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Firm / Developer	Home Builders Federation (HBF)
On behalf of	Home Builders Federation (HBF)
Site	NA
Date	10/7/20

Stroud District Council

Local Plan Viability Assessment, including CIL Review June 2020 Consultation

1. Stroud District Council is undertaking a Local Plan Review that will set out the future spatial strategy for the District, and will include sites for allocation. HDH Planning & Development Ltd (HDH) has been appointed to update the viability evidence and have prepared an early draft report and this questionnaire for consultation with members of the development industry (in line with the Guidance and best practice).
2. A pre-consultation draft report has been prepared for comment. It is an early working draft setting out the proposed methodology, modelling and assumptions. It is inevitable that some of these will change as a result of the consultation. This early draft report does not include results or recommendations, these will be included following feedback on the base assumptions – and thus ensure that the analysis is firmly based and robust.
3. This questionnaire is being circulated to landowners, site promoters, developers, housing associations, agents and others involved in the local development markets. Consultees are invited to comment on any aspect of this draft report. This questionnaire has been prepared to facilitate comments, however there is no specific need to use the questionnaire form.
4. The pre-consultation draft report sets out the evidence as collated by HDH. It draws on a wide range of sources. It is important that responses submitted through this consultation are supported by evidence. Comments that simply observe a particular assumption is too low or too high are not helpful in establishing the correct assumption. Responses need to be supported by evidence, or alternatively point to sources of evidence that HDH can draw on and use to evidence the changes made in this next iteration of this viability assessment.
5. Please do not feel that you need to comment on all aspects of the report – please comment on those areas where you have expertise. Where there are areas of agreement it is useful for these to be acknowledged.
6. Please return to local.plan@stroud.go.uk by **26th June 2020**.
7. The pre-consultation draft report is set out in Chapters as follows:

Chapter 1

8. This chapter sets out the context to this report.
9. It is important to note that the HDH is a firm of Chartered Surveyors and is therefore regulated by the RICS. The report is prepared in line with the requirements of *Financial viability in planning: conduct and reporting. 1st edition, May 2019*. It is mandatory for Chartered Surveyors to follow this guidance, including surveyors responding to this consultation.
10. Please provide any comments on the context and scope of the project.

Context

Para 1.17 (h) states “HDH confirms that adequate time has been taken to allow engagement with stakeholders through this project (albeit within the restrictions introduced as a result of the Coronavirus pandemic)”. HBF Members were concerned by the originally proposed consultation period of less than 3 weeks ending on 26th June 2020, which was considered very short during this unprecedented time of Covid-19 lockdown. Many in-house planning teams employed by housebuilding companies and planners working for planning consultancies are furloughed and therefore unable to work and respond to the consultation. It was noted that this consultation period also coincided with the Gloucestershire County Council Local Developer Guide consultation (ending on 19th June 2020), which may have put further strain on limited staff resources. A full and fair consultation should provide interested parties with adequate time for consideration and response. The HBF welcomed the Council’s decision to extend the consultation period until 10th July 2020.

Chapter 2

11. This chapter sets out the approach to viability testing, including a review of the requirements of the 2019 NPPF the updated PPG and the CIL Regulations.
12. Please provide any comments on the overall approach taken.

Regulation and Framework.

Para 2.23 states that “this study specifically considers the total cumulative cost of all relevant policies”. In plan-making, viability is very closely linked to the concept of deliverability of development. The viability of individual developments and plan policies should be tested at the plan making stage. Viability testing should assess the cumulative impact of affordable housing provision, policy compliant standards, infrastructure and other contributions. The HBF is concerned that numerous assumptions used in the Base Appraisal (full policy requirement compliant) are under-estimated. Viability assessment should not be conducted on the margins of viability. Without a robust approach to viability assessment land will be withheld

from the market and housing delivery will be threatened, leading to unsound Plans and housing delivery targets not being met.
The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 1 on pages 1 -2 & Part 3 on page 11).

Chapter 3

13. This chapter sets out the methodology used.
14. Please provide any comments with regard to the methodology used, including the use of the 'Existing Use Value Plus' approach.

Methodology

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 1 on pages 1 – 2 & Part 3 on page 11).

Chapter 4

15. This chapter sets out an assessment of the housing market, including market and affordable housing, with the purpose of establishing the worth of different types of housing in different geographical areas. Please provide any comments on the assumptions proposed, providing evidence to support the comments made:
16. The market housing assumptions are set out in Table 4.8 and Table 4.9.

Market Housing Values – Typologies

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 2 (a) on page 3).
It is important that the Council's approach to policy requirements reflects identified variations. The Pre-consultation Residential Price Assumptions (Table 4.8) identify geographical price variations across the District with lower values (£2,650 - £2,750 sqm) identified in the West and the highest values (£3,400 - £3,500 sqm) identified in the Rural East & South. There is limited price variation (£100 sqm) between site typologies except in the Stroud Valleys, where a variation of £350 sqm between urban flatted schemes (£2,700 sqm) and large greenfield schemes (£3,050 sqm) was identified. These residential price assumptions should be kept under review for any impact of Covid-19 pandemic on the economy and consumer confidence.

Market Housing Values – Strategic Sites
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The HBF have no comments on individual Strategic Sites set out in Table 4.9. Market housing values should be agreed in consultation with the landowners / developers / promoters of these Strategic Sites.
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17. The assumptions for the Build to Rent sector are set out in Table 4.14.

Build to Rent Housing Values

The HBF have no comments on Build to Rent Housing Values set out in Table 4.14. These values should be agreed in consultation with the landowners / developers / promoters of such Build to Rent Housing Schemes.

18. The affordable housing assumptions are set out in paragraphs 4.61, 4.68 and 4.69.

Affordable Housing Values

Affordable Housing Values are identified as social rent £1,280 sqm (para 4.61), affordable rent £1,900 sqm (para 4.68) and shared ownership 70% market value (para 4.69) based on a capitalisation of rents calculation. These theoretical values should be justified against evidence of comparable transactions with Registered Providers of actual prices paid.
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19. The assumptions for specialist older peoples housing are set out in paragraph 4.76.

Older Peoples Housing Values

The HBF have no comments on Older Peoples Housing Values of £3,900 sqm for Sheltered Housing and £4,200 sqm for Extracare (para 4.76). These values should be agreed in consultation with the Retirement Housing Group.

Chapter 5

20. This chapter includes an assessment of the non-residential market. The assumptions for non-residential uses are set out in Table 5.2. Are these in line with your understanding of the market?

Non-Residential Values

The HBF have no comments on non-residential values.

Chapter 6

21. This chapter includes an assessment of the approach to Existing Use Value and to establishing Benchmark Land Value.
22. The EUV assumptions are set out in Table 6.7. Are these in line with the current market?

EUV Assumptions

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 2 (f) on page 10).
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23. The BLV assumptions are set out in Paragraph 6.37. Does the BLV provide an adequate landowner's premium? If not why not and what assumption should be used – and why?

BLV Assumptions

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 2 (f) on page 10).
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The proposed Benchmark Land Values (BLV) are :-

- Brownfield - £780,000 per hectare (based on Existing Use Value (EUV) of £650,000 per hectare (from Table 6.7) plus 20%) : and
- Greenfield - £375,000 - £400,000 per hectare (based on agricultural land at £25,000 per hectare or paddock land at £50,000 per hectare (from Table 6.7) plus £350,000 per hectare).

HCA Area Wide Viability Model (Annex 1 Transparent Viability Assumptions) dated August 2010 identified that “benchmarks and evidence from planning appeals tend to be in a range of 10% to 30% above EUV in urban areas. For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value”.

The proposed premiums are midway or in the case of paddock land lower than (only 8 times) the ranges identified by HCA. These proposed BLVs may provide insufficient incentive to landowners of greenfield sites to sell. As noted in the Harman Report “prospective sellers are often making a once in a lifetime decision and are rarely distressed or forced sales”.

Chapter 7

24. The cost and general development assumptions to be used in the development appraisals are set out through this chapter. Do the assumptions used reflect current development costs in the District?

Construction and development costs

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 2 (d) on page 4). The HBF also note the following points :-

- para 7.4 states that median BCIS costs are used except for the Strategic Sites where lower quartile BCIS costs are used. New build housing is built to a high specification therefore median rather than lower quartile BCIS figures should be the starting point. The appropriateness of this differentiation between strategic and non-strategic sites should be agreed in consultation with landowners / developers / promoters of individual Strategic Sites ;
- paras 7.5 - 7.7 deal with other normal development costs, which are not included in BCIS costs. The proposed allowance of 5% for smaller sites and 15% for larger greenfield sites may not cover all costs associated with externals and general overheads ;
- under para 7.12 all abnormal costs (other than 5% allowance for brownfield sites) are ignored. It is assumed that if residual land value excluding abnormal costs is greater than BLV, development is viable. If the residual land value including abnormal costs falls below BLV, development remains viable because such abnormal costs are deductible from BLV. If abnormal costs are high, then the premium uplift should be reduced and borne by the landowner rather than by a loss of planning gain as set out in the Gedling Local Plan Part 2 Inspector's Final Report (para 7.11). However, this Inspector's findings pre-date 2019 NPPF and if the resultant figure provides insufficient incentive for a reasonable landowner to bring forward their land for development then the deliverability of the Local Plan is threatened. If the BLV is lower than the market value at which land will trade the delivery of housing targets will not be met. The NPPG specifically states (ID : 10-014-20190509) that BLV should "reflect the implications of abnormal costs" therefore abnormal costs should be recognised and acknowledged as forming an integral part of establishing BLV and a reasonable incentive for landowners to sell ;
- para 7.14 sets out professional fees of 8%. The Harman Report recommended 8% – 10% for straightforward sites up to 20% for complex strategic sites ;
- para 7.15 contingencies should be expressed as a % of total build costs (BCIS unit build cost, externals & abnormals (HBF emphasis due to the exclusion of such costs)) including fees ;
- para 7.17 sets out S106 allowance of £5,000 per dwelling (excluding Strategic Sites). This figure should be reviewed if higher education

contributions set out in the recent consultation on Local Developer Guide SPD are sought by Gloucestershire County Council ;

- para 7.21 sets out interest rates of 6%. The HCA currently uses a range of 5% - 7%. The HBF recommends between 6.5% - 7% ;
- para 7.31 sets out a Developer Return of 17.5% for market housing and 6% for affordable housing. The combination of these margins will result in a blended developer return at the bottom end of the 15 – 20% range set out in the NPPG. This may not reflect the risk profile of development. The origin of the 6% margin for affordable housing is somewhat dated and based upon the assurance of a bulk sale to an RSL. The appropriateness of this assumption may no longer apply given a move towards affordable homeownership products, which are sold to individuals. Where a pre-sale of affordable housing to an RSL guarantees an end sale then a reduced level of profit may be justified as risk is significantly reduced however if housing mix policies propose starter homes, low cost homeownership products or other intermediate tenures, bulk sales are no longer guaranteed and higher profit margins should be applied. A fair and reasonable return for developers reflective of the particular risk profile of a specific scheme should be secured. An acceptable cash flow (Return On Capital Employed – ROCE) should also be secured. The NPPG outlines what is considered a reasonable profit assumption for viability assessment at plan making stage, which is 15 – 20% of Gross Development Value but the NPPG stresses that alternative figures can be considered dependent upon risk profile. An acceptable return is essential for the effective delivery of development. If it is eroded too far this will act as a deterrent to investment or no investment at all ;
- para 7.35 sets out a delivery rate 50 dwellings per annum. This should be reviewed for any impacts on productivity due to construction sites operating under Covid-19 social distancing rules ;
- para 7.37 sets out acquisition costs of 1% plus 0.5% legal fees. The Harman Report recommends 1% - 2% for agent fee costs and 1% - 2% for legal fees ; and
- para 7.39 sets out sales costs of 3.5%. The Harman Report recommends 3% - 5%.

In summary, the HBF is concerned that the cumulative impact of setting the above assumptions at the lower to middle end of possible ranges will over-estimate the viability of development across the District.

Chapter 8

25. This chapter includes a summary of the policy requirements that may apply to new development, together with our understanding of how they are likely to be implemented and whether they may add to the costs of development.
26. Does this correspond to the working of the policies on the ground?

Current Local policy requirements

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 2 (d) on page 6). The HBF also note the following points :-

- As set out in Planning Inspectorate Guidance for Local Plan Examination evidence should be kept up to date. Any pre-2020 based additional costs for policy requirement compliance should be updated and inflationary increases included. This should be applied to £100 per dwelling (2014-based cost) for optional water efficiency standard (para 8.13), £521 for M4(2) and £10,111 for M4(3) per dwelling (2015-based costs) (para 8.22) and DEFRA Biodiversity Net Gain Delivery Costs (2017-based prices) (para 8.79) ;
- para 8.15 refers to adopted Core Policy CP6 - Infrastructure & Developer Contributions. A S106 allowance of £5,000 per dwelling (excluding Strategic Sites) is set out in para 7.17. This figure should be reviewed if higher education contributions for pre-school & primary of £15,091 per space and for secondary & post-16 £23,092 per space are sought by Gloucestershire County Council. The CIL Rate Index (2020) of £96.44 sqm for general housing and £0 for Strategic Sites & sites in Stroud Valley set out in para 8.89 should be used ;
- para 8.19 refers to adopted Core Policy CP7 - Lifetime Communities, which does not require optional standards for accessible & adaptable homes. If the Council wishes to adopt M4(2) and / or M4(3) standards in a new or amended Policy, these requirements should be fully justified by supporting evidence in accordance with the 2019 NPPF & latest NPPG and viability tested. Para 8.22 sets out cost for M4(2) and M4(3), it is noted that M4(3) costs are significantly higher for apartments rather than houses. It is also noted that M4(2) and M4(3) compliant dwellings are larger than NDSS (see DCLG Housing Standards Review Illustrative Technical Standards Developed by the Working Groups August 2013). Larger sizes should be used for additional build costs and any other costs calculated on square meterage such as CIL ;
- para 8.31 refers to adopted Core Policy CP9 - Affordable Housing, which requires within the Cotswolds AONB or the Designated Rural Areas on sites of 4 or more dwellings and in all other areas, on sites of 10 or more dwellings provision of at least 30% affordable housing. The adopted Policy is not compliant with the affordable housing tenure requirements of 2019 NPPF (para 64). A variety of affordable housing provision scenarios should be viability tested ;
- para 8.41 refers to adopted Delivery Policy HC3, which requires a minimum of 2% self & custom build plots on allocated strategic residential

development sites. This Policy should be viability tested including impacts of not selling plots on cashflow ;

- para 8.47 refers to NEW Delivery Policy DHC5 - Wellbeing & Healthy Communities. *Para 8.50* sets out a contribution for off-site provision of £4,000 per dwelling ;
- para 8.61 refers to adopted Delivery Policy ES1 - Sustainable Construction & Design. All development should achieve net-zero carbon (an on-site overall minimum 35% reduction in emissions over Part L 2013 Building Regulations) by a minimum of 10% - 15% reduction in emissions over Part L 2013 Building Regulations through fabric energy efficiency improvements and offsetting residual emissions through payments to Stroud District Council carbon offset fund. Major development proposals should calculate and minimise carbon emissions from any other part of the development, including plant or equipment not covered by Building Regulations, i.e. unregulated emissions. Under NEW Core Policy DCP1 - Delivering Carbon Neutral by 2030, all new development must follow the Energy Hierarchy principle of reducing energy demand, supplying energy efficiently / cleanly and using onsite low or zero carbon energy generation to meet standards, which move progressively towards zero carbon, in terms both of regulated and unregulated emissions. New development should be constructed to achieve the highest viable energy efficiency. The Council's adopted and proposed new Policy go beyond the requirements of the Government's Future Homes Standard by seeking to reduce regulated and non-regulated emissions. The Future Homes Standard adds under Option 1 £2,557 per dwelling (circa 2.5% onto base build cost) and under Option 2 £4,847 per dwelling (circa 3.1% onto base build cost)(paras 8.62 – 8.64). The Centre for Sustainable Energy Cost of Carbon Reduction in New Buildings (Currie & Brown, December 2018) suggests 5 - 7% uplift to achieve net-zero regulated domestic emissions or 7 - 11% uplift to achieve net-zero total domestic emissions (both regulated & unregulated) (para 8.65). To comply with the Council's proposals base build costs should be uplifted by 11% ;
- para 8.69 confirms that adopted Policy ES1 also requires Electric Vehicle Charging Points (EVCPs). An additional cost of £976 per space is proposed, which is the cost identified in the Department for Transport consultation on Electric Vehicle Charging in Residential & Non-Residential Buildings (ended on 7th October 2019). However, the Government's consultation also recognised that the costs of installing the cables and the charge point hardware will vary considerably based on site-specific conditions in relation to the local grid. The introduction of EVCPs in new buildings will impact on the electricity demand from these buildings especially for multi-dwelling buildings. A requirement for large numbers of EVCPs will require a larger connection to the development and will introduce a power supply requirement, which may otherwise not be needed. The level of upgrade needed is dependent on the capacity available in the local network resulting in additional costs in relation to charge point instalment. The Government recognises that the cost of installing charge points will be higher in areas where significant electrical capacity reinforcements are needed. In certain cases, the need to install charge points could necessitate significant grid upgrades which will be costly for the

developer. Some costs would also fall on the distribution network operator. The cost of upgrades should be taken into consideration ;

- para 8.71 refers to Delivery Policy DES3 - Heat Supply, which requires development to include a communal low-temperature heating system where viable. The heat source for the communal heating system should be selected in accordance with the heating hierarchy of connection to local existing or planned heat networks, use of zero-carbon renewable heat or CHP and use of local ambient or secondary heat sources (in conjunction with heat pumps if required). Where a local heat network is planned but not yet in existence or connection is not currently viable, but may become viable in the future, the development should be designed to allow for the cost-effective connection and supply at a later date. This is a potentially costly policy with costs estimated at £3,000 – 7,000 per dwelling (para 8.73). Policy DES3 should be modelled to establish viability ;
- para 8.79 refers to adopted Delivery Policy ES6 - Providing for Biodiversity & Geodiversity. Development shall provide a net gain in biodiversity. Adopted Core Policy CP8 - New Housing Development also expects major residential development to enhance biodiversity on site and, where appropriate, through a network of multifunctional green spaces, which support the natural and ecological processes. Additional costs for biodiversity gain are significant, which should be included in viability testing. The DEFRA Biodiversity Net Gain & Local Nature Recovery Strategies : Impact Assessment Table 14 : Net Gain Delivery Costs (Residential) sets out regional costs in South West of £18,470 per hectare of development but there are significant increases in costs to £63,610 per hectare for off-site. The proposed increase of 5% in site costs to reflect £20,000 per hectare (para 8.79) plus an increase of 1% on professional fees (para 8.80) may under-estimate actual costs. The DEFRA Biodiversity Net Gain & Local Nature Recovery Strategies : Impact Assessment Table 14 : Net Gain Delivery Costs (Residential) also estimates 4.8 unit loss per hectare of development for biodiversity. The Government has confirmed that more work needs to be undertaken to address viability concerns raised by the housebuilding industry in order that net gain does not prevent, delay or reduce housing delivery ;
- para 8.83 refers to adopted Delivery Policy ES16 - Public Art Contributions requires proportionate contributions towards the provision of publicly accessible art and design works from development proposals comprising major residential schemes. The level of contribution will be negotiated on an individual basis dependent upon the nature of the development proposal and the impact of this requirement on the economic viability of the development proposal. It should not be assumed that public art contributions are included in S106 allowance of £5,000 ; and
- para 8.94 if developer contributions towards education provision are increased as proposed by Gloucestershire County Council then these higher costs should be included in Base Appraisals rather than only sensitivity tested. The County Council cannot assume that viability assessments will be carried out on a site by site basis at planning applications stage (see para 45 of Local Developer Guide). The 2019 NPPF determines that contributions sought from developers will be set out in Local Plan policies and viability tested at plan-making rather than planning

application stage. It should be noted that HBF Members consider that the County Council's identified Pupil Product Ratios are overly high by comparison to other comparators and take no account of the fact that a proportion of pupils resident in new developments already attend local schools.

28. The government has consulted on several new areas of policy (such as the move towards zero carbon, bio-diversity net gain, First Homes). Are there other emerging national policies that should be taken into account?

Emerging National policy requirements

The HBF consider that The Future Homes Standard, Biodiversity Gain and First Homes should be accounted for in the Council's viability assessment.

Chapter 9

29. The modelling is based on the expected development over the period until the Local Plan is reviewed.
30. Do the typologies reflect the expected range of residential development?

Typologies

The Council and HDH Consultants are referred to the HBF Local Plan Viability Guide dated September 2019 (see Part 2 (b) & (c) on pages 3 & 4). The HBF also note the loss of developable acreage to biodiversity gain (see HBF's response to para 8.79 above).

It is noted that 45% of Draft Allocations (excluding Strategic Sites) are brownfield or mixed developments (Table 9.3). 21% of greenfield sites (Table 9.4) / 45% of brownfield sites (Table 9.5) (excluding Strategic Sites) have a capacity of less than 10 dwellings. Previously the Local Plan Inspector concluded that 30% affordable housing provision "may not be achievable on a few brownfield sites with abnormal costs" and "thresholds may have implications for the viability and delivery of smaller housing sites".

31. Are the assumptions used for the strategic sites appropriate?

Strategic Sites
The HBF have no comments on individual Strategic Sites set out in Table 9.8. The details should be agreed in consultation with the landowners / developers / promoters of these Strategic Sites.

32. Do the assumptions (such as gross/net and density) reflect local practice?

Modelling Assumptions
In summary, the HBF is concerned that numerous assumptions used in the Base Appraisal (full policy requirement compliant) are under-estimated.

33. Several non-residential uses have been modelled, do others need to be included?

Non-residential Development Modelling Assumptions
The HBF have no comments on modelling assumptions of non-residential development.

Chapter 10

34. In due course this chapter will set the results of the appraisals and consideration of residential development. It is planned to test the following scenarios:
- a. Differing affordable housing tenure mixes.
 - b. Affordable Housing Mix
 - c. Starter Homes and First Homes.
 - d. Part M of Building Regulations (Accessible and Adaptable etc).
 - e. Construction standards and the move towards zero carbon.
 - f. Developer contributions.
 - g. Biodiversity net gain as envisaged by national policy direction.
 - h. Alternative delivery mechanisms, such as self and custom-build housing.
 - i. A review of CIL
 - j. Impact of changes in costs and values.
35. Should further sensitivity testing be carried out?

Development Scenarios and Sensitivity Testing
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<p>The HBF is concerned that assumptions used in the Base Appraisal - full policy requirement (para 10.6) are under-estimated. Viability testing is an iterative process, some scenarios / variables to be included in sensitivity testing will become integral to the Base Appraisal.</p>
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Chapter 11

36. In due course this chapter will set the results of the appraisals and consideration of residential development.

Chapter 12

37. In due course this chapter will set out recommendations as to whether CIL should be introduced and if so at what levels.

Thank you in advance for completing this form