



## **Caerphilly County Borough Council and Merthyr Tydfil County Borough Council**

### **Draft Community Infrastructure Levy (CIL) Joint Examination**

### **Statement of Common Ground Savills**

**Examination January 2014**

**Joint submission:**

Examination Statement reference :

ES 6

Submission date :

January 2014

## **Community Infrastructure Levy (CIL) Draft Charging Schedules**

### **Draft Statement of Common Ground**

**10 January 2014**

#### **Between:**

- 1) Savills (UK) Ltd on behalf of a Developer and Landowner Consortium (Llanmoor Homes, Persimmon Homes/Charles Church, Redrow Homes, Taylor Wimpey hereafter known as the Consortium).
- 2) Caerphilly County Borough Council (Caerphilly CBC) – the Local Planning Authority and CIL Charging Authority for Caerphilly County Borough; and Merthyr Tydfil County Borough Council (Merthyr Tydfil CBC) – the Local Planning Authority and CIL Charging Authority for Merthyr Tydfil County Borough.

### **1 Background and Context**

- 1.1 This statement has been prepared by the above parties to identify the common ground between the two CIL Charging Authorities and the Consortium with regard to the overall approach of testing viability and a number of key viability assumptions prior to the Examination in Public on Tuesday 14<sup>th</sup> January 2014.
- 1.2 Savills have submitted representations to both authorities Draft Charging Schedule consultations on behalf of a Developer and Landowner Consortium comprising Llanmoor Homes, Persimmon Homes/Charles Church, Redrow Homes, Taylor Wimpey, hereafter known as the Consortium.
- 1.3 For the avoidance of doubt when referring to Savills as a party in this statement that refers to the membership of the Developer and Landowner Consortium it represents.

### **2 Areas of Agreement (in principle)**

- 2.1 A residual valuation calculation is an appropriate appraisal model to strategically assess viability across the study area.
- 2.2 It is appropriate to have regard to the Building Cost Information Service (BCIS) median average construction costs and other relevant market information.
- 2.3 Nil Social Housing Grant (SHG) support should be assumed though it is acknowledged that this will be a pessimistic assumption in a minority of cases.
- 2.4 The viability evidence supports the differentiation of the study area into three charging zones for Caerphilly CBC – Lower Viability, Mid-range Viability and Higher Viability The geographical distribution of the three zones, adequately reflect the housing market areas in Caerphilly CBC.
- 2.5 The CIL Rate as set in each zone should have regard for adopted development plan policies and should enable policy compliance.
- 2.6 There should be an adequate viability buffer.

2.7 An appropriate CIL rate for the lower viability charging zone is £0 per sq metre.

2.8 An appropriate CIL rate for the mid-range viability charging zone in respect of Caerphilly CBC is £25 per sq metre.

### **3. Areas of Disagreement (in principle)**

3.1 Savills maintain their objection to the broad assumptions that have been used to inform the viability assessments within the DVS Study. Savills view is that “in the round” all of the allowances within the DVS study are at the lowest end of the scale of reasonableness, so when judged in the context of all inputs, allowances and buffers, they are insufficient.

For ease of reference Table 1 at Appendix A provides an overview of these assumptions and illustrates clearly where the disagreement is between Savills and the District Valuer Service (DVS).

3.2 Savills consider that the DVS evidence does not justify a £40 per sq m CIL charge in the Caerphilly Basin - Higher Charging Zone where there is currently a 40% affordable housing provision.

3.3 Savills maintain that the DVS evidence does not justify a positive CIL charge in Merthyr Tydfil CBC when the evidence for the Local Authority area is considered in isolation of the adjoining authorities.

## Appendix A

**Table 1: Comparison of Assumptions**

	<b>Savills/HBF</b>	<b>DVS</b>	<b>Comment</b>
<b>Benchmark Land Vales (Caerphilly)</b>	<p>Eastern, Central and Southern Areas - £200,000 - £250,000 per net acre</p> <p>Northern Areas - £100,000 - £150,000 per net acre</p> <p>Western Areas - £150,000 - £200,000 per net acre</p> <p>Note* Values given as part of Preliminary Draft Charging Schedule representation</p>	<p>Eastern, Central and Southern Areas - £200,000 - £225,000 per net acre (10 sites)</p> <p>Northern Areas - £80,000 - £90,000 per net acre (2 Greenfield sites)</p> <p>Western Areas - £100,000 (1 Greenfield site)</p>	
<b>Sales Values (Caerphilly)</b>	<p>£185psf (Caerphilly Basin)</p> <p>£170psf (Northern Connection Corridor)</p> <p>These values are considered the highest average achievable in these locations.</p>	<p>Average values included within the study were:</p> <p>£164 psf (Caerphilly Basin)</p> <p>£149 psf ( Northern Connections Corridor).</p>	<p>Average site by site sale values are listed within the viability study.</p> <p>The property market has been improving since the original testing was completed.</p>

<b>Affordable Housing</b>	Nil Social Housing Grant (SHG)	Nil Social Housing Grant (SHG)	It is assumed that some SHG will be available to future schemes but since a large number of affordable homes will be delivered without SHG, it is considered best to adopt a cautious approach.
<b>Density</b>	14 units per acre/14,500 sq ft per acre 34.6 Dwellings per hectare.	30 Dwellings per hectare	Density has been calculated on a site by site basis. A typical Study rate would be circa 30 dwellings per hectare
<b>Sales Rates</b>	2.5 units per month	The DVS sales rates vary from site to site dependent upon market conditions and scale of site.  The rates adopted across the sites vary from 1 sale per calendar month up to 4 sales per month.	The average DVS sales rate adopted in the study is similar to Savills notional sales rate.
<b>Build Costs</b>	BCIS (£70psf)	BCIS (£68.65 psf)	The comparable baseline BCIS average cost (adjusted to the locality) adopted at the time of the Study was £739 per square metre, which calculates to be £68.65 per square foot.  Build cost inflation has occurred since the original testing was completed and that of Savills consultation response. The current BCIS average cost (for both Mid Glamorgan & UK) for estate housing is £863 per sq metre, which calculates to be £80 per square foot.
<b>Contingency</b>	3% of total construction cost	2.5% of total construction cost	

<b>External Costs</b>	27% of base build costs	17.5% of build costs	<p>The default allowance within the viability study for external works and sustainability was an addition of 17.5% of build costs (for residential development sites).</p> <p>Savills allows for potential site costs as evidenced in their Draft Charging Schedule representation, given the Brownfield strategy adopted in the development plan policies.</p>
<b>Fire Sprinklers</b>	£3,075 per plot	£0	<p>The Welsh Government has confirmed there is to be a phased introduction of fire sprinklers (with the regulations applying to high risk properties, such as care homes, from April 2014 and new and converted dwellings from January 2016).</p>
<b>Developer Profit</b>	<p>20% of GDV (Market Housing)</p> <p>6% (Affordable)</p>	<p>17.5% of GDV (Market Housing)</p> <p>4.76% (Affordable)</p>	<p>A baseline developer profit of 17.5% has been made on private housing (and sensitivity analysis undertaken within the range of 15 – 20%) and 4.76% return on the affordable housing.</p>

<b>Purchasers Costs</b>	5.5% (Stamp Duty, Agents & Legal costs)	<p><b>Stamp Duty</b> – The percentage allowance made was in each case in accordance with HM Revenue &amp; Customs % rate for the benchmark land value adopted (i.e. the rate naturally varies from site to site).</p> <p><b>Sale Agent Costs</b> – 0.75%</p> <p><b>Legal Costs</b> – 0.75%</p>	
<b>Professional Costs</b>	8% of cost	8% of cost	
<b>Sales &amp; Marketing Costs</b>	<p>On average, Savills allowance is circa 3.5% of GDV</p> <p>Savills make an allowance for 3.0% marketing plus £750/500 per unit for legal costs on the private and affordable homes respectively.</p> <p>The majority of new homes sold in the borough will be larger volume developments which will require the provision of show homes, on-site sales staff and pro-active marketing.</p>	<p>The default allowance was 2% sales costs plus 1% legal costs (i.e. 3.0% in total) for the larger sites with dedicated sales teams and 1% sales plus 1% legal costs for the smaller sites which could be marketed by local agents (i.e. 2.0% in total).</p> <p>For the affordable housing, the Study adopted 0.5% sales plus 1% legal costs for the smaller sites that could be marketed by local agents (i.e. 1.5% in total). The Viability Study allowances are inclusive of "agency" and "marketing" costs.</p>	

<b>Finance costs</b>	Savills cash flow assumes a 7% debit rate and 0.0% credit rate.	Assumed a 6% debit rate and 5.2% credit rate	