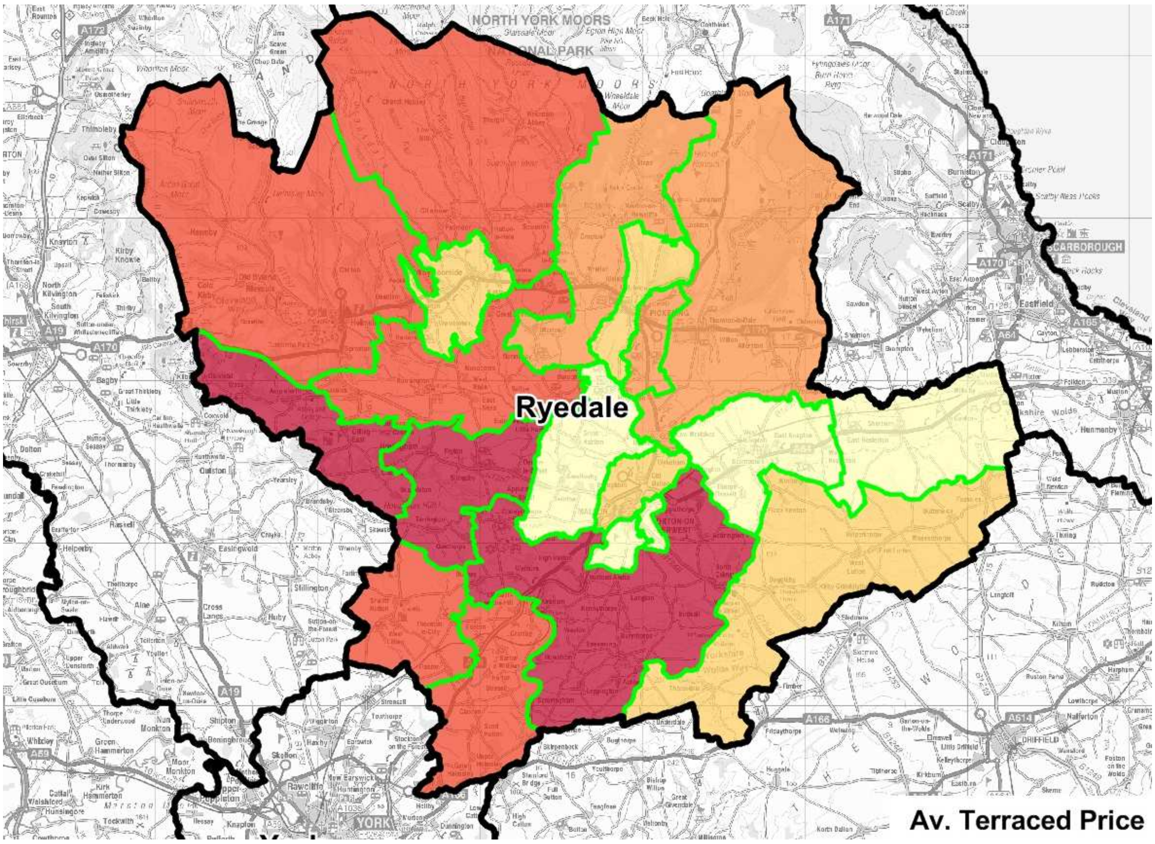
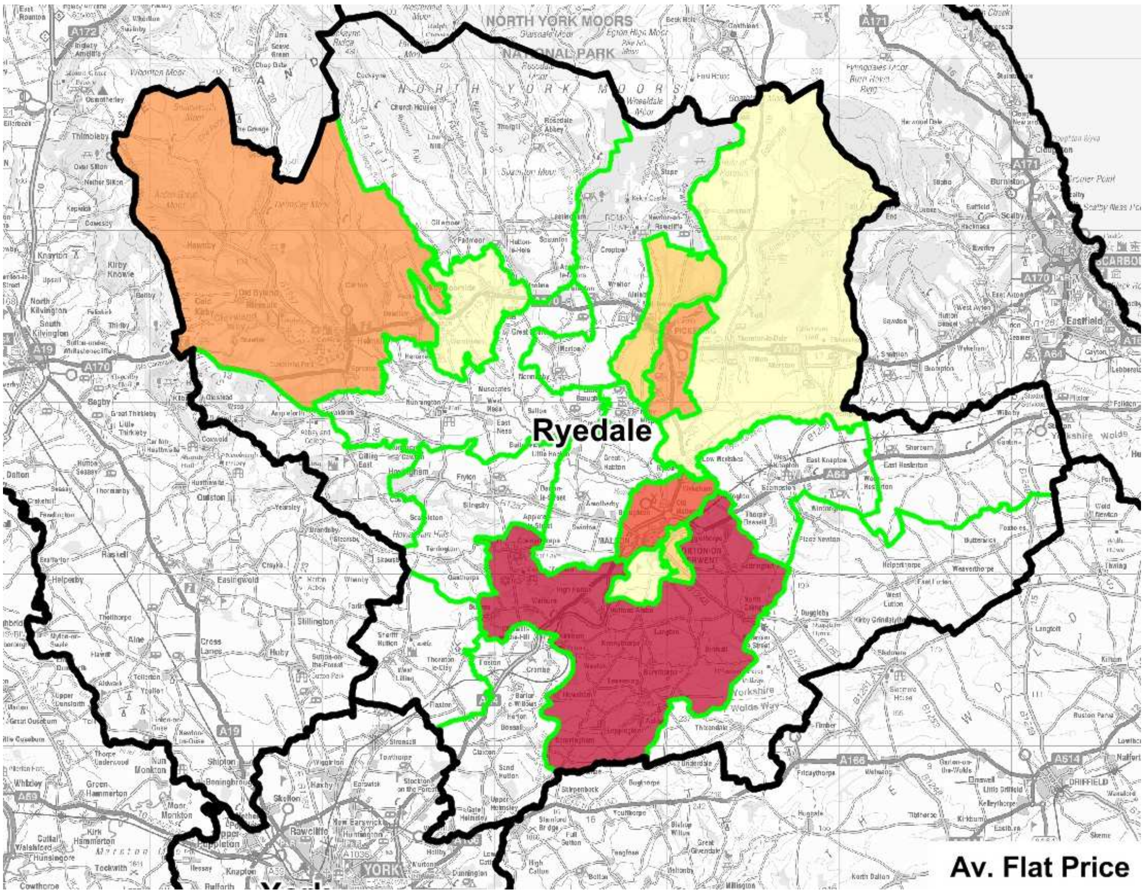


Figure 5.4 Average Sales Prices – Flats



5.6 Full versions of the mapping with keys can be seen at Appendix 1 of this report. The mapping for the average flat prices is sparse because of the lack of data available across the timeframe chosen and the lack of flat developments coming forward. Dark red shows areas of high value whilst the lighter yellow areas show lower values.

Potential Charging Zones

5.7 As discussed in Section 2, CIL Regulations (Regulation 13) allow the CA to introduce charge variations by geographical zone within its area, by land use, or both. There is no requirement on CAs to set differential rates, but statutory guidance notes that 'some charging authorities may prefer to set uniform rates, because they are simpler'.[30] This latter point on simplicity is an important one. All differences in rates need to be justified by reference to the economic viability of development. Setting up a CIL which levies different amounts on development in different places increases the complexity of evidence required at examination, and could be a point of contention.

5.8 We have examined the merits of setting up differential charging zones in Ryedale by looking at sales values across the District. Figure 4.1, shows average sales prices by ward of properties in the District by type over a two-year period between September 2010 and September 2012. The mapping shows that sales values are consistently in the lowest two bands across all house types in the wards of Rillington, Sherburn, Norton East and Norton West.

5.9 On the basis of the above, it appears that there may be a case for creating a differential charging zone for these areas, should the Council decide this is the correct approach. In order for any differential charging zone to be defined, it is necessary to draw a line on a plan that sets the boundary of it. Our sales value mapping, along with the appraisals summarised later in this report provide the evidential basis for doing so.

Trends & Trajectory

5.10 Figure 4.5 below shows the average price data across North Yorkshire[31] since January 2007. It shows that house prices in the region have tracked those at the national level. The region is also showing to be outperforming the national average, however in recent months this gap is closing as the national average is showing a stronger recovery than North Yorkshire as a whole.

5.11 As a result of the recent recession, there has been significant turbulence in the housing market, however this is not exclusive to North Yorkshire. Land Registry data for North Yorkshire shows that the market peaked in December 2007 at £197,375 before falling some 17% to its lowest in April 2009 at £164,932. The market showed signs of recovery for a short while, reaching a peak in August 2010 at £176,383 before slipping again to where it currently stands at £166,982.

---

[30] DCLG (December 2012) *Community Infrastructure Levy Guidance* (11)

[31] Data from the Land Registry. The data does not go to District level, therefore North Yorkshire data has been used.

Figure 5.5 Average House Price Data

5.12 To provide additional foresight into likely future residential development market conditions, we also undertook a review of published research and market commentaries of agents focussing on residential development markets. Most notably, Savills (considered to be amongst the market leaders in residential development market research and projections) 'Residential Property Focus' of Q2 2013 was given consideration. Its summary projections, Figure 4.6, show that residential values in Yorkshire and The Humber are forecast to hold reasonably steady in the period up to 2015 before seeing growth in 2016 and 2017.

Figure 5.6 Regional House Price Growth Projections (%Annual growth)

	Actual	Forecast					
	2012	2013	2014	2015	2016	2017	5yrs to end 2017
UK	-1.1%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
London	0.7%	1.5%	4.0%	4.5%	5.0%	4.5%	21.0%
South East	-0.2%	1.5%	3.5%	4.0%	4.5%	4.5%	19.5%
South West	0.2%	1.0%	2.5%	3.0%	4.0%	4.0%	15.5%
East	-1.9%	1.0%	3.0%	3.5%	4.5%	4.0%	17.0%
East Midlands	-0.8%	0.5%	2.0%	2.5%	4.0%	3.5%	13.0%
West Midlands	-0.8%	0.0%	0.5%	1.0%	3.0%	3.0%	7.5%
North East	-1.3%	-0.5%	-0.5%	0.0%	2.5%	3.0%	4.5%
North West	-1.6%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%
Yorks & Humber	-2.5%	0.0%	-0.5%	0.5%	2.5%	3.0%	5.5%
Wales	-2.7%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
Scotland	-3.3%	0.0%	0.0%	0.5%	2.5%	3.0%	6.0%

Source: Savills Research forecasts based on Nationwide actuals

Approach to Assessing Viability

5.13 Viability assessment is at the core of the charge-setting process. The purpose of the assessment is to identify charging rates at which the bulk of the development proposed in the Development Plan is financially viable, in order to ensure that the CIL does not put at risk the overall development planned for the area.

5.14 RTP has a bespoke excel-based model for assessing the viability of residential development as part of CIL studies. The model takes as its basis a hypothetical hectare of land and allows us to assess the value of a development by reference to the density of development, the proportion and type of affordable housing, the size of houses and typical sales values being achieved.

5.15 The model also enables us to input the cost of acquiring the land and to calculate all the other principal costs associated with development, including construction costs, fees, contingency and finance costs, amongst others.

5.16 The output of the model is a residual developer's margin, expressed as a percentage of the total development costs – a measure commonly used by developers in considering the viability of development. Typically, developers and their funders would seek a minimum return of 20% of cost in current market conditions. Where our model output shows a margin in excess of 20%, we believe there is scope for a CIL charge to be introduced.

5.17 In considering potential charge rates (in Section 0) and in response to comments received from the development industry, we also consider margin on value - at 20% for market units and 6 % on value for affordable units. Our approach to assessing the viability of residential development can therefore be summarised as follows:

Net development value
Minus
Reasonable land acquisition costs
Minus
Total development costs
Equals
Residual developer's margin
(Determines ability to pay for a CIL)

5.18 No standard assumptions are made by the model, so that each appraisal is entirely bespoke. Assumptions are inputted with respect to:

- The proportion of the site that is developable for housing (i.e. not required, for example, for open space, infrastructure or other non-housing requirements);
- The density of development and the mix between houses and apartments;
- The level of affordable housing and the mix of shared ownership, affordable rented and social rented;
- The average size of houses and apartments;
- Build cost per sq.m;
- Sales value per sq.m;

- Sales rates
- Land price per gross hectare (including associated purchase costs);
- Typical s.106 costs;
- Costs for secondary infrastructure;
- Professional fees;
- Costs of sales and marketing; and
- Finances costs.

5.19 At this stage, any potential CIL charge has been excluded from our assessment; however we do make an allowance for residual s.106 which will still apply after the adoption of the CIL charging schedule. The potential level of contributions is discussed separately below.

5.20 As mentioned above, the model allows each variable to be changed to assess different development and market scenarios. In total, 9 separate scenarios that applied different combinations of assumptions with respect to site size, land price; sales values; and the proportion of affordable housing were appraised.

Key Assumptions

5.21 Common to both residential and non-residential assessments is the need to gather robust market data – any assessment of viability can only be as good as the assumptions (and the information they are based on) that go into it. This section of the report also, therefore, sets out the sources of information that have informed the assumptions that underpin the viability assessments, along with the assumptions themselves.

5.22 Our calculations use 'readily available evidence', which has been informed and adjusted by an assessment of local transactions and market demand. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not, than might be expected on the basis of anecdotal information on the price paid for development sites in the past and Land Registry reports. This is an important point to bear in mind later when it comes to debating what is considered an 'appropriate balance'.

Information sources

5.23 Information on the per sq.m values of new residential development was gathered through an analysis of new properties that are currently for sale. Information on the price and size of new houses and apartments was gathered and used to determine a value per sq.m for each dwelling. These per sq.m values could then be averaged and used as the basis for analysis of differences between areas and development types. The sources of this information included the website of developers themselves and other websites that focus on selling newly built residential property such as Rightmove, smartnewhomes.com and newhomesforsale.co.uk.

5.24 Information on construction costs for residential development was gathered from the Building Cost Information Service (BCIS). Our build costs assumptions are considered to cover realistic costs for Code Level 4, although costs may alter in future.

5.25 Based on the findings from these sources, we arrived at initial conclusions with respect to each of the assumptions. These were then tested through informal consultations with a number of local house-builders and agents and revisions/additional scenarios were made to reflect comments received, where it was justified by evidence to do so.

Land acquisition cost

5.26 In respect of residential development land prices/values, we took account of recent Valuation Office Agency (VOA) reports covering this issue, as well as data from comparable land transactions and the findings of consultations with local agents and residential developers.

5.27 Clearly, the value of a piece of land to a developer will vary significantly from one site to the next as a result of its specific characteristics, including:

- Size and shape;
- Topography and ground conditions;
- Location and potential sales values;
- Capacity of and ease of connection with surrounding infrastructure e.g. local utility networks;
- Whether the site is allocated and/or benefits from a suitable planning permission; and
- The nature of the planning permission and Developer Contributions that can reasonably be expected.

5.28 Until 2009, the VOA's reports were more detailed (albeit without specifically covering Ryedale's residential land market), although there more recent reports of focussed only on the larger conurbations. In the case of Yorkshire, they now only make reference to Leeds and Sheffield

5.29 In arriving at initial assumptions on land prices, we took account of both the findings of both the 2009 and 2011 VOA reports, factoring in market change since 2009 and the relative strength/weakness of Ryedale's residential land market against those included in the report.

5.30 In addition to this, we have also discussed land values with developers and agents active in the local market. A summary of the feedback from the residential land agents and developers is that:

- Typical gross residential land values (i.e. before account is taken of policy requirements and site-specific development constraints) can be upwards of £1,000,000 per ha;
- Net land values are considerably more difficult to draw generalised conclusions from and there have been few recent transactions to provide the basis for analysis, however a range of £650,000 - £800,000 per ha could be considered typical;
- The minimum land value that many owners of residential land in Ryedale would be willing to accept is approximately £500,000 per ha. A reduction beyond this level may constrain the supply on land on to the market and therefore the ability to meet housing requirements;

- That there is little variation between the per ha values of larger sites and small sites, with larger sites usually parcelled off and brought to the market in a series of phases; and

5.31 And in addition to the above, we have gathered details on comparable residential land transactions in the area. These were provided on a confidential basis and as such cannot be included as part of this report.

5.32 As a further layer of analysis, we have considered existing and alternative use values and the uplift factors/multipliers that can be applied to them to inform conclusions on residential land values. Of course, it is difficult to generalise about existing or alternative use values across a whole local authority, but we have sought to consider the principal uses that may be relevant.

5.33 Some of the land on which new residential development will take place is likely to be agricultural. The VOA's 2011 Property Market Report indicates that the highest average value agricultural land in North Yorkshire is worth approximately £21,000 per hectare. In order to inform residential land values, a multiplier of between c15 times agricultural values plus the cost on site infrastructure is often applied. This would give residential land values in the region of £515,000 per ha.

5.34 An alternative use for some sites being considered for residential development is for employment development. The 2009 VOA Property Market Report states that employment land typically has a value of £410,000 per ha. Allowing for value growth since that time (in line with locations still covered in the latest version of the report) of 9%, this suggests current employment land values of £450,000 per ha. An uplift of c30% over industrial land values is often used as a proxy for considering residential land values. This suggests residential land values of £585,000 per ha.

5.35 LPAs cannot dictate or predict land sales costs, so reasonable assumptions must be made. However, there is a general expectation across the market that land values will ultimately have to go through a period of rebalancing to reflect current market pressures. Some sites, particularly those purchased without planning permission and where there is a risk it will not be achieved could be acquired relatively cheaply. Where this is the case, higher contributions could be achieved than if a more typical land cost is applied. Conversely, other sites may well command a higher land price, in which case Developer Contributions based on more typical land costs could potentially cause some hardship and delay in delivery, in respect of sites where the land deal is already concluded.

5.36 Our assessments set out in this section seek to test the range of likely market conditions evident across Ryedale, but also seek to ensure that as far as is possible in all other respects, we are comparing like with like. Therefore, our assumption in terms of land is that all sites will be cleared and remediated (if they are brownfield) and fully serviced parcels (if they are greenfield) so that in either scenario they are readily developable. For sites that are not in this condition, these costs would be subtracted from the gross land value in the offer that any rational developer would make to a landowner in any case

5.37 Reflecting the findings of the analysis set out above, we have drawn together a range of land value scenarios that provide the basis for our viability assessments. Different scenarios have been developed for low, moderate and high value areas within the district. The land values assumptions, based on readily developable parcels, are:

- Low value - £600,000 per ha
- Moderate value - £750,000 per ha
- High value - £900,000 per ha

5.38 It is likely that large residential development sites may be brought forward for development in the foreseeable future. It is also likely that sites of 10ha or more will be developed in a series of phases and our approach to assessing viability of such sites seeks to reflect this. The size of each phase will reflect market conditions in terms of likely sales rates and the level of risk developers will be willing to take in one go. Typically, such parcels will provide for between 50 – 200 units. On this basis, the assumption applied is that large sites will be developed in phases of 5ha gross site area.

Sales values

5.39 The assessment of new build houses currently on the market revealed asking price values within a broad range between £1,656 per sq.m and £2,942 per sq.m, although more commonly between £2,100-£2,700 per sq.m. The average asking price for 2-storey houses is £2,388 per sq.m. However, if 3-storey townhouses are also included in the analysis, then this figure falls to £2,320, reflecting their relative unpopularity with buyers. Typically, these townhouses range in value from £1,700 - £1,950 per sq.m.

5.40 No new-build apartments were on the market at the time of data gathering for this study. This reflects the difficulties in securing both development and mortgage finance for apartments in the current restricted lending environment.

5.41 It is important to note that these figures are based on asking prices and that some level of discounts will be offered to buyers. Discounts are typically around 5%, but can be as much as 10% off the asking price. Applying a 5% discount from the average house asking price above gives a likely average achieved price in the region of £2,200 per sq.m.

5.42 The average size of new build houses on the market at the time of the study is 114 sq.m. The detached houses typically range between 120 sq.m – 160 sq.m; semi-detached properties ranging widely from c70 sq. m – c130 sq. m (with the exception of two large dwellings at c200 sq.m); and terraced houses generally c60 sq. m – c95 sq. m, excluding a small number or larger townhouse developments which also fall within this category. .

5.43 In addition to the above empirical analysis of houses currently on the market, we also interrogate Land Registry data on achieved (rather than asking) new house sales prices. This data is broken down by type (detached, semi-detached, terraced, flat) but no floorspace data is available and as such assumptions on the average size of units of each type have to be made in order to deduce sales values per sq. m. The assumptions are informed by our own analysis set out above.

5.44 Applying the broad average sizes for each dwelling type, as revealed through our analysis of houses currently on the market (125 sq.m for detached houses, 100 sq.m for semi-detached and 80sq.m for terraced houses) to the Land Registry data reveals the following average sales values:

- Detached - £2,342
- Semi-detached - £2,001
- Terraced - £2,083

5.45 These figures are broadly in line with the discount-adjusted asking prices revealed above of £2,204.

5.46 On the basis of these analyses, we propose to model three levels of sales values as part of this study. Our reference case scenarios will adopt a sales value of £2,150 per sq.m, with a higher value scenarios at £2,300 per sq.m and lower value scenarios at £2,050 per sq.m.

Affordable Housing & Developer Contributions

5.47 The proportion of affordable housing has a significant impact on development viability. Typically, developers will realise between 40% and 70% of the full market value for the affordable units they build, which is usually less than they cost to build. This means that they have a negative impact on the viability of development, coming off the 'bottom line' in the same way that contributions through either S106 or CIL would. In addition, any land that is used to provide affordable housing is land that has been paid for but cannot be used for market housing to generate value. In Ryedale, the Council is in the process of revising its transfer values and as such the following assumptions have been used:

- Shared Ownership – 70% of Open Market Value
- Social Rented – 40% of Open Market Value

5.48 The policy requirement for affordable housing varies depending upon the development size as well as the development's location:

- For sites over 0.2 ha or more than 5 dwellings, located outside of West and South West Ryedale (as defined in the Local Plan), 35% on-site affordable housing will be sought;
- For sites over 0.2 ha or more than 5 dwellings, located within West and South West Ryedale (as defined in the Local Plan), 35% on-site affordable housing will be sought, with an additional 5% commuted sum for off-site provision; and
- For sites under 0.2 ha or less than 5 dwellings, a pro-rated commuted sum will be sought.

5.49 Any potential CIL charge is excluded from the initial appraisals for ease of analysis, although an allowance is made for residual s.106 contributions for measures that are required to make the scheme acceptable and are related in scale and nature to the proposed development. This allowance is £1,500 per unit on small sites and £2,000 per unit on larger sites, and is based on current developer contributions with costs for items expected to be delivered through CIL stripped out.

Build costs and other cost assumptions

5.50 We have assumed the following build costs for houses on small sites based on BCIS mean average build cost for 2 storey estate housing in Ryedale District. On top of this base figure of £740 per sq. m we have made allowances for external works of 10% of cost, and contingency of a further 5%.

5.51 For residential development in more affluent and desirable locations, buyers will often expect higher specification of items such as kitchens, bathrooms and other fixtures and fittings. Conversely, in building affordable housing, a lesser amount is likely to be spent on those fixtures and fittings. As such, we have sought to reflect this in our build cost assumptions as follows:

- Affordable housing: £850 per sq. m
- Lower value: £850 per sq.m
- Moderate value: £860 per sq.m
- Higher value: £870 per sq.m

5.52 On large sites of over 100 dwellings, we have assumed that a small saving of 2% of build costs can be made as a result of economies of scale.

Other assumptions

5.53 In addition to the above build cost, a range of other costs of development are taken into account in our viability assessments. We make an allowance for on-site secondary infrastructure (e.g. utilities extensions, spine roads, strategic landscaping and drainage systems and the like, which are part of ordinary development costs and would not be part of any s.106 contribution) of £150,000 per ha in respect of 0.25 ha sites, increasing to £200,000 per ha for 1 ha sites. In respect of larger sites this figure is increases to £250,000 per ha, reflecting the need to a greater level of on-site secondary infrastructure provision.

5.54 We have assumed development densities for housing of 30 to 35 dwellings per ha. Our assumed average unit sizes for houses are 100 to 120 sq.m, and 80 sq.m in respect of affordable housing.

5.55 Residual S106 costs have been included in the appraisals to cover additional items that may be required on-site that would not otherwise be covered. For 0.25 ha sites and 1 ha sites a value £1,500 per unit is used, rising to £2,000 per unit on the 5 ha site type.

5.56 Other costs, such as professional fees (10% of cost), the cost of sales and marketing (3% of value) are inputted at industry standard rates and provision is made for Stamp Duty Land Tax at prevailing rates.

5.57 Finance costs are calculated using a cashflow assessment that forms part of the model and takes account of prevailing interest rates (7%) and likely sales rates of 9 sales per quarter on 1ha sites (6 per quarter in lower value scenarios) and 12 per quarter on the larger sites where a wider range of development products is likely to be available.

Appraisal Findings

5.58 The findings of theses viability appraisals are set out in Table 5.1 which show the assessed levels of developers return, expressed as a percentage of development costs.

5.59 Our appraisals have tested the viability of housing development on sites of 0.25ha, 1ha and a 5ha parcel of an urban extension site. These scenarios broadly reflect the type of sites likely to come forward in Ryedale over the plan period.

5.60 In Table 5.1 below we set out a summary of our appraisal findings.

Table 5.1 Appraisal Summary Findings

	Land Value (per ha)	Sales Value (per sq. m)	Build Cost (per sq. m)	Residual S106 (per unit)	Density (dph)	Unit size (sq. m)	Affordable Housing	Margin (% on cost)
0.25 Ha								
Low value area	£600,000	£2,050	£850	£1,500	30	100	35%	34.1%
Moderate value area	£750,000	£2,150	£860	£1,500	32	110	35%	34.2%
High value area	£900,000	£2,300	£870	£1,500	35	120	40%	32.7%
1 Ha								
Low value area	£600,000	£2,050	£850	£1,500	30	100	35%	28.9%
Moderate value area	£750,000	£2,150	£860	£1,500	32	110	35%	31.3%
High value area	£900,000	£2,300	£870	£1,500	35	120	40%	32.9%
5 Ha								
Low value area	£600,000	£2,050	£830	£2,000	30	100	35%	30.0%
Moderate value area	£750,000	£2,150	£840	£2,000	32	110	35%	30.8%
High value area	£900,000	£2,300	£850	£2,000	35	120	40%	30.5%

5.61 The shading of each of the cells in the table reflects the broad viability of development. If the developer's return is well over 20% then the cell is shaded green reflecting the fact that it is likely to be viable and attractive to house builders. Where this return on cost is between 15% and 20% cells are shaded amber because the viability of the development and its attractiveness to the market is marginal. A return on cost of less than 15% is considered unviable and as such is shaded red. A 20% return on cost is a commonly used return and is often the minimum level of return that banks expect to see when assessing development finance loans.

5.62 Table 5.1 shows that on the basis of the assumptions made and with likely s.106 contributions, all residential scenarios tested are broadly viable before any CIL charge is applied.

6 OFFICE AND INDUSTRIAL VIABILITY ASSESSMENT

Introduction

6.1 In this section, we provide an overview of recent market developments, perform a viability analysis of office and industrial development, and use this analysis to make recommendations about a sensible level of CIL charge for this use.

6.2 Office development in town centres can be substantially different in viability terms to that in business park locations, particularly as a result of differences in land assembly costs on development and design standards. As such they are assessed separately as part of this study.

6.3 The viability assessment model for non-residential development assesses a single square metre of development, in order to directly demonstrate any potential charge rate on a per sq. m basis. In identifying appropriate assumptions in terms of rental values, yields and so on, some consideration has to be given to the likely nature of development to come forward. Typically, for town centre office development this is likely to be 2 to 3 storey developments at say 80% site coverage. At business park locations, office development is more likely to be 1 or 2 storeys and site coverage more like 40%. Typical industrial development is, of course, single storey and with site coverage also in the region of 40%. These figures do not feed directly in to the model, but rather inform the assumptions made in other respects.

Market context

Offices

6.4 There is very little office stock generally in Ryedale. Office accommodation within the town centres is extremely limited and generally confined to small ‘above the shop’ type units. Whilst there are relatively few transactions, it appears that rental values in Malton town centre are close to £6-£10 per sq. ft/£65-£108 per sq. m. Rental values in areas to the west of the district are understood to be somewhat higher as a result of better accessibility to the primary road network.

6.5 Outside of the centres, there is some office provision in rural business parks, such as Welburn Business Park, Wath Court and Swinton Grange. Whilst they are located outside of the town centres, the rental values remain within the range of £6-£10 per sq. ft/£65-£108 per sq. m.

6.6 Of course, these rental values relate to existing stock which is often older and less attractive to tenants than new build office space would be. Therefore, any new development of office floorspace may well command slightly higher rental values of up to, say, £12-14 per sq. ft/£130-150 per sq. m.

6.7 Whilst it is difficult to determine yields from the limited transactional data available, and further evidence will be required through consultations with local agents, based on our understanding of the area and other similar locations, we would expect office yields in the town centre to be in the region of 8-9%, and slightly lower for business park development.

Industrial and warehouse

6.8 As with the office sector, the supply of industrial floorspace is relatively limited in Ryedale, compared to more urban areas. That said there is some provision in almost all of the settlements including Sawmill Lane Industrial Estate in Helmsley, Kirby Mills Industrial Estate in Kirbymoorside, Thornton Road in Pickering and Norton Grove, Showfield Lane and York Road Industrial Estates in Malton and Norton. The majority of the stock is in relatively small units and the majority of recent lettings are on short lease terms of three years or less, which will have a negative (upward) impact on yields. There are examples of newly constructed industrial units at Norton Grove Industrial Estate which may lead to slightly increased rents. However it should be noted that a substantial number of industrial estates in Ryedale have been developed on the basis of owner occupied freehold plots, and therefore rental data is more limited.

6.9 The highest rental values in the district are achieved at Norton Grove Industrial Estate, where significant lettings have taken place at £7.38 per sq,ft/£79.40 per sq.m, albeit on relatively short on three-year leases. However, as a comparative range, in the most part rental values range between £5.50-£6.00 per sq.ft/£60-£65 per sq.m.

6.10 Industrial yields have been badly affected by the long-term decline in the manufacturing sector and by the recent recession which has forced yields upwards as investors factor in the risk of business failures. Therefore, we would expect yields for new speculative industrial development to be in the region of 8.5%-9.5%, although this assumption will be subject to testing with local agents.

Assumptions

6.11 As previously stated, central to the assessments is the need to gather robust market data. This section of the report also, therefore, sets out the sources of information that have informed the assumptions that underpin the viability assessments in relation to office and industrial uses, along with the assumptions themselves.

Information Sources

6.12 The approach taken to establishing the likely values of new development was to review recent rental and investment transactions in Ryedale. The transactional data was derived from the Focus/CoStar database, which provides details of the vast majority of transactions, broken down by use. The information includes some or all of the following:

- The address of the property;
- Names of the lessor and lessee and their respective agents;
- The size of the property;
- The length of the lease and other key terms;
- Quoting and/or the achieved rental value on leases;
- The price paid/capital value and yield on investment purchases.

6.13 The analysis of transactional data from Focus/CoStar focussed specifically on more modern accommodation in similar locations to where future growth is envisaged, wherever possible, so that the information gleaned from the transactions was most relevant and comparable to the types and locations of development likely to occur. Where adequate volumes of transactional data for directly comparable property was not readily available, assumptions were based on informed judgement as to the likely values that new development (of the type envisaged and in the locations proposed) would attract, combined with findings of consultations with agents and developers.

6.14 Cost data for office and industrial development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for Ryedale.

6.15 In addition to transactional data that provided intelligence on prevailing yields for different property types in Ryedale, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE's 'Prime Rent and Yield Monitor Q2 2013'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Ryedale and its prime locations.

6.16 Once we had drawn initial conclusions as to the likely rental values and yields of each development type, a series of consultations with local agents and developers who are active in the Ryedale market were undertaken in order to test the assumptions, with revisions made to reflect comments received where it was justified by evidence to do so.

6.17 The assumptions on land and purchase costs have been derived from the Valuation Office Agency's Property Market Reports, specifically the July 2009 version (the most recent to include figures for Ryedale) and the January 2011 version (the latest report, but which only provides figures for Leeds and Sheffield in Yorkshire and The Humber). These reports provide information on the value of a cleared development site situated in an established industrial location with a site area of 0.5 to 1.0 hectare. In addition, it has been assumed that development will be restricted to industry or warehousing and other provisions based on market expectations for the locality. This information was supplemented by consultations with local agents and developers.

6.18 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prima facie evidence that achieving viability is a challenge.

Value assumptions

6.19 In the calculations we have used 'readily available evidence', which has been informed and adjusted by an assessment of local transactions and market demand. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not.

Table 6.1 Office and Industrial Assumptions

Town Centre Office		
	Rent per sq. m	*£120*
	Yield	*9.00%*
	Build cost per sq. m	*£1,150*
Business Park Office		
	Rent per sq. m	*£140*
	Yield	*8.50%*
	Build cost per sq. m	*£925*
Industrial		
	Rent per sq. m	*£65*
	Yield	*8.00%*
	Build cost per sq. m	*£520*

6.20 Further assumptions are as follows:

- External works at 10% of build cost
- Professional fees at 10-12% of build costs, depending on use;
- Likely residual s.106 contributions based on experience of developments elsewhere and the type of development expected to come forward in Ryedale ;
- Marketing and cost of sales at 5% of development value;
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and
- Developer's margin at 20% of cost.

Appraisal Findings

6.21 The findings of the non-residential viability appraisals are set out in Table 6.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely s.106/278 costs is included, based on our experience of developments across the District.

Offices

6.22 As can be seen in Table 6.2 below, 'pure' office development is not currently viable on the basis of the assumptions made, although the viability of business park-type office development is on comparatively less unviable. In which case, favourable site conditions and values may well mean that developments is viable is some locations in Ryedale.

6.23 In any case, even where development is shown to be unviable, that is not to say that no office development will take place. The development economics for owner occupiers are quite different to that for speculative development. The driver for new development of office premises by owner occupiers is often to achieve business efficiencies, rather than to generate development profit; as such development by owner occupiers remains a distinct possibility. Furthermore, office floorspace could be delivered as part of a mixed use development which could be cross-subsidised by more viable uses.

Industrial and warehouse

6.24 We have concluded that, based on our research and the assumptions made, speculative industrial and warehouse development across Ryedale is not currently viable. However, as we note with regards to offices, development by owner occupiers, or where site characteristics are particularly favourable remains a possibility.

Table 6.2 Office and Industrial Viability Assessments

		Town Centre Office	Business Park Office	Industrial
Rent		£120	£140	£65
Yield %		9.00	8.50	8.00
Minus inducements	1	133	82	41
VALUES	2	**1,200**	**1,565**	**772**
COSTS	2			
Land + Purchase Costs	3	100	50	40
Basic Build Cost		1,150	925	520
External Works	4	115	93	52
Fees	5	152	102	57
CIL		0	0	0
Section 106/m²	6	0	10	10
Marketing & Sales		60	78	39
Contingencies	7	71	56	31
Interest	8	152	118	68
Margin	9	360	286	163
Total Cost Benchmark		**2,159**	**1,718**	**981**
Values - Costs		**-959**	**-153**	**-209**
% on Cost		**-44.42%**	**-8.90%**	**-21.29%**

1	A reduction of 10% of development value is made to reflect current market norms for rent free perioods and other tenant inducements
2	All values and costs per m² unless stated
3	The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
4	Works outside built structure. High for business parks where extensive servicing and landscaping is required. Usually negligible in town centres.
5	Fees are higher for smaller and/or more complex structures.
6	This covers site-specific infrastructure being mainly social infrastructure on site and access and other works outside the site boundary.
7	Contingencies at 5% of costs
8	Interest costs vary with the nature and length of a typical project.
9	Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

	Costs exceed values
	Values exceed costs by less than 10%
	Values exceed costs by more than 10%

7 RETAIL VIABILITY ASSESSMENT

Introduction

7.1 In this section, we provide an overview of recent market developments, perform a viability analysis of retail development, and use this analysis to make recommendations about a sensible level of CIL charge for this use. Our assessment takes as its basis the different types of retail development likely to take place in Ryedale, each of which has materially different key viability assessment assumptions, in particular rental values, yields, build cost and land acquisition costs. The types of development assessed are:

- High Street Comparison Retail – Defined as development for comparison retail use within the District's town/city centres, as defined in the Local Plan. Development within the centre will have to overcome high land acquisition costs, compared to other locations. Typically development will be 1 or 2 storeys within or as an extension to the core shopping area, that often set new headline rental levels in the market. Site coverage is usually high, with only 10-20% of site area undeveloped for public realm and service access.
- Retail Warehouses – Retail warehouses are usually large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods. They can be stand-alone units, but are also often developed as part of retail parks. In either case, they are usually located outside of existing town centres and cater mainly for car-borne customers. As such, they usually have large adjacent, dedicated surface parking.
- Supermarkets – Supermarkets provide a very wide range of convenience goods, often along with some element of comparison goods also. Most customers use supermarkets for their main weekly shop, using a trolley to buy a large number of different products. The vast majority of custom at supermarkets arrives by car, using the large adjacent car parks provided.

7.2 In addition to the above, some development of smaller scale convenience retail space in out of centre locations may take place, although it is unlikely to be as significant in scale.. Often, such uses occupy buildings being converted to retail use, rather than the new development providing net additional floorspace. As such, these developments would not attract a CIL charge if one was put in place. These stores tend to be located within residential areas and provide only a limited range of convenience goods. Their catchment is very localised and the cater principally for 'top-up shopping' comprising a small number of items that can be carried by hand or in a small basket. The vast majority of custom will access the store on foot and as such there are no large adjacent car parks. Any development of this type is unlikely to generate significant value as a commercial property proposition to warrant specific assessment for the purposes of CIL.

Market context

'High Street' Comparison Retail

7.3 Town centre comparison retailing nationwide is in a period of transition. The majority of comparison retail-led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. Developers in the sector have therefore been going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.

Retail Warehousing/Retail Parks

7.4 We have also considered retail warehouse development. This is commonly located out of centre, often on or close to major transport interchanges. It has been less prevalent in recent years as a result of the weakness in the wider economy that has reduced retail spending and led to several notable failures in the retail warehouse sector. However, there is still the potential for such development. Retail warehousing traditionally offered bulky comparison goods. They are large stores specialising in the sale of household goods (such as DIY items and other ranges of goods catering mainly for car-borne customers). As a property class it has continued to perform relatively well with new operators entering the sector which has had a beneficial impact on values and viability.

Supermarkets

7.5 Convenience retailing is the provision of everyday essential items including food, drinks, newspapers/ magazines and confectionary. The sector is dominated by superstores and supermarkets which offer a wide range of these types of goods with supporting car parking.

7.6 The convenience retail sector is one of the best performing investment assets in the UK, with the main operators seeking to expand and seek a greater degree of market share by the development of new store formats and the securing of prime locations both in town and out of town.

7.7 Development is likely to primarily comprise new supermarkets. As such, these are the basis of the viability assessments in terms of key assumptions. Smaller stores will attract lower rental values and will have high yields, and will therefore be substantially less valuable. Small convenience stores are therefore excluded from this assessment.

Assumptions

7.8 This section of the report sets out the sources of information that have informed the assumptions that underpin the viability assessments in relation to retail uses, along with the assumptions themselves.

Information Sources

7.9 The approach taken to establishing the likely values of new development was to review recent rental and investment transactions in Ryedale. This reflected the process used for office and industrial development as described in Section 6.

7.10 Cost data for retail development types have principally been sourced from the BCIS index of construction prices. This provides build costs for a wide range of different forms of development indexed for Ryedale.

7.11 In addition to transactional data that provided intelligence on prevailing yields, we also took account of recently published market commentaries by major commercial property agents. Most notable amongst these was CBRE's 'Prime Rent and Yield Monitor Q2 2013'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Ryedale and its prime locations.

7.12 Once we had drawn initial conclusions as to the likely rental values and yields of each development type, a series of consultations with local agents and developers who are active in the Ryedale market were undertaken in order to test the assumptions, with revisions made to reflect comments received where it was justified by evidence to do so.

7.13 The assumptions on land and purchase costs have been derived from the Valuation Office Agency's Property Market Reports, specifically the July 2009 version and the January 2011 version (the latest report, but which only provides figures for Leeds and Sheffield in Yorkshire and The Humber). This information was supplemented by consultations with local agents and developers.

7.14 Circumstantial evidence on the appetite for development was also taken into account. An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prima facie evidence that achieving viability is a challenge.

Value assumptions

7.15 In the calculations we have used 'readily available evidence', which has been informed and adjusted by an assessment of local transactions and market demand. This kind of strategic viability assessment involves a high degree of generalisation. Therefore the assumptions adopted in this assessment are intentionally cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not.

Table 7.1 Key Assumptions

High Street Comparison Retail		
	Rent per sq. m	*£225*
	Yield	*7.50%*
	Build cost per sq. m	*£860*
Retail Warehouse		
	Rent per sq. m	*£140*
	Yield	*7.50%*
	Build cost per sq. m	*£570*
Supermarkets		
	Rent per sq. m	*£180*
	Yield	*5.50%*
	Build cost per sq. m	*£990*

7.16 Further assumptions are as follows:

- External works at 10% of build cost;
- Professional fees at 10-12% of build costs, depending on use;
- Likely residual s.106 contributions based on experience of developments elsewhere and the type of development expected to come forward in Ryedale;
- Marketing and cost of sales at 5% of development value;
- Contingency at 5% of costs;
- Interest at 10% on all costs (excluding developer's margin) broadly equating to an annual rate of 7% on an 18 month build period; and
- Developer's margin at 20% of cost.

Appraisal Findings

7.17 The findings of the retail viability appraisals are set out in Table 7.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely s.106/278 costs is included, based on our experience of developments across the District.

Table 7.2 Retail Viability Assessments

		High Street Comp. Retail	Supermarkets	Retail Warehouses
Rent		£225	£180	£140
Yield %		7.50	5.50	7.50
Minus inducements	1	300	1,636	187
VALUES	2	**2,700**	**3,109**	**1,680**
COSTS	2			
Land + Purchase Costs	3	1,000	500	250
Basic Build Cost		860	990	570
External Works	4	86	119	68
Fees	5	114	133	64
Section 106/m²	6	0	50	20
Marketing & Sales		135	155	84
Contingencies	7	53	62	35
Interest	8	206	179	97
Margin	9	491	438	238
Total Cost Benchmark		**2,944**	**2,626**	**1,426**
Values - Costs		**-244**	**483**	**254**
% on Cost		**-8.29%**	**18.38%**	**17.79%**

1	A reduction of 10% of development value is made to reflect current market norms for rent free perioods and other tenant inducements
2	All values and costs per m² unless stated
3	The total cost of purchasing land, including related costs. It is assumed that this will be higher in urban areas.
4	Works outside built structure. High for business parks where extensive servicing and landscaping is required. Usually negligible in town centres.
5	Fees are higher for smaller and/or more complex structures.
6	This covers site-specific infrastructure being mainly social infrastructure on site and access and other works outside the site boundary.
7	Contingencies at 5% of costs
8	Interest costs vary with the nature and length of a typical project.
9	Profit normally allowed at 20% on all costs and effectively assumed development is speculative.

(red)	Costs exceed values
(amber)	Values exceed costs by less than 10%
(green)	Values exceed costs by more than 10%

High Street Comparison retailing

7.18 The District's town centres are experiencing the same pressures as other retail destinations following the economic downturn and the difficulties facing a number of national retailers. Viability for new build comparison retailing is therefore potentially marginal across many town and city centres.[32]

[32] Financial Times December 29 2011 *UK retail insolvencies expected to soar*

7.19 It is difficult to model the viability of town centre retail development as values are usually more sensitive to location and size of unit than office or residential development. Operators are very sensitive to footfall patterns which can lead to large variations in values – even on the same street. Our response is therefore to adopt 'overall' rental values to understand the broad potential range of comparison retail viability in Ryedale's town centres and also an examination of development outside of the main shopping area using a broad average.

7.20 With levels of town centre retail development not expected to reach comparatively significant levels it is also very difficult to accurately estimate likely land acquisition costs, which are a major factor in redevelopment projects. A number of titles may make up a development site making for complex assembly of sites.

7.21 Our analysis suggests that town centre comparison retail development within Ryedale is currently considered unviable.

Retail warehousing

7.22 Our assessment of out of centre comparison retail is based on retail warehouse type developments. It assumes a typical scheme away from the defined town centres. Construction costs and rental values for retail warehousing are generally lower than for superstores, whilst yields are higher, reflecting the fact that some operators in the out of town retailing sector have struggled and failed during the recent recession. That said, other operators continue to perform strongly and are continuing to invest in additional retail warehouse space.

7.23 The assessment shows that retail warehouses generate a surplus that could support a potential CIL charge.

Convenience retailing

7.24 Convenience retail continues to be one of the best performing sectors in the UK. Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions.

7.25 Although there are some small regional variations on yields, they remain strong across the board with investors focussing primarily on the strength of the operator covenant and security of income. We would therefore suggest the evidence base for convenience retail can be approached on a wider regional or even national basis when justifying CIL charging.

7.26 Our testing of convenience retailing has focussed on larger out of town grocery stores. Whilst development costs are relatively high, the strength of covenant provided by their operators and the rents that they achieve outweighs these costs. We have concluded that convenience retailing is viable in Ryedale and generates a significant level of surplus.

7.27 In separately defining convenience and comparison retailing, there is an issue as to how to treat developments where both are proposed. We recommend that CIL is levied at the rate of the principal use of the building. Therefore, where a supermarket development is proposed that is wholly or largely to be used for convenience retailing then it would attract the supermarket CIL charge, even if there is some element of comparison floorspace. It would be a matter for the planning authority to determine the principal use of the building proposed, but is likely to take account of the proportion of floorspace proposed by type.

7.28 In the small number of instances where an open A1-class permission is granted (as stated, usually on smaller schemes), we suggest that CIL be levied at the rate applied to comparison retail. The principal reason for this is that the evidence has shown comparison retail development to be less viable than convenience retail and therefore the application of a lower rate, based on then comparison retail charge would mean that development for which open A1 consent is granted is less likely to be rendered unviable. Conversely, applying the CIL charge, based on the convenience retail rate, may hinder the viability of some schemes. It is therefore prudent to charge the comparison CIL charge on an open A1 consent and, if convenience uses are brought forward, then any CIL underpaid should be recouped subsequently. This approach will need to be made clear in the conditions to any open A1 planning permissions. It may also be necessary to define the range of goods that would constitute a convenience retail store. This should be by the predominant type of goods sold.

8 OTHER USES

Introduction

8.1 By their very nature, sui generis uses cover a very wide range of development types. Our approach to this issue has been to consider the types of premises and locations that may be used for sui generis uses and assess whether the costs and value implications have any similarities with other uses.

Agricultural Development

8.2 Development for agricultural purposes can take a very wide variety of forms from an open-sided hay barn to a battery chicken farm. Obviously, such diversity in uses will also give rise do very different levels of commercial returns.

8.3 In considering the potential for CIL covering agricultural uses, we have assessed the extent of readily available information on the costs and values associated to agricultural uses and found data somewhat limited. Even if a robust quantum of data was available on which to base viability assessments, it appears clear that the diversity across this use would make it impossible to have a common charge across all agricultural uses, other than a very low or zero charge.

8.4 It is also clear that the potential impact of a CIL charge on the viability low cost and low value development such as hay barns could be significant. As such, our recommendation is that agricultural development attracts no CIL charge.

Types of Development and Likely Viability

8.5 The other types of development we have considered are:

- **Hostels** (providing no significant element of care) – these are likely to be either charitable or public sector uses such as probation hostels, half-way houses, refuges etc., or low cost visitor accommodation such as youth hostels. Our view is that the charitable uses are dependent upon public subsidy for development and operation, and therefore not viable in any commercial sense. Youth Hostels are operated on a social enterprise basis with small financial returns. Neither of these scenarios offers significant commercial viability.
- **Scrapyards** – it is unlikely that there would be new scrapyard/recycling uses in the district in the future, even given the potential for the price of metals and other materials to rise. They are unlikely because of the comparatively low value compared to existing uses in Ryedale. A further consideration is that these uses are likely to occupy the same sorts of premises as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Petrol filling stations** – we are aware that recent new filling stations have generally come forward as part of larger supermarket developments. It seems unlikely that there will be significant new stand-alone filling station development in Ryedale.

- **Selling and/or displaying motor vehicles** – sales of vehicles are likely to occupy the same sorts of premises and locations as many B2 uses and therefore the viability will be covered by the assessment of the viability of B2 uses.
- **Nightclubs** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Launderettes** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Taxi businesses** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Amusement centres** – these uses are likely to be in the same type of premises as A1 town centre retail uses and covering the same purchase or rental costs. Therefore they are covered by this viability assessment.
- **Casinos** – under the current law casinos can only be built in 53 permitted areas or one of the 16 local authorities allocated one of eight large and eight small casinos under the provisions of the Gambling Act 2005. For a casino to be built in Ryedale the council would have to apply for a special licence and undertake a public consultation. We are not aware of any specific proposals for a casino in Ryedale at the present time.

Scope for a CIL Charge

8.6 Given the minimal scale of development likely to occur for these uses, the likelihood that they will be changes of use rather than new development and their relatively marginal viability, we propose either a nominal base charge or a zero charge.

9 CHARGE RATE OPTIONS

Introduction

9.1 This section of the report sets out how we approach identifying potential CIL charging rates, based on the viability evidence presented above. This is achieved by first establishing the maximum potential rates that are consistent with maintaining the viability of the bulk of development planned in the Core Strategy, and then drawing away from that theoretical maximum to determine an appropriate level of charge.

9.2 We present this exercise separately for residential and non-residential uses and bring the conclusions together into a summary table that can form the basis for the preliminary draft charging schedule.

Residential Development

Maximum Potential Charge Rates

9.3 As mentioned previously, a reasonable benchmark in terms of the profitability/developer's margin is considered to be 20% of total development costs. Some developers prefer to consider margin against the value of development and as such our assessment below also included analysis of maximum potential charge rates base on a return of 20% of GDV on private dwellings and 6% of GDV on affordable dwellings.

9.4 Any profits over and above benchmark levels can be considered to represent the total amount from which a CIL charge could be drawn, whilst maintaining development viability in the majority of cases. In reality, individual schemes may perform better (or worse) than these scenarios, although we have sought to make conservative assumptions throughout. The details of any individual development are almost certain to vary in a number of ways to any generic assessment, depending on the detailed design and density, land price agreed, the build costs a developer can achieve, the level of affordable housing provision negotiated and the capacity of existing infrastructure amongst many other factors.

9.5 It is clear from the viability assessments presented in Section 5 of this report that margins exceed the benchmark margin of 20% of cost in respect of all of the scenarios modelled for the development of houses (both 0.25ha sites, 1ha sites and the 5ha parcels of larger sites) in all market areas) to a greater or lesser degree.

9.6 A sensitivity test of the CIL rate has been undertaken to establish the maximum possible CIL charge rate that is consistent with maintaining viability above the identified benchmark levels in each scenario. The findings of this exercise are set out in Table 9.1 below.

Proposed Charge Ranges & Rates

9.7 As mentioned previously, it is necessary to draw away from these theoretical maxima in setting a charge rate, in order to take account of potential market changes and sites where costs may be slightly higher than typical and/or values somewhat lower. The need to balance generating adequate revenues to fund infrastructure delivery with maintaining the viability of development is the key test in this respect.

9.8 To achieve this balance, our approach is that charge rates should be between 50% and 75% of the identified theoretical maximum. This range is applied to show that the charge rate is based on an equitable proportion of the ‘surplus’ development value and is contributing to the CAs CIL revenues, whilst also demonstrably drawing down from the ceiling of viability. Where within this range the charge is set, can be considered a matter of discretion for the CA, taking account of their attitude to risk in respect of the scale and rate of development likely to come forward in future.

9.9 Simplicity in the charging schedule is also extremely desirable. As such, when seeking to set a charge rate for each market area, it is sensible and appropriate to take the ‘lowest common denominator of the scenarios assessed for each. Our assessment and proposed residential charge rates are set out in Table 9.1 below.

Proposed Charging Zones

9.10 As discussed in section 5, the heat mapping indicates that there may be scope for charge variation as a result of lower sales values that are consistent across the dwelling types. Coupled with the viability assessments that have been undertaken evidence has been gathered to suggest that there is scope for two levels of CIL charge across Ryedale. In order for any differential charging zone to be defined, it is necessary to draw a line on a plan that sets the boundary of it. Our sales value mapping provides the evidential basis for doing so.

9.11 The two charge zones suggested are as follows, and are shown in Figure 9.1 below:

- Lower residential rate – Rillington, Sherburn, Norton East and Norton West wards
- Higher residential rate – All other wards (excluding the National Park).

Figure 9.1: Proposed Charging Zones

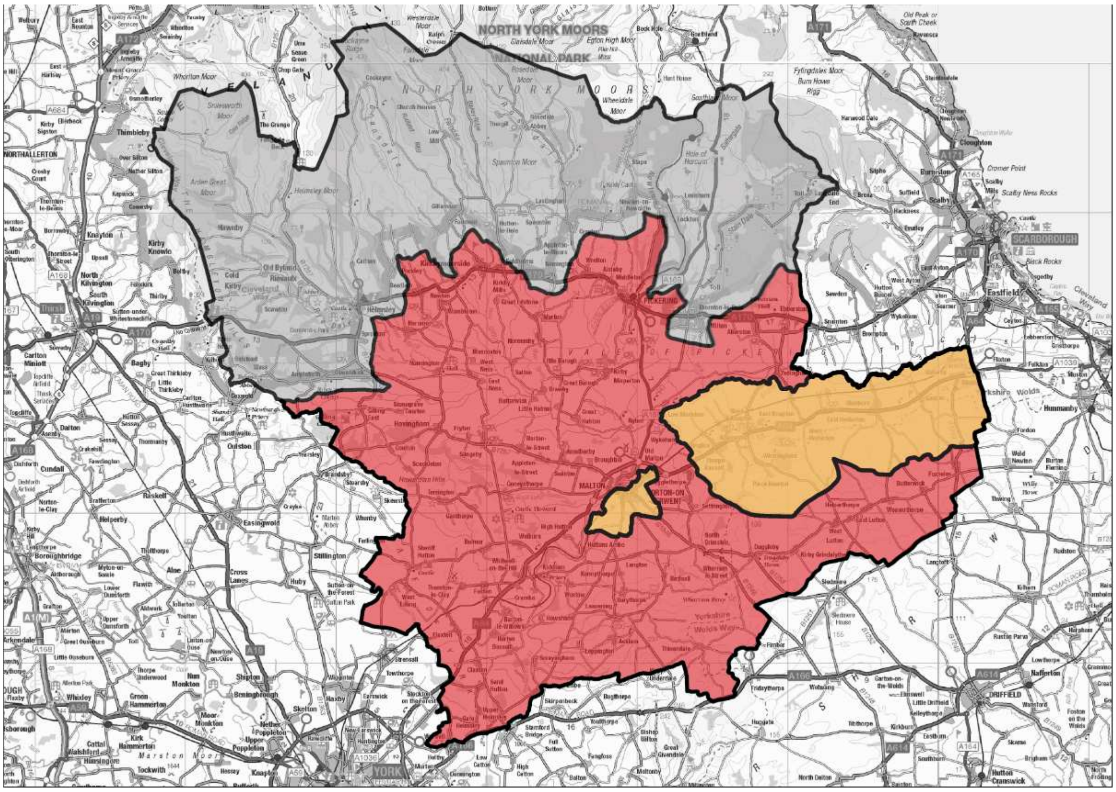


Table 9.1 Residential Maximum Rates, Recommended Rates and Proposed Rates

	Maximum CIL Rate on Cost (per sq. m)[1]	Maximum CIL Rate on Value (per sq. m)[2]	Recommended Rate Range (per sq. m)[3]
0.25 Ha			
Low Value Area	£210	£152	£76-£114
Moderate Value Area	£217	£153	£77-£115
High Value Area	£216	£156	£78-£117
1 Ha			
Low Value Area	£133	£91	£46-£69
Moderate Value Area	£174	£120	£60-£90
High Value Area	£209	£151	£76-£113
5 Ha			
Low Value Area	£147	£103	£52-£77
Moderate Value Area	£171	£121	£61-£91
High Value Area	£164	£113	£57-£85

Notes
1. Rate calculated at 20% of the overall build costs
2. Rate calculated at 20% against the value of market houses and 6% against affordable housing
3. Calculated in line w ith Para. 2.12 (i.e. 50% - 75% of low est maximum rate)

9.12 Our approach in setting charge rates is to apply a 'lowest common denominator' approach. In the case of the lower value scenarios, this lowest range comes from the 1ha scenario which shows a recommended range of £46 - £69 per sq. m. In respect of the moderate and higher value scenarios, the lowest range is found in the 5 hectare higher value scenario, where additional affordable housing contributions are required and suggests a range of £57 - £85 per sq. m.

9.13 On this basis, and taking account of the need to balance maintaining the viability of development with the need to fund the infrastructure required to enable growth (as set out in Section 4), we recommend the follows residential CIL charge rates::

- Low value areas £55
- All other areas £70

Non-Residential Development Viability

9.14 The findings of the non-residential viability appraisals are set out in Table 9.2. It shows the high-level viability assessment for each use based on a comparison of the costs and values of development. The value is a function of prevailing rental levels, capitalised using an assumed yield relevant to the use and the location, less the value of any likely inducements such as rent free periods. Development costs take account of land acquisition costs. No CIL charge is shown at this stage, although an estimate of likely s.106/278 costs is included, based on our experience of developments across the District.

9.15 The shaded row at the bottom of each table shows the viability[33] of development based on the following traffic light assessment:

- Red shaded cells show those uses for which there is a negative residual value after all costs (including developer's margin) are taken into account (i.e. development costs are higher than development value by greater than 10%);
- Amber cells show those uses which are viable, but where values exceed costs (including developer's margin), by less than 10% and could be considered marginal;
- Green cells show those use types where the residual value is greater than 10% of cost and can be considered viable.

9.16 The 10% 'buffer' over and above normal developers margin is to take account of the greater inherent uncertainty in assessing the viability of commercial development in a generic and high level manner, as well as the additional risk involved in undertaking speculative commercial development.

9.17 As can be seen from Table 9.2 below, on viability evidence alone, only supermarket and retail warehouse development are comfortably viable as speculative developments on the basis of the assumptions made. We consider charge rate options for these uses further below. For uses that the assessment shows to be typically unviable or marginal on a speculative basis, that does not mean that no development will take place. Development either by owner occupiers for whom the development economics are different or on sites where the land was acquired for a low value remains plausible. Where such development is forthcoming CIL revenues could be captured by means of a base charge

Table 9.2 Non-Residential Viability Assessments

		Town Centre Office	Business Park Office	Industrial	High Street Comp. Retail	Supermarkets	Retail Warehouses
Rent		£120	£140	£65	£225	£180	£140
Yield %		9.00	8.50	8.00	7.50	5.50	7.50
Minus inducements	1	133	82	41	300	1,636	187
VALUES	2	**1,200**	**1,565**	**772**	**2,700**	**3,109**	**1,680**
COSTS	2						
Land + Purchase Costs	3	100	50	40	1,000	500	250
Basic Build Cost		1,150	925	520	860	990	570
External Works	4	115	93	52	86	119	68
Fees	5	152	102	57	114	133	64
CIL		0	0	0	0	0	0
Section 106/m²	6	0	10	10	0	50	20
Marketing & Sales		60	78	39	135	155	84
Contingencies	7	71	56	31	53	62	35
Interest	8	152	118	68	206	179	97
Margin	9	360	286	163	491	438	238
Total Cost Benchmark		**2,159**	**1,718**	**981**	**2,944**	**2,626**	**1,426**
Values - Costs		**-959**	**-153**	**-209**	**-244**	**483**	**254**
% on Cost		**-44.42%**	**-8.90%**	**-21.29%**	**-8.29%**	**18.38%**	**17.79%**

[33] This traffic light assessment must be treated with caution, as explained earlier; the appraisals are based on a strategic approach and in no way represent site specific valuations.

Maximum Potential Charge Rates

9.18 Table 9.3 below, shows what the maximum possible charge rates, consistent with the bulk of development remaining viable, would be in Ryedale. For those uses where the surplus is greater than 10% of costs (after developer's margin at 20%, which is built in to the assessment), we have tested the maximum extent of CIL charge that could be accommodated whilst still retaining a surplus of 10% of costs to act as a 'buffer' from the ceiling of viability.

Table 9.3 Maximum Charge Rate Assessment

	Supermarkets	Retail Warehouses
Rent	£180	£140
Yield %	5.50	7.50
Minus inducements	1,636	187
VALUES	**3,109**	**1,680**
COSTS		
Land + Purchase Costs	500	250
Basic Build Cost	990	570
External Works	119	68
Fees	133	64
CIL	**166**	**84**
Section 106/m²	50	20
Marketing & Sales	155	84
Contingencies	62	35
Interest	179	97
Margin	471	255
Total Cost Benchmark	**2,826**	**1,527**
Values - Costs	**284**	**153**
% on Cost	**10.04%**	**10.01%**

9.19 The assessment in Table 9.3 shows that the maximum possible charge for convenience retail development, that is consistent with keeping the residual margin at over 10% of cost is £166 per sq. m. The equivalent figure for retail warehouse development is £84 per sq. m.

Base Charge Consideration

9.20 The CIL regulations state that Charging Authorities must balance the viability of development with the need to fund infrastructure investment. Therefore, it is within the discretion of the Charging Authority to decide whether a base charge should be applied to all development, recognising that some development may take place and if it does, it will have infrastructure implications.

9.21 Obviously, such a charge would have to be at a level where it is unlikely to be the determining factor as to whether a development takes place or not. Such a 'de minimis' base charge could be pegged at a ceiling of 1% of the cost of development of the lowest cost development – industrial – which equates to approximately £10 per sq.m.

9.22 It is understood that the Council is not proposing to adopt a 'base charge' approach in Ryedale and as such, marginal uses, those with negative viability and uses not considered as part of this study as a result of their being immaterial in both quantum and strategic importance are proposed to attract a £0 rate.

Recommended Non-Residential CIL Charge Options

9.23 We set out below our recommended range for potential CIL charges on these core commercial forms of non-residential development.

9.24 In the case of each use, we propose a range for any CIL charge that takes account of the need to withdraw from the ceiling of viability. The extent to which the charge draws away from this theoretical maximum is informed by the authority's attitude to development risk, confirmed by discussions with the project steering group and feedback from Council members. The Council will need to consider how the quantum and pace of development would be affected by the level at which CIL is set. If imposing a higher CIL charge could result in less development coming forward and at a slower rate than anticipated, the council will need to assess whether this is acceptable given its Local Plan aspirations. If it is felt that delivery would be put at significant risk, the council should give careful consideration to setting a CIL charge which is further lowered from the theoretical maximum charge.

9.25 These findings are summarised in the Tables 9.4 below.

Table 9.1 Non residential maximum and recommended range of CIL charges

Use	Maximum CIL charge (per sq.m)	Recommended range (per sq.m)	Proposed Charge (per sq.m)
Convenience retail	£166	£83-£124	£120
Retail warehousing	£84	£42-£63	£60
Town centre office	n/a	£0-10	£0
Business park office	n/a	£0-10	£0
Industrial and warehousing	n/a	£0-10	£0
Town centre retail	n/a	£0-10	£0
Education, health & community facilities	n/a	£0	£0

10 PRELIMINARY CHARGING SCHEDULE & REVENUE PROJECTIONS

Introduction

10.1 In this Section, we make recommendations on the content of a Preliminary Draft Charging Schedule, bringing together the conclusions of the preceding sections. We then use these proposed charge levels to calculate the likely level of CIL income over the plan period assuming the envisaged scale of development takes place.

Proposed Preliminary Draft Charging Schedule

10.2 Table 10.1 below summarises the findings and recommendations of the previous sections of this report into a clear and simple proposed charging schedule. The charges set out below reflect the viability evidence and comply with the CIL regulations in every respect, as we understand them. We believe that it is exactly this kind of clarity and simplicity that is being and will be sought by inspectors.

Table 10.1 Proposed Charging Schedule

Use	**Proposed CIL charge (per sq.m)**
Private market houses:	
Lower Charging Zones	£55
All Other Areas	£70
Supermarkets*	£120
Retail Warehouses*	£60
Public/Institutional Facilities as follows: education, health, community and emergency services	£0
All other chargeable development	£0

*As defined in para 6.1 of this report

10.3 As identified in Section 2, in the words of the statutory guidance:

> *'There is no requirement for a proposed rate to exactly mirror the evidence… there is room for some pragmatism'*[34]*.*

10.4 As such, there remains scope for the Charging Schedule to be amended at the discretion of the council.

[34] DCLG (April 2013) *Community Infrastructure Levy Guidance* (Para 28)

Revenue Projections

10.5 In order to give the council a broad indication of the likely potential income from CIL, we set out below in Table 10.2 an assessment of the scale of development of each type likely to be forthcoming over the plan period, and the CIL revenues it would generate at the proposed charging rates. It also provides an annualised figure in the final column.

Table 9.2 Revenue Projection

	CIL Charge per sq.m	No. units in plan period (note 1a)	Market units (note 1b)	Unit floorspace (sq. m) (note 2)	Gross floorspace (sq. m) (note 3)	Estimated net additional proportion	Estimated net additional floorspace (sq. m)	Estimated CIL revenue in plan period	Estimated annual CIL revenue
Residential									
Houses									
Lower Value Zones	55	600	390	100	39,000	95%	37,050	£2,037,750	£135,850
All Other Areas	70	2,400	1560	120	187,200	95%	177,840	£12,448,800	£829,920
Non-residential									
Retail warehouses	60				-	95%	-	£0	£0
Supermarkets	120				1,890	50%	945	£113,400	£7,560
Offices & Industrial	-				234,000	95%	222,300	£0	£0
Other chargeable	-				10,000	95%	9,500	£0	£0
Total								£14,599,950	£973,330

Note 1a: It has been assumed that 20% of homes delivered will be located in the lower value zones and the remaining 80% distributed across the remaining zones

Note 1b: affordable housing is not liable for CIL. We assume that an average of 35% affordable housing is achieved.

Note 2: the average unit size is based on our analysis of new build properties

Note 3: office and industrial floorspace relates to the figure of 45ha in the Local Plan. This is converted into floorspace based on the 85:15 split between industrial and offices with industrial at 40% site coverage with 1 storey, business park offices at 40% site coverage with 3 storeys, and town centre offices at 75% site coverage with 3 storeys. Retail floorspace is taken from the Local Plan less floorspace already completed of with planning permission.

Note 4: CIL is levied on net additional floorspace, so an allowance is made for existing buildings demolished to make way for new development.

Note 5: revenue projections are based on allocated figures and therefore these projections do not take windfall sites into consideration.

11 IMPLEMENTATION

Introduction

11.1 This final section of our report sets out some of the issues involved in adopting and implementing the CIL.

Exceptional Circumstances & Discretionary Relief

11.2 Affordable housing is automatically exempt from paying CIL. In addition, the authority has the option to offer discretionary relief from CIL charges where the landowner is a charitable body and if the development is in line with its charitable purpose. This is a decision taken locally, although there are detailed rules governing entitlement to such relief and its amount. The CA must publish its policy for giving relief in such circumstances.

11.3 A CA can also give relief from the levy in exceptional circumstances, for example where a specific scheme would not be viable if it were required to pay the levy and a signed s.106 agreement that was greater than the value of the CIL charge applicable. Where a CA wishes to offer exceptional circumstances relief it must first give notice publicly of its intention to do so. Claims for relief on chargeable developments from landowners should then be considered on a case by case basis. In each case, an independent person with suitable qualifications and experience must be appointed by the claimant with the agreement of the CA to assess whether:

- the cost of complying with the signed s.106 agreement is greater than the levy's charge on the development; and
- paying the full CIL charge would have an unacceptable impact on the development's economic viability.

Instalment Policy

11.4 Regulation 69B sets out the simplified criteria for enabling a charging authority to instigate an instalments policy for CIL payments. The policy should only contain the following information:

- the effective date of the policy, and number of instalment payments;
- the amount or proportion of CIL payable in any instalment;
- when the instalments are to be paid based on time from commencement; and
- any minimum amount of CIL below which CIL may not be paid in instalments.

11.5 It will be useful to assess the general timeframes for the delivery of development schemes and then consider the phasing of the payments. A possible starting point could be a phased schedule of payments spread over two to three years with two or three payments over this timeframe. This will reduce the financial burden on developers who need to invest up front in infrastructure and construction before they can recoup any development costs through disposals. The Council may wish to consider a minimum amount below which CIL may not be paid in instalments. Any such decision will need to be informed by an assessment of the level of 'smaller' developments that are anticipated.

11.6 Developments which are likely to have a more significant cashflow implication are likely to be those which have a construction period which extends beyond a year or where the scale of the charge exceeds approximately £250,000 (very broadly equal to likely charge from 30 houses).

Administration charges

11.7 There is provision within the CIL Regulations (Regulation 61) to use up to 5 per cent of the CIL receipts towards the administration and set up expenses related to the operation and management of the levy. This will provide the Charging Authority with a useful source of funding to take a proactive approach towards infrastructure delivery and explore opportunities for generating revenue as well as charging.

11.8 The viability assessments undertaken as part of this study have not taken account of any additional administration charges that may be levied on developers; rather, they have assumed that the administration charge will be drawn from the levy as proposed.

Use of CIL Receipts for Revenue Purposes

11.9 The CIL Regulations do allow for CIL receipts to be used for revenue purposes, (maintenance, management etc). However, the clear primary intent of the CIL is to deliver a pot of funding for capital investment in essential infrastructure, rather than to plug shortfalls in revenue budgets. In order to maximise the social and economic benefits of CIL, it is important that capital infrastructure spending is prioritised over revenue spending on maintenance and the like.

11.10 Therefore, it is recommended the CIL receipts in Ryedale will only be used for revenue spending in highly exceptional circumstances. It is important that other approaches to resolving any revenue budget problems, particularly approaches to negotiating and securing Commuted Sums, is fully exhausted before any calls on CIL receipts are made for revenue purposes.

Monitoring and Review

11.11 There are no prescribed review periods for a CIL charging schedule; it is a decision for the CA. We would expect this period to be between three to five years, although much will depend on market conditions and their impacts on development viability, as well as additional lessons learnt from the implementation of the CIL.

11.12 Clearly, the viability of most forms of development has been negatively affected by the recent recession, although it could be considered that the trough in the market cycle has now passed. That said, there is currently little confidence or certainty of a sustained improvement in wider economic conditions, and so significant investments (such as those in property projects) are still being viewed with some caution. We suggest that the Council implements a programme of monitoring market conditions in relation to a series of trigger points for a review. We suggest this monitoring takes place on an annual basis.

11.13 It is known that development viability is most sensitive to changes in development value. Typically a 10% change in the value of development can increase or decrease viability by c30%. Similarly, a 10% change in build costs can affect development viability by c20%.

Other factors which have a significant impact on viability include the density of development and policy requirements, both of which are likely to stay broadly the same over the time period being considered.

11.14 We propose below a set of criteria for assessing whether there has been a material change in market conditions. A change of more than 5% in the capital value of residential development or of 10% in rental values and/or yields of commercial development, would have a significant impact on the viability of development. A change in five or more of the criteria, by more than the threshold level, would indicate a broad-based movement in general market conditions that is likely to justify, or perhaps even necessitate, a review of the charging schedule.

11.15 We therefore propose the following guidelines: If five or more of the following criteria are met, then a review of the Charging Schedule should be considered:

- a 5% change in residential sales values since the date of adoption;
- a 10% change in residential build cost since the date of adoption;
- a 10% change in office rental values since the date of adoption;
- a 10% change in office yields since the date of adoption;
- a 10% change in office build costs since the date of adoption;
- a 10% change in industrial rental values since the date of adoption;
- a 10% change in industrial yields since the date of adoption;
- a 10% change in industrial build costs since the date of adoption;
- a 10% change in town centre comparison retail rental values since the date of adoption;
- a 10% change in town centre comparison retail yields since the date of adoption;
- a 10% change in town centre comparison retail build costs since the date of adoption;
- a 10% change in supermarket rental values since the date of adoption;
- a 10% change in supermarket yields since the date of adoption;
- a 10% change in supermarket build costs since the date of adoption;
- a 10% change in retail warehouse rental values since the date of adoption;
- a 10% change in retail warehouse yields since the date of adoption;
- a 10% change in retail warehouse build costs since the date of adoption;

11.16 A review of the Charging Schedule should automatically occur if:

- The rate of residential development falls below 50% of the long term average for two consecutive years; or
- There is a significant revision to or departure from the Development Plan or a major windfall development is permitted.

11.17 It should be noted that there is a requirement for the Charging Authority to publish a report on its website at the end of each year showing the level of CIL receipts collected and how these have been utilised.