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TRAFFORD COUNCIL

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Trafford Borough Council

Trafford Community Infrastructure Levy (CIL): Infrastructure and Economic Viability Study

Final Report | July 2012

26357-002

CONTENTS

EXECUTIVE SUMMARY

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. 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.

3. 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[1]. In this and other ways, CAs have significant discretion in setting charging rates.

4. 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.

5. 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)

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

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

7. Assessments of residential development have been done for development on sites within the following market sub areas:

- Cold - Old Trafford, Carrington and Partington;
- Moderate - Urmston, Stretford and Sale; and
- Hot - Altrincham, the Mersey Valley and Rural Communities.

8. Separate assessments have also been undertaken for apartment and house schemes.

9. Our assessments sought initially to establish the maximum potential charge rates (consistent with maintaining viability) in each case. 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. The maximum potential charge rates for residential development types are considered to be:

- Market housing in the cold market sub-area: £39 per sq.m
- Market housing in the moderate market sub-area: £64 per sq.m
- Market housing in the hot market sub-area: £117 per sq.m
- Apartment developments in the cold market sub-area: N/A
- Apartment developments in the moderate market sub-area: N/A
- Apartment developments in the hot market sub-area: £97 per sq.m

10. 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
- Out of centre comparison retail
- Convenience retail
- Education, health and community facilities

11. 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 – N/A
- Business park offices – N/A
- Industrial/warehouse – N/A

- Retail in the defined town centres – N/A
- Comparison retail outside of a defined centre - £123 per sq.m
- Convenience retail outside of a defined centre above 280 sq.m[2] - £320 per sq.m.

12. 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.

13. As discussed above, it is at the discretion of the CA to determine how far below this theoretical maximum any charges should be set.

14. 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 in:	
Cold market sub-area	£20
Moderate market sub-area	£40
Hot market sub-area	£80
Apartments in:	
Hot market sub-area	£65
Comparison retail outside of a defined centre	£75
Convenience retail outside of a defined centre and above 280 sq.m (net additional floorspace)	£250
Public/Institutional Facilities as follows: education, health, community and emergency services	£0
All other chargeable development	£10

[2] The Sunday Trading Act 1994 defines 'small shops' as being less than 280 sq.m net floor area.

1 INTRODUCTION

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

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 our approach to 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 Trafford.
- 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.

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 (sq.m), 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 Charging 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
- The CIL Regulations 2010[3], as amended in 2011[4]
- The CIL Guidance, which is statutory guidance, i.e. it has the force of law[5].

2.3 To help Charging Authorities (CAs) meet these requirements, the government has also produced non-statutory advice, comprising:

- CIL overview documents;[6] and
- Documents on CIL relief[7].

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

Finding the balance

2.5 Regulation 14 requires the Charging Authority (CA) to 'aim to strike what appears to the CA 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.

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, CIL is expected to have a positive economic effect on development across an area in the

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[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] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* http://www.communities.gov.uk/publications/planningandbuilding/cilguidance

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

[7] http://www.communities.gov.uk/documents/planningandbuilding/pdf/19021101.pdf

medium to long term. In deciding the rate(s) of CIL for inclusion in its draft charging schedule, a key consideration for authorities is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing CIL upon development across their area. The CIL regulations place this balance of considerations at the centre of the charge-setting process. In view of the wide variation in local charging circumstances, it is for charging authorities to decide on the appropriate balance for their area and how much potential development they are willing to put at risk through the imposition of CIL. The amount will vary. For example, some charging authorities may place a high premium on funding infrastructure if they see this as important to future economic growth in their area, or if they consider that they have flexibility to identify alternative development sites, or that some sites can be redesigned to make them viable. These charging authorities may be comfortable in putting a higher percentage of potential development at risk, as they expect an overall benefit.

In their background evidence on economic viability to the CIL examination, charging authorities should explain briefly why they consider that their proposed CIL rate (or rates) will not put the overall development across their area at serious risk'. [8]

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 otherwise 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 Common sense suggests that this 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 considerable discretion in this matter. This point is stressed repeatedly in the official documents. For example, the statutory guidance says:

'It is for charging authorities to decide what CIL rate, in their view, sets an appropriate balance between the need to fund infrastructure and the potential implications for the economic viability of development…

'The legislation… only requires a charging authority to use appropriate available evidence to 'inform the draft charging schedule'. A charging authority's proposed CIL rate (or rates) should appear 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'. [9]

2.9 The guidance adds that charging authorities should 'take a strategic view across their area and should not focus on the potential implications of setting a CIL for individual

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[8] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (5)

[9] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (10)

development sites in a charging authority's area. Regulation 14 recognises that the introduction of CIL may put some potential development sites at risk'.[10]

2.10 This reinforces an earlier message: 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 it strikes the appropriate balance overall, and hence does not put the overall development of the area at risk. Significant discretion is afforded to CAs to set the balance they consider best for the area as a whole.

Keeping clear of the ceiling

2.11 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… In setting a CIL rate, [they] will need to bear in mind that economic circumstance and land values could change significantly during the lifetime of the charging schedule'.*[11]

2.12 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 even with the best will in the world.

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

Varying the charge

2.13 CIL Regulations (Regulation 13) allows the charging authority to introduce charge variations by geographical zone in its area, by land use, or both. As part of this, some rates may be set at zero. But variations must reflect differences in viability alone; they cannot be based on policy considerations. Nor should differential rates be set by reference to the costs of infrastructure.

2.14 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'[12]. Moreover 'it would not be appropriate to seek to draw zones on the basis of individual sites'[13] or in ways that 'impact disproportionately on a particular sector, or small group of developers',[14] otherwise the CIL may fall foul of State Aid rules.

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[10] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (8)

[11] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (10)

[12] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (12)

[13] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (13)

[14] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (13)

Supporting evidence

2.15 The legislation requires a charging authority to use 'appropriate available evidence'[15] to inform their charging schedules. The statutory guidance expands on this, explaining that the available data 'is unlikely to be fully comprehensive or exhaustive'[16].

2.16 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. This suggests that the viability calculations may leave aside geographical areas or land uses which are expected to see little or no development over the plan period.

Chargeable floorspace

2.17 CIL will be payable on 'most buildings that people normally use'[17]. It will be levied on the net additional floorspace created by any given development scheme[18]. Any new build that replaces existing floorspace on the same site will be exempt from CIL, even if the new floorspace belongs to a higher-value use than the old. Such floorspace will only be disregarded where 'it has been in continuous lawful use for at least six months in the 12 months prior to the development being permitted'[19].

2.18 In more urban parts of Trafford, where the development will generally take place on previously developed land, a proportion of new development is therefore likely to escape the levy as it is simply replacing existing floorspace. The main source of CIL revenue will be the intensification of sites that are already built up.

What the examiner will be looking for

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

- *The charging authority has complied with the required procedures;*
- *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 put at serious risk the overall development of the area'*[20].

[15] Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (9)
[16] Section 212 (4)(b) quoted in DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (9)
[17] DCLG (May 2011) *Community Infrastructure Levy – An Overview* (para 38)
[18] DCLG (May 2011) *Community Infrastructure Levy – An Overview* (para 39)
[19] DCLG (May 2011) *Community Infrastructure Levy – An Overview* (para 40)
[20] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (5)

Summary

2.20 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'*.

2.21 As explained in official 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 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.

2.22 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.

3 PLANNING AND DEVELOPMENT CONTEXT

Introduction

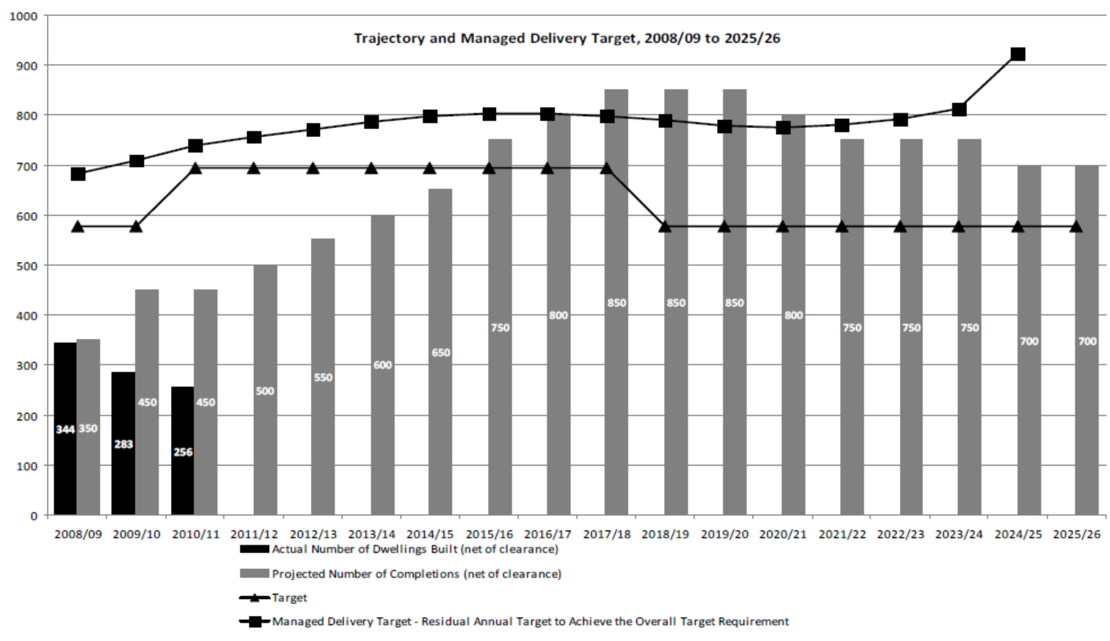
3.1 To help ensure that the CIL supports the development of Trafford in general and delivery of the council's priorities in particular, we need to understand the nature of this development and their objectives. In this section we therefore first review recent patterns of development – which provide a broad indication of what may happen in the future – and then review the objectives and proposals in the adopted Core Strategy.

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. Figure 3.1 below analyses the amount of net residential completions over the period 2008/9 to 2010/11 and also the projected completions to 2025/26. This shows a significant decline in completions in the last two years relative to the projected number of completions, reflecting the impact of the downturn in the wider economy.

Figure 3.1: Trafford Housing Trajectory 2008/9 - 2025/26



Source: Trafford Annual Monitoring Report (2011)

3.4 Over the period 2006 to 2011, 2,147 net additional dwellings have been completed. Assuming an average dwelling size of 120 sq.m, this equates to a total residential floorspace delivered of 257,640 sq.m. For the next five years, the total number of units expected to be delivered in Trafford is 3,050, potentially equating to a net additional floorspace of 366,000 sq.m.

3.5 Within Trafford 30,590 sq.m B1 office floorspace and 166,047 sq.m B2/B8 industrial and warehouse floorspace has been developed over the period 2006 to 2011. Over the same time period 53,389 sq.m town centre retail floorspace (A1 and A2) has been developed[21].

3.6 Between 2006/07 and 2009/10 the amount of employment floorspace developed in Trafford experienced a steady decline. However, there was an increase in the development of employment floorspace in 2010/11 as a result of the completion of the Metrolink Depot at Old Trafford and a warehouse in Broadheath. The Trafford Annual Monitoring Report (AMR) 2011 records two major B2/B8 developments under construction at Carrington and a site at Trafford Park. A further 9,156 sq.m of B1 floorspace is recorded as under development on the ITV site at Trafford Wharfside.

Future Development and the Core Strategy

3.7 The Trafford Core Strategy, adopted January 2012, sets the Council's vision and strategy for development over the period to 2026. The vision is for 'vibrant and inclusive, prosperous and well designed sustainable communities'.

3.8 The Core Strategy splits Trafford into ten locally distinctive places, namely; Trafford Park, Old Trafford, Stretford, Urmston, Mersey Valley, Sale, Altrincham and Neighbouring Communities, Trafford's Rural Communities, Partington and Carrington. The Core Strategy identifies a requirement for 12,210 new dwellings in the period 2009 to 2026. Similarly a requirement is identified for 190 ha of employment land. The following five Strategic Locations will be key areas for growth; Pomona Island, Trafford Wharfside, Lancashire County Cricket Club Quarter, Trafford Centre Rectangle, and Carrington. The four identified town centres in Trafford are Altrincham, Sale, Stretford and Urmston.

Development Central to the Delivery of the Core Strategy

3.9 A review of the Core Strategy suggests that a number of development types are going to be critical to the delivery of the Core Strategy. These types of development will deliver the overwhelming majority of growth in Trafford over the plan period. Below, we show what these uses are.

3.10 It is important not to focus on floorspace alone in this review. Some developments sought in the Core Strategy might not represent a very large slice of floorspace delivery, but might be very important local aspirations that deliver Trafford's wider aspirations for its community and economy. We have therefore included these uses in our review.

Residential development

3.11 Core Strategy Policy L1 plans for a net minimum indication development target of 12,210 additional dwellings to be delivered in Trafford between 2009 and 2026. This includes a 20 per cent uplift through the period to 2018 on the former Regional Spatial Strategy (2008) targets, reflecting Housing Growth Point status.

[21] Trafford Annual Monitoring Report (2011)

3.12 The residential development strategy for Trafford is for development to be focussed in the following areas:

- The Strategic Locations - 4,710 dwellings;
- Other Trafford Park and North Trafford Area - 1,850 dwellings; and
- Southern City Region - 5,650 dwellings.

3.13 This distribution of land for residential development equates to approximately 40 per cent within the Regional Centre and the Inner Area and 60 per cent within the South City Region area. Within the South City Region area half of the land to be released will support regeneration areas and Trafford's Town Centres. The Core Strategy also sets an indicative 80 per cent target for the use of brownfield land for residential development over the Plan period. As of April 2011, the Council had a residual[22] housing requirement of some 11,217 dwellings reflecting some 92 per cent of the overarching Core Strategy Target.

Office and industrial development

3.14 Core Strategy Policy W1 makes provision for the development of 190 ha of employment land over the plan period.

3.15 The Policy W1 identifies a broad distribution of employment land as follows:

- Pomona Island - 10 ha;
- Trafford Wharfside - 10 ha;
- Trafford Park Core - 55 ha;
- Trafford Centre Rectangle - 15 ha;
- Carrington - 75 ha;
- Broadheath - 10 ha;
- Town Centres - 5 ha; and
- Elsewhere - 10 ha.

3.16 In addition land at Davenport Green is identified in Policy R4 for 'an exemplar, very high quality B1 business / office development', provided that all the criteria set in Policy R4.4 are met.

3.17 The Core Strategy states that the development of B1 office uses will be focused on Pomona Island and Trafford Wharfside in the Regional Centre and the town centres. Further B1 office development at locations accessible by sustainable modes of transport will be appropriate within Trafford Park Core, Carrington, Broadheath, at the Trafford Centre Rectangle where it complies with national planning guidance, and at Davenport Green where it meets the criteria of Policy R4.4.

3.18 The principal location for employment development within the borough will be Trafford Park Core with a focus on the development of modern industrial, storage and distribution and

[22] The residual requirement is the number of units outstanding once those which have already been built (between 1 April 2009 and 31 March 2011) have been subtracted from the overall target for the plan period (12,210 units).

office floorspace. There is also significant potential for general industrial, storage and distribution uses and office development at Carrington to complement the offer in Trafford Park. Broadheath will be retained and supported as a principal employment location in the south of the borough, as set out in the Core Strategy.

Retail development

3.19 The Core Strategy identifies the four town centres as commercial, retail and leisure hubs.

3.20 Policy W2 identifies Altrincham Town Centre as the principal town centre in Trafford and capable of delivering 20,000sqm of retail floorspace. The potential to deliver some 4,000 sq.m of new retail floorspace in Sale is also identified. In Stretford the regeneration of the town centre and adjacent area will be the focus, with new/improved retail floorspace, particular within Stretford Mall and its immediate vicinity. There is an identified need to enhance the convenience retail offer in the three District Centres of Hale, Sale Moor and Timperley, with a particular need for a small to medium-sized supermarket within Sale Moor. Retail development in the local centres will be focused on convenience retail and services to meet local needs, with the redevelopment of the existing local centres in Partington and Hale Barns for modern retail facilities specifically identified.

3.21 There is a presumption against the development of retail in out of centre locations, unless national guidance is satisfied. There is also a presumption against large-scale extensions to the Trafford Centre, and any proposals to expand the three existing retail warehouse parks should be justified against the tests set out in national guidance and limited to the sale of bulky comparison goods only.

Education, health and community facilities

3.22 There is expected to be a need for additional school places to accommodate growth, particularly in the Strategic Locations. The Core Strategy identifies the need for the provision of a new one-form primary school by 2021 to serve the new residential community in Lancashire County Cricket Club Quarter, Pomona Island, Trafford Wharfside and the residential development planned for the Old Trafford Priority Regeneration Area (PRA), in addition to further community facilities. The proposed residential development at Carrington and as part of the Trafford Centre Rectangle at Trafford Quays will also require community facilities including school provision and health facilities of a scale appropriate to the needs of the new communities.

Uses less likely to come forward

3.23 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

3.24 We have shown above that the great majority of Core 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 Trafford over the plan period, or be strategically important to the broader objectives of the Core Strategy.

3.25 The most important development types are:

- Residential
- Town centre office
- Business park office
- Industrial and warehousing
- Comparison retail
- Retail warehouse
- Convenience retail
- Education, health and community facilities

3.26 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 borough-wide level.

4 INFRASTRUCTURE

Introduction

4.1 The justification for a Community Infrastructure Levy is based on having an infrastructure funding gap after all other known sources of funding have been taken account of. Therefore, if there is not a funding gap, then there is not the justification for charging the levy. The following extract from paragraph 17 of the statutory CIL Charge Setting and Charging Procedures Guidance (March 2010) 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

4.2 The 2008 Planning Act section 216 provides an indicative list of infrastructure for CIL calculation and spending as follows:

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

4.3 However, note this list is not exhaustive, and the Act intentionally clears the way for other infrastructure items to be added to this list. The CA can include other items that they consider are relevant to meet the needs of the proposed growth.

Infrastructure Assessment

4.4 The infrastructure assessment takes account of the infrastructure needed to support new growth in the CAs area. This forms the basis for estimating the infrastructure costs and known available funding to determine the CIL infrastructure funding target. It is not necessary to have all the infrastructure likely to support growth for this assessment, a selection of projects can be included as an indication of the type of work likely to be undertaken. 'The Government recognises that there will be uncertainty in pinpointing other infrastructure funding sources, particularly beyond the short-term'[23].

4.5 It is important to note that the 'role' of the infrastructure evidence for examination is not to provide absolute upfront assurances as to how authorities intend to spend the CIL proceeds (although if an authority is in a position to produce a list of projects on that basis, they are welcome to do so). The aim is to illustrate that their intended CIL target is justifiable given local infrastructure need and is based on appropriate evidence. Authorities may spend their

[23] CIL Guidance March 2010

CIL revenues on different projects and types from those identified as indicative for the purpose of charge setting.

4.6 The starting point for the infrastructure assessment was to review the Trafford Local Infrastructure Plan (LIP) in order to confirm infrastructure requirements, corroborate costings and identify and quantify likely sources of mainstream funding across Trafford.

4.7 The infrastructure planning evidence and assessment is underway and will be completed and published in due course prior to the examination in order to confirm the aggregate funding gap for Trafford, demonstrating that it is 'safe' in the context of the need to show there is a requirement for CIL to fund new infrastructure investment. This will include a costed implementation schedule that will directly inform the draft Regulation 123 List.

4.8 The working assumption is that the vast majority of strategic infrastructure, including that directly related to development at the Strategic Locations, is to be delivered through CIL rather than through s.106 agreements in respect of specific developments. This approach has been carried through in to the viability assessments.

Caveats to the Infrastructure Assessment

4.9 It is important to note that although the assessment is based on updated information from the LIP prepared for the Core Strategy, this assessment is not a comprehensive infrastructure plan. Instead it has been decided to look at a selection of projects related to transport, education and leisure. This is not to say that new projects cannot be included later.

4.10 Similarly, there is no certainty, that simply because an item is on the CIL infrastructure list that it will be entitled to CIL funding. Decisions on the prioritisation of how CIL income will be spent will be taken after the CIL examination. The CIL infrastructure list will become part of a 'live' document that will be regularly updated as part of an infrastructure delivery plan.

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[24].

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 marketed in the area suggests that three and four bedroom detached and semi-detached properties are the most predominant house types currently being developed. We also note Core Strategy Policy L2, Meeting Housing Needs, which states that the council will meet its identified housing needs through a target split 70:30 of small:large (3+ beds) with 50% of the smaller homes being suitable for families.

5.4 There are some recent new-build apartment schemes currently on the market, although the prevalence of new apartment development has fallen significantly since the recession, reflecting the difficulties in access to mortgage finance faced by the kind of first time/young house purchasers and buy-to-let investors that are likely to be attracted to such property. The knock-on effect of this has been difficulty in accessing development finance for apartment schemes, given the increased risk that sales will be both slower and at lower values.

5.5 In order to deliver Trafford's economic growth objectives the Core Strategy recognises that it is necessary to ensure the delivery of sufficient housing of the right type, in the right location. Table L1 illustrates that over the plan period residential development will be distributed as follows[25]:

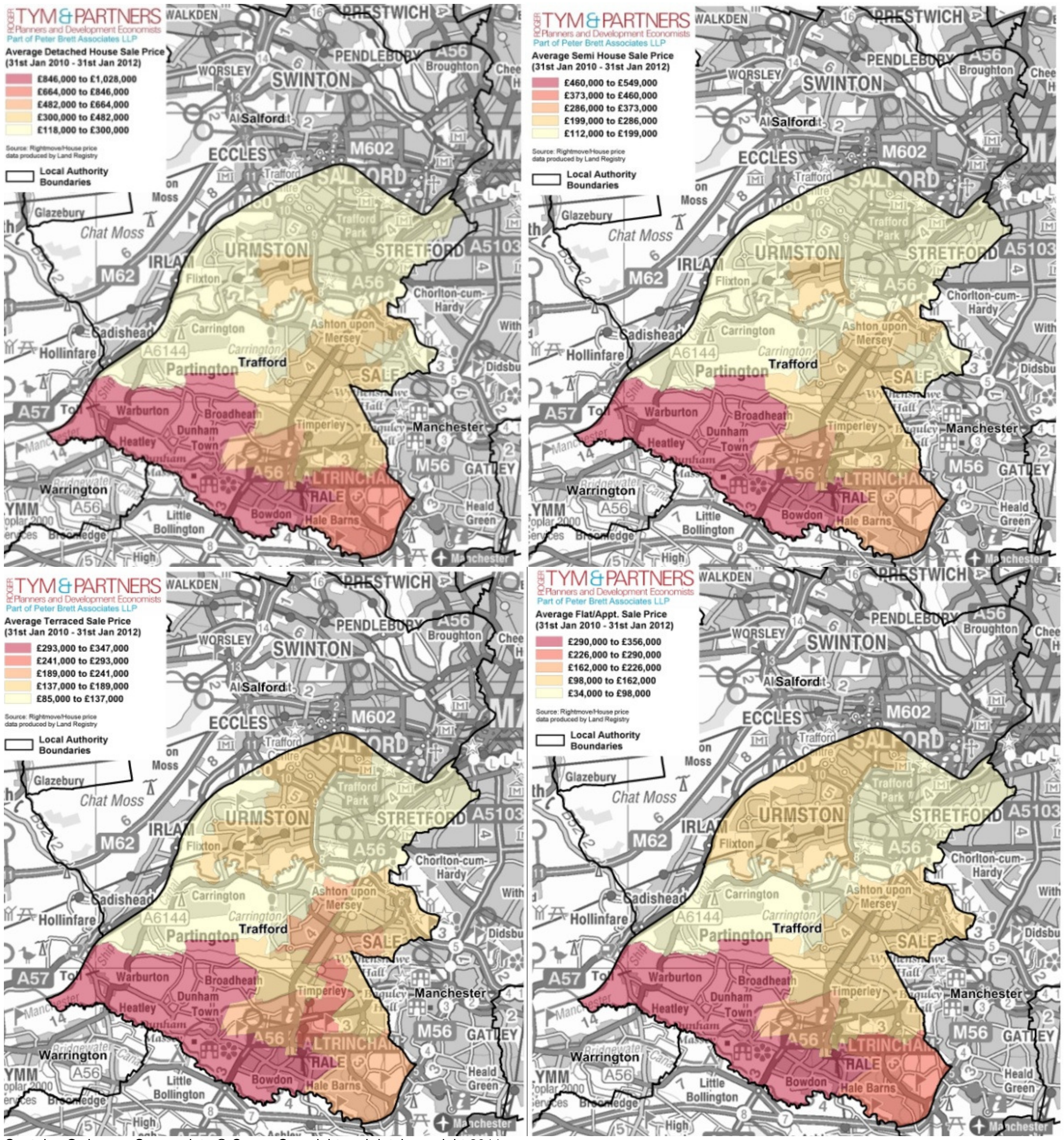
- Strategic Locations – 4,719 dwellings (net);
- North Trafford Area – 1,850 dwellings (net); and
- South City Region Area – 5,650 dwellings (net).

5.6 Figure 5.1, shows average sales prices of properties in Trafford by type over a two-year period, 2010-2012; this time scale provides evidence of current trends in the residential

[24] 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.
[25] The figures in Core Strategy Table L1 are net minimum indicative housing targets and may be exceeded as the Plan period progresses and development schemes are brought forward to meet local needs.

property market. Analysis of residential property prices across Trafford demonstrates that sales values vary significantly across the Borough.

Figure 5.1 Average sales prices in Trafford (2010-12)



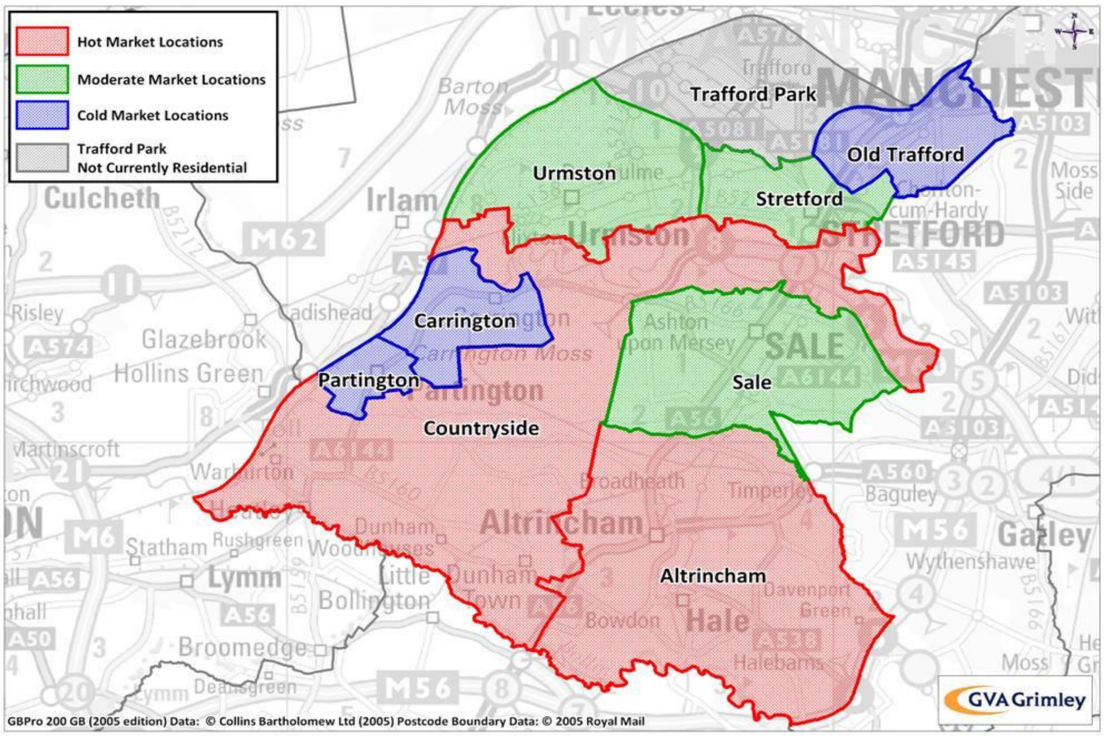
Contains Ordnance Survey data © Crown Copyright and database right 2011

Source: RTP/Land Registry

5.7 Our evidence broadly aligns with the division of Trafford in the Core Strategy and SPD1 Planning Obligations into three broad market locations based on the Trafford Economic Viability Study[26], namely:

- Cold - Old Trafford, Carrington and Partington;
- Moderate - Urmston, Stretford and Sale; and
- Hot - Altrincham, the Mersey Valley and Rural Communities.

Figure 5.2 Trafford Sub Market Areas



Source: Trafford SPD1 Planning Obligations/Trafford Economic Viability Study, GVA

5.8 Figure 5.2 shows price performance across Trafford[27]. House price growth in Trafford has generally tracked national house price changes, but rates of growth have stayed consistently above the England and Wales average. Furthermore house price growth has recovered slightly better in Trafford since April 2009 when compared to the England and Wales average.

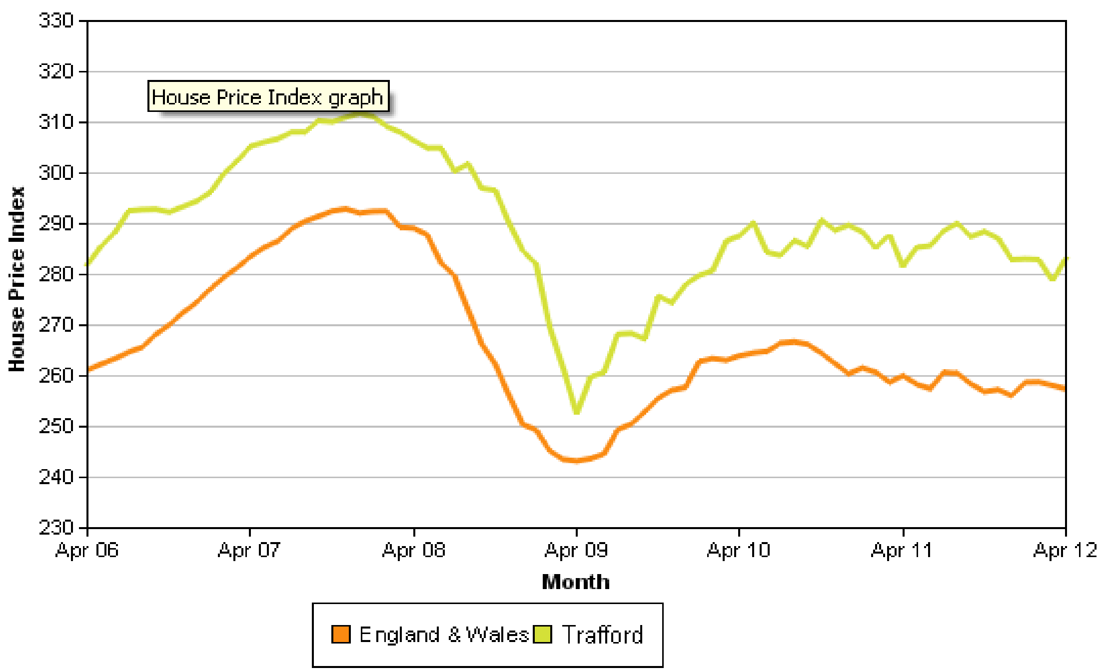
5.9 Some residential development is proposed in the Trafford Park area, which is not currently defined as a market location. Analysis of house prices, as set out above, suggests values are most likely to align with those in Urmston. As such residential development in the Trafford Park area should be treated as being in a moderate market location.

[26] Trafford Economic Viability Study (May 2009), GVA Grimley
[27] Land Registry

5.10 There is some evidence, from both the mapping of average sales prices in Figure 5.1 and comments received from agents and developers, of a variation within the hot market sub-area, with the northerly parts (including Altrincham Town Centre), having marginally lower values than more southerly areas such as Bowdon and Hale. That said, the values in these northern parts of the hot market areas are still generally higher than those seen in the moderate market locations of Sale and Urmston and as such, the case for changing the market areas to include Altrincham Town Centre and other northern parts of the hot market area within the moderate market area is therefore relatively weak.

5.11 Consideration has been given to the potential for further sub-dividing the hot market area to take account of this variation. However, the simplicity and clarity of the charging schedule is also a key priority, as is consistency with previous work (where it remains accurate and robust, which it does in this case). It is therefore proposed that the market areas as previously identified will be maintained for the purposes of this study. In any case, any proposed CIL charging rates will not be set at the theoretical maximum for that area and as such, should mean that the bulk of development in each market area remains viable after imposition of the charge.

Figure 5.3 Local House Price Index – Trafford



5.12 As a result of the recent economic downturn, there has been significant turbulence in the housing market in Trafford, as elsewhere in the country. Land Registry data for Trafford shows that average values peaked in December 2007 at £198,018 before falling some 19% to £160,393 in April 2009. Although average values increased back to a peak of £184,651 in October 2010, they have since fallen back to £179,872 in April 2012.

5.13 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 2012 was given consideration. Its summary projections, Figure 5.4, show that residential values in the North West are not forecast to rise significantly in the next five years; although we note that some areas of Trafford are amongst the best performing in the region.

Figure 5.4 Regional House Price Growth Projection

	Change from peak to 2011	2012	2013	2014	2015	2016	5 years to 2016
UK	-10.5%	-2.0%	0.5%	1.0%	2.0%	4.5%	6.0%
London	-1.8%	-0.5%	1.0%	5.0%	6.0%	6.5%	19.1%
South East	-6.3%	-1.0%	1.0%	4.0%	5.0%	6.0%	15.7%
South West	-9.8%	-1.5%	0.5%	2.5%	3.5%	5.0%	10.3%
East	-8.7%	-1.0%	1.0%	3.5%	4.5%	5.5%	14.1%
East Midlands	-11.0%	-1.5%	0.5%	2.0%	3.0%	5.0%	9.2%
West Midlands	-11.5%	-2.0%	-1.0%	0.0%	0.0%	3.5%	0.4%
North East	-14.0%	-2.5%	-1.5%	-1.5%	-0.5%	3.0%	-3.1%
North West	-14.9%	-2.0%	-1.0%	-1.0%	0.0%	3.5%	-0.6%
Yorks & Humber	-14.0%	-2.0%	-1.5%	-1.0%	-1.0%	3.0%	-2.6%
Wales	-12.7%	-2.0%	0.5%	0.5%	1.5%	4.5%	5.0%
Scotland	-10.6%	-4.0%	0.0%	0.0%	0.5%	2.0%	-1.6%

Source: Savills Residential Property Focus, Q2 2012

Establishing the proposed charging zones

5.14 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'.[28] 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.

5.15 We have examined the merits of setting up differential charging zones in Trafford by looking at sales values and the likely distribution of development across the Borough. The Land Registry sales data mapped in Figure 5.1 demonstrates that values vary significantly across the Borough. It is our view that setting differential rates is justified on the basis of the broad market areas identified in the Core Strategy, namely cold, moderate and hot. Whilst large scale developments aimed at making a step change in the character of an area may have some impact on values, the CIL charging schedule should be based on appropriate available evidence of local property market conditions as they currently exist. In any case,

[28] DCLG (March 2010) *CIL Charge Setting and Charging Schedule Procedures* (11)

any such change in the character of an area will take some years to evolve and come to fruition.

Approach to Assessing Viability

5.16 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.

5.17 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.

5.18 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.

5.19 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.

5.20 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)

5.21 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.

5.22 At this stage, any potential CIL charge has been excluded from our assessment, however we do make an allowance for residual s.106/278 which will still apply after the adoption of the CIL charging schedule. The potential level of contributions is discussed separately below.

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

Key Assumptions

5.24 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.

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

5.26 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

5.27 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.

5.28 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. Whilst we have reviewed current Government research on cost impacts of the Code for Sustainable Homes (CSH)[29] we note that past forecasts of prices changes (such as that predicted in the original Cyril Sweete work)[30] have never affected costs to the extent forecast. When these future requirements come into force, they will impact on both development costs and land values. We have not incorporated these possible impacts into our calculations, because CIL should deal with current market conditions, not forecasts of potential future change.

5.29 In respect of residential development land prices/values, we took account of recent Valuation Office Agency (VOA) reports covering this issue, as well as the findings of consultations with local agents and residential developers. Until 2009, the VOA's reports were more detailed and identified typical residential development land values specifically for Trafford. Since then, however, a more high level approach has been taken which only provides data for Manchester within the sub-region.

5.30 In arriving at initial assumptions on land prices, we took account of both the Trafford-specific 2009 data and factored in changes in market conditions since then, as well as the 2011 data for Manchester, factoring in the perceived strength/weakness of Trafford relative to Manchester. In addition to this, we have also discussed land values with developers and agents[31] active in the local market as a balance and cross-check of the VOA data.

5.31 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

5.32 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;

[29] DCLG (2011) Cost of Building to the *Code for Sustainable Homes (Updated Cost Review)*
[30] Cyril Sweete for DCGL (2008) *Cost Analysis of The Code for Sustainable Homes*
[31] These have included Miller Homes, Persimmon, Altus Edwin Hill and A P Sheehan & Co.

- 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.

5.33 In July 2009, the VOA's assessment of residential land value in Trafford was £2.1m per ha. More recent data from the VOA is only available for the larger cities, Manchester and Liverpool in the case of the North West. The 2011 VOA Property Market Report published data for the adjoining authority of Manchester. In January 2011, the VOA's assessment of residential land value in Manchester was £1.33m per ha; this is a substantial decrease on the figure of £3.2m per ha recorded for Manchester in July 2009. It is important to note that this data does not take account of the impact on land values of policy requirements such as affordable housing.

5.34 In addition to this, we also discussed land values with developers and agents active in the local market as a balance and cross-check of the VOA data. These consultations revealed that residential land values in Trafford vary widely according to location and can reach over £2m per ha, subject to site specific details and policy requirements.

5.35 We have assumed the following land values in respect of both houses and apartments which we consider to be reasonable in current market conditions. Land costs for larger sites of c10ha are understood to be 20 to 25 per cent lower on a per ha basis, taking account of the greater inherent risks of development on that scale.

- 'Cold' market sub-area: £900,000 per ha for small sites and £700,000 per ha for large sites;
- 'Moderate' market sub-area: £1.45m per ha for small sites and £1.125m per ha for large sites; and
- 'Hot' market sub-area: £2.4m per ha for small sites and £1.8m per ha for large sites.

Sales values

5.36 The analysis of asking prices for new build houses currently on the market revealed values with a broad range between £1,863 per sq.m and £3,261 per sq.m, with the majority between £2,000 per sq.m and £2,800 per sq.m.

5.37 When analysing new build sales values it is important to consider the potential difference between asking price and achieved price. Typically the discount applied to new build sales values is in the region of 5 to 10 per cent. It is also important to consider variations in sales values by area. We have analysed sales values in Trafford by market sub-area broadly in alignment with those identified by the Trafford Economic Viability Study.

5.38 Due to the limited number of new build property developments currently being marketed in Trafford we have also taken into account Land Registry data for achieved sales prices on newly built homes in the borough. Our analysis of Land Registry data for achieved sales prices on newly built homes suggests that on the basis of our assumed property size average achieved values are in the region of £2,150 per sq.m on a Borough wide basis. Our analysis by property type suggests the following achieved values on a per sq.m basis:

- Detached: £2,150 based on an average unit size of 130 sq.m

- Semi-detached: £2,050 based on an average unit size of 110 sq.m
- Terraced: £2,350 based on an average unit size of 90 sq.m
- Apartment: £2,150 based on an average unit size of 55 sq.m

5.39 On the basis of our analysis we have assumed the following sales values in respect of houses on small sites (1 ha):

- 'Cold' market sub-area: £1,750 per sq.m;
- 'Moderate' market sub-area: £2,100 per sq.m; and
- 'Hot' market sub-area: £2,775 per sq.m.

5.40 In respect of larger sites (10ha) we have assumed slightly higher sales values. This reflects the fact that the development of larger sites often comprises the creation of a new destination with associated infrastructure provision and can therefore command higher sales values. Therefore the assumptions made are as follows:

- 'Cold' market sub-area: £1,800 per sq.m;
- 'Moderate' market sub-area: £2,150 per sq.m; and
- 'Hot' market sub-area: £2,800 per sq.m

5.41 We have also assumed the following sales values in respect of apartments on small sites:

- 'Cold' market sub-area: £1,900 per sq.m;
- 'Moderate' market sub-area: £2,300 per sq.m; and
- 'Hot' market sub-area: £3,175 per sq.m.

5.42 The only sites likely to provide large scale (c10 ha) apartment development over the plan period are Trafford Wharfside, Pomona and Trafford Quays. Here we have assumed sales values in respect of apartments on large sites of £2,200 per sq.m.

Affordable Housing & Developer Contributions

5.43 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 Developer Contributions 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.

5.44 The policy requirement for affordable housing varies depending upon market location.

5.45 The minimum threshold for qualifying sites is five residential units in the hot and moderate market locations and 15 within cold market locations. The geographically variable targets for affordable housing contribution, based on normal market conditions, are as follows:

- Cold - 5 per cent;
- Moderate - 20 per cent; and
- Hot - 40 per cent.

5.46 Where there is any variance from normal market conditions, the policy allows for consideration to be given to the appropriate level of contributions for development. For the purposes of our assessments, however, we have assumed that policy levels of affordable housing under normal market conditions are required.

5.47 The split between affordable social rented and intermediate housing should be 50:50, unless exceptional circumstances apply. This level of provision has been factored in to the viability assessments.

5.48 Any potential CIL charge is excluded from these initial appraisals for ease of analysis, although an allowance is made for residual s.106/278 contributions. This allowance is £1,000 per unit, based on the current developer contributions SPD with costs for items expected to be delivered through CIL stripped out.

Build costs and other cost assumptions

5.49 We have assumed the following build costs for houses on small sites based on BCIS averages for the area with uplift for external works and contingency:

- 'Cold' market sub-area: £850 per sq.m;
- 'Moderate' market sub-area: £875 per sq.m; and
- 'Hot' market sub-area: £900 per sq.m.

5.50 In the case of large sites it is likely that there will be some economies of scale owing to the larger number of units being developed. Therefore we have assumed the following build costs for houses on large sites:

- 'Cold' market sub-area: £800 per sq.m;
- 'Moderate' market sub-area: £825 per sq.m; and
- 'Hot' market sub-area: £850 per sq.m.

5.51 With respect to apartments on small sites we have assumed the following build costs:

- 'Cold' market sub-area: £1,000 per sq.m;
- 'Moderate' market sub-area: £1,025 per sq.m; and
- 'Hot' market sub-area: £1,075 per sq.m.

5.52 On large sites we have assumed a build cost of £1,350 per sq.m for apartments.

5.53 In addition, we have included 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 which would not be part of any s.106/278 contribution) of £100,000 per ha in respect of 1 ha sites. In respect of larger 10 ha sites this figure is increases to £350,000 per ha, reflecting the need to a greater level of on-site secondary infrastructure provision.

5.54 We have assumed the following development densities for housing:

- 'Cold' market sub-area: 40 dwellings per ha
- 'Moderate' market sub-area: 38 dwellings per ha; and
- 'Hot' market sub-area: 36 dwellings per ha.

5.55 For apartments we have assumed the following development densities:

- Cold' market sub-area: 80 dwellings per ha
- 'Moderate' market sub-area: 80 dwellings per ha;
- 'Hot' market sub-area: 70 dwellings per ha; and
- Large sites: 240 dwellings per ha[32].

5.56 The higher density for larger apartment sites is based on the type of development that is likely to come forward at these locations and analysis of density figures in available documents such as the Pomona Island Masterplan.

5.57 Our assumed average unit sizes for houses[33] are as follows:

- 'Cold' market sub-area: 100 sq.m
- 'Moderate' market sub-area: 120 sq.m; and
- 'Hot' market sub-area: 140 sq.m.

5.58 Our assumed average unit sizes for apartments[34] are as follows:

- Cold' market sub-area: 50 sq.m
- 'Moderate' market sub-area: 55 sq.m;
- 'Hot' market sub-area: 80 sq.m; and
- Large sites: 50 sq.m

5.59 Other costs, such as professional fees and the cost of sales and marketing are inputted at industry standard rates and provision is made for Stamp Duty Land Tax at prevailing rates.

5.60 Finance costs are calculated using a cashflow assessment that forms part of the model and takes account of prevailing interest rates and likely sales rates.

Developer workshop feedback

5.61 Trafford Council held a developer workshop on 9 July 2012 which was attended by representatives of 11 organisations to inform the development on the CIL charging schedule. There was general support at the event for the majority of the assumptions made. That said, some comments were received in respect of the disparity of sales values within the hot market sub-area, which could mean that the charge would make development unviable in some parts, most notably in Altrincham town centre and areas further north.

Appraisal Findings

5.62 Applying these assumptions, a number of residential viability appraisals were undertaken. The findings of theses viability appraisals are set out in Tables 5.1 to 5.4 which show the assessed levels of developers return, expressed as a percentage of development costs.

[32] This higher density is based on the type of development that is likely to come forward at larger apartment sites and analysis of density figures in available development briefs in the Trafford and surrounding area.

[33] Based on a mix of units as per Table L2 in the adopted Core Strategy

[34] Based on a mix of units as per Table L2 in the adopted Core Strategy

5.63 Our appraisals have tested the viability of residential housing and apartment development on small sites of 1ha and large sites of 10ha. These scenarios broadly reflect the type of sites likely to come forward in Trafford over the plan period.

Houses

5.64 In Tables 5.1 and 5.2 below we set out a summary of our appraisal finding in respect of houses.

Table 5.1 Appraisal summary findings, small sites housing

Market Sub Area	Land Cost (£ per ha)	Sales Values (£ per sq.m)	Density (units per ha)	Size of unit (sq.m)	Build Cost (£ per sq.m)	Margin
Cold	£900,000	£1,750	40	100	£850	24.2%
Moderate	£1,450,000	£2,100	38	120	£875	24.8%
Hot	£2,400,000	£2,775	36	140	£900	25.9%

5.65 Table 5.1 shows that on the basis of the assumptions made and with likely s.106 contributions (based on the Trafford SPD planning obligations calculator but excluding those items that will be funded via CIL), the residential scenarios tested for housing on small sites of 1ha are broadly viable before any CIL charge is applied.

Table 5.2 Appraisal summary findings, large sites housing

Market Sub Area	Land Cost (£ per ha)	Sales Values (£ per sq.m)	Density (units per ha)	Size of unit (sq.m)	Build Cost (£ per sq.m)	Margin
Cold	£700,000	£1,800	40	100	£800	23.4%
Moderate	£1,125,000	£2,150	38	120	£825	24.5%
Hot	£1,800,000	£2,800	36	140	£850	25.9%

5.66 Table 5.2 shows that on the basis of the assumptions made and with likely s.106 contributions, the residential scenarios tested for housing on large sites of 10ha are broadly viable before any CIL charge is applied.

Apartments

5.67 In Tables 5.3 and 5.4 below we set out a summary of our appraisal finding in respect of apartments.

Table 5.3 Appraisal summary findings, small sites apartments

Market Sub Area	Land Cost (£ per ha)	Sales Values (£ per sq.m)	Density (units per ha)	Size of unit (sq.m)	Build Cost (£ per sq.m)	Margin
Cold	£900,000	£1,900	80	50	£1,000	17.1%
Moderate	£1,450,000	£2,300	80	55	£1,025	18.2%
Hot	£2,400,000	£3,175	70	80	£1,075	24.0%

5.68 Table 5.3 shows that on the basis of the assumptions made and with likely s.106 contributions, the development of apartments on small sites of 1ha in both the 'cold' and 'moderate' market sub areas is currently at the margins of viability before any CIL charge is applied. In the 'hot' market sub area the development of apartments performs better and is broadly viable before any CIL charge is applied.

Table 5.4 Appraisal summary findings, large sites apartments

Land Cost (£ per ha)	Sales Values (£ per sq.m)	Density (units per ha)	Size of unit (sq.m)	Build Cost (£ per sq.m)	Margin
£1,200,000	£2,200	240	50	£1,350	18.1%

5.69 Table 5.4 shows that on the basis of the assumptions made and with likely s.106 contributions (based on the Trafford SPD planning obligations calculator but excluding those items that will be funded via CIL), the development of apartments on large sites of 10ha is currently at the margins of viability before any CIL charge is applied.

5.70 The shading of each of the cells in the table reflects the broad viability of development. If the developer's return is 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.

5.71 The summary of appraisal findings in the tables above, show that all of the tested residential development scenarios are viable, with the exception of apartments on large sites. It is clear from these findings that sales values are the primary driver of development viability. It is also clear to see the effect that land cost has on the overall viability of the development and the amount then available for supporting the infrastructure requirements stemming from it. When the land cost is low there is greater scope to contribute towards wider infrastructure requirements, whereas if higher land costs are assumed, the amount available for contributions is lower and less affordable housing can be provided.

5.72 However, 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 sales costs 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 sales price of nearer to £2m per hectare, 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.

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. The town centre boundaries as set out in the UDP are proposed to distinguish between the two types of office development.

6.3 Similarly, Trafford benefits from the presence of Trafford Park, one of the major industrial locations in the North West. The industrial core of Trafford Park is home to premises for major multi-national companies including Kelloggs, L'Oreal, Proctor and Gamble and Cerestar Cargill. As a function of its scale; it's resultant ability to offer large floorplate units to the market; and its prime location, it is considered that the viability of industrial / warehousing development at Trafford Park could be materially different from that elsewhere in Trafford's portfolio of allocated industrial sites. As such, a separate assessment of the viability of development at Trafford Park is justified, although it should be noted that a different CIL charge rate for industrial development at Trafford Park to that elsewhere in Trafford would have to be substantiated by market evidence and may or may not be appropriate.

6.4 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 four storey developments at say 80% site coverage. At business park locations, office development is more likely to be 2 or 3 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

6.5 Trafford attracts a range of office occupiers, although the core of the office market is for small to medium sized units meeting the needs of local businesses. Within the wider area there is significant competition for office premises from Manchester City Centre, Salford Quays, Stockport Town Centre, Cheadle and Manchester Airport.

6.6 The Adopted Core Strategy (January 2012) makes provision for 190 ha of employment development within Trafford to 2025/26. Policy W1.5 encourages the provision of office development within the town centres. Policy W2 specifically identifies the potential for the development of 10,000 sq.m office floorspace in Altrincham Town Centre and 3,000 sq.m office floorspace in Sale Town Centre. Furthermore, the Core Strategy states that there are insufficient town centre sites to meet identified needs for new office floorspace. Therefore Policy W1.5 identifies Pomona Island, Trafford Wharfside, Trafford Park Core, Carrington, Broadheath, Trafford Centre Rectangle and Davenport Green as appropriate locations for B1 office development.

6.7 The main locations for town centre office premises in Trafford are the centres of Altrincham and Sale, which fall within the wider South Manchester office market. There is further town centre office floorspace in the town centres of Stretford and Urmston, albeit on a much smaller scale.

6.8 Occupier demand for new office floorspace is currently weak owing to the economic downturn. There is evidence of an oversupply of offices and significant incentives are often necessary to secure occupiers. Our analysis of recent market trends and consultations with commercial agents, suggest that the general opinion is that current office rents and yields are not at a level to sustain speculative office development unless it is part of a mixed use scheme (in the case of the latter, office space would have to be cross subsidised by other more valuable uses).

Industrial and warehouse

6.9 We have appraised industrial and warehouse space as a single use. There is a significant amount of industrial and warehouse stock in Trafford with the majority of floorspace focused on the major industrial estate of Trafford Park, with further industrial floorspace at Carrington.

6.10 We note that there is limited scope for any significant expansion of Trafford Park due to constraints on land supply. The development of any new premises in this area is therefore likely to result in limited net additional floorspace. In addition to Trafford Park there are further concentrations of industrial premises in Trafford that can be found at Carrington, Broadheath, Lyon Industrial Estate, and Altrincham Business Park.

6.11 The Core Strategy makes provision for 190 ha of employment development within Trafford to 2025/26, which includes all B uses such as office development (B1). The employment floorspace will be focused on Pomona Island; Trafford Wharfside; Trafford Park Core; Trafford Centre Rectangle; Carrington; Broadheath and the Town Centres.

Assumptions

6.12 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

6.13 The approach taken to establishing the likely values of new development was to review recent rental and investment transactions in Trafford. 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.

6.14 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.

6.15 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 Trafford.

6.16 In addition to transactional data that provided intelligence on prevailing yields for different property types in Trafford, 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 Q1 2012'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Trafford and its prime locations.

6.17 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[35] who are active in the Trafford 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.

6.18 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 Trafford) and the January 2011 version (the latest report, but which only provides figures for Manchester and Liverpool in the North West). 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

[35] We spoke to 6 commercial agents active in the office and industrial sectors within Trafford in addition to those who attended the developers workshop on 9 July 2012. The agents consulted were Altus Edwin Hill, Canning O'Neill, Edwars and Co, LSH, Thomas Willmax and Wt Gunson.

market expectations for the locality. This information was supplemented by consultations with local agents and developers.

6.19 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

6.20 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 Offices	*Altrincham*	*Rent per sq.m*	£170
		Yield	8.5%
		Build cost per sq.m	£1,200
	Other Town Centres	*Rent per sq.m*	£140
		Yield	9.0%
		Build cost per sq.m	£1,200
Business Park Offices		*Rent per sq.m*	£160
		Yield	8.25%
		Build cost per sq.m	£1,100

Industrial and Warehouse	*Trafford Park*	*Rent per sq.m*	£65
		Yield	7.25%
		Build cost per sq.m	£520
	Outside Trafford Park	*Rent per sq.m*	£55
		Yield	8.5%
		Build cost per sq.m	£520

6.21 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.106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Trafford;
- 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.

Developer workshop feedback

6.22 Very few comments were received in relation to the assumptions made for the viability assessment of office and industrial development, although a number of representatives of commercial development companies were present. It was noted that the assessments should take account of incentives offered to tenants.

Appraisal Findings

6.23 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 Borough.

Offices

6.24 As can be seen in Table 6.2 below, 'pure' office development is not currently viable on the basis of the assumptions made. 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

6.25 We have concluded that, based on our research and the assumptions made, speculative industrial and warehouse development in Trafford is not currently viable. Whilst development of industrial and warehouse floorspace at Trafford Park performs better than in the rest of the Borough, the findings demonstrate that it too is not currently viable. However, as we note with regards to offices, development by owner occupiers remains a possibility even in current market conditions.

Table 6.2 Viability Assessment, Office and Industrial

		Town Centre Office		Business Park Office	Industrial	
		Altrincham	Other Town Centre		Trafford Park	Rest of Trafford
Rent		£170	£140	£160	£65	£55
Yield %		8.50	9.00	8.25	7.25	8.50
Minus inducements	1	200	156	194	90	65
VALUES	2	**1,800**	**1,400**	**1,745**	**807**	**582**
COSTS	2					
Land + Purchase Costs	3	150	100	75	75	50
Basic Build Cost		1,100	1,100	1,000	520	520
External Works	4	55	55	100	52	52
Fees	5	116	116	110	57	57
Section 106/278	6	0	0	10	10	10
Marketing & Sales		90	70	87	40	29
Contingencies	7	64	64	61	31	31
Interest	8	142	137	130	71	69
Margin	9	343	328	312	169	162
Total Cost		**2,059**	**1,969**	**1,885**	**1,027**	**980**
Surplus/Deficit		**-259**	**-569**	**-139**	**-220**	**-398**
Surplus/Deficit % on cost		**-13%**	**-29%**	**-7%**	**-21%**	**-41%**
Notes	1	A reduction of 10% of development value is made to reflect current market norms for rent free periods 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. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.				
	5	Fees are higher for smaller and/or more complex structures.				
	6	Site/development specific mitigation such as on-site and access or public relam works close to it.				
	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 Trafford, 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:

- Town Centre Comparison Retail – Defined as development for comparison retail use within the four town centres, as defined in the Core Strategy. 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.
- Out of Centre Comparison Retail – Defined as comparison retail development outside of any of the defined centres, where the costs of land assembly are lower than within the centre. This most often takes the form of retail warehouse development where larger units and extensive car parking can be provided, resulting in a lower density of development of 30-40% of site area;
- Large convenience retail – Defined as new convenience retail development of over 280sq.m net floor area, which is the threshold for a small store as defined in the Sunday Trading Act. The vast majority of such development will be supermarkets which, like retail warehousing, require large car parks, service yards and so on, with the store typically comprising c25-30% of total site area. The rental values of supermarkets are typically significantly higher than small convenience stores, whilst yields are substantially lower.

7.2 Some development of smaller scale convenience and comparison retail space in out of centre locations may take place, although it is unlikely to be significant in scale, nor is it critical to the delivery of the Core Strategy's objectives. 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.

Market context

Town Centre 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.

7.4 The Core Strategy supports the continued development of the Borough's town centres as commercial, retail and leisure hubs. Altrincham is identified in Policy W2.2 as the principal town centre in the Borough with a focus on quality comparison retail and capable of delivering 20,000 sq.m retail floorspace. In the other town centres, namely Sale, Stretford and Urmston, there will be a focus on consolidation and improvement of the comparison retail offer. Policy W2.5 specifically identifies Sale for the delivery of 4,000 sq.m of new retail floorspace.

Retail Warehousing/Retail Parks

7.5 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 planning policy has adopted a town centre first approach which still applies. 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.

7.6 The Trafford Centre is a freestanding regional shopping centre of some 176,500 sq.m. The centre is anchored by the major national retailers Selfridges, Debenhams, John Lewis and Marks and Spencer and generates an annual rental income in the region of £88m per annum. In 2011 Capital Shopping Centres Group Plc purchased the freehold interest in The Trafford Centre from Peel Holdings Plc in a deal worth approximately £1.65bn at a yield of 5.01 per cent. In the Core Strategy, Policy W2.13 states there is a presumption against large-scale extensions to the Trafford Centre.

Convenience Retail

7.7 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.

7.8 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.

7.9 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, particularly those of less than 280sq. m net floor area (the threshold for a small store defined in the Sunday Trading Act), will attract lower rental values and will have high yields, and will therefore be substantially less valuable. Small convenience stores as defined here are therefore excluded from this assessment.

Assumptions

7.10 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

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

7.12 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 Trafford.

7.13 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 Q1 2012'. As necessary, adjustments were made to the figures quoted by CBRE to take account of the relative attractiveness of Trafford and its prime locations.

7.14 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[36] who are active in the Trafford 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.

7.15 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 Trafford) and the January 2011 version (the latest report, but which only provides figures for Manchester and Liverpool in the North West). This information was supplemented by consultations with local agents and developers.

7.16 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

7.17 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.

[36] We spoke to 6 commercial agents active in the retail sector within Trafford in addition to those who attended the developers workshop on 9 July 2012. The agents consulted were CBRE, Cushman and Wakefield, Reid Rose Gregory, Tushingham Moore and Wt Gunson.

Table 7.1 Key Assumptions

Comparison Retail	Altrincham	*Rent per sq.m*	*£250*
		Yield	*7.50%*
		Build cost per sq.m	*£730*
	Other Town Centres	*Rent per sq.m*	*£200*
		Yield	*8.00%*
		Build cost per sq.m	*£730*
Retail Warehouse		*Rent per sq. m*	*£180*
		Yield	*8.00%*
		Build cost per sq.m	*£600*
Convenience Retail		*Rent per sq.m*	*£200*
		Yield	*5.50%*
		Build cost per sq.m	*£1,000*

7.18 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.106/278 contributions based on experience of developments elsewhere and the type of development expected to come forward in Trafford;
- 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.

Developer workshop feedback

7.19 The principal feedback from retail developers at the workshop was that the assumed rents for convenience retail, in particular, were too high and may reflect historic norms. There was further comment that the size of store and type of operator can have a significant impact on the rental level and yield achieved for both convenience and out of centre comparison retail development. However, the evidence on which the assumptions set out above are based is considered to be robust and up-to-date and, in the absence of evidence to the contrary, no change to the assumptions was deemed necessary.

Appraisal Findings

7.20 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 Borough.

Table 7.2 Viability Assessment, Retail

		Town Centre Comp. Retail		Retail Park/ Warehouse	Convenience Retail
		Altrincham	Other Town Centre		
Rent		£250	£200	£180	£200
Yield %		7.50	8.00	8.00	5.50
Minus inducements	1	333	250	225	364
VALUES	2	**3,000**	**2,250**	**2,025**	**3,273**
COSTS	2				
Land + Purchase Costs	3	1,500	1,000	400	500
Basic Build Cost		730	730	600	1,000
External Works	4	37	37	72	120
Fees	5	77	77	67	112
Section 106/278	6	0	0	50	100
Marketing & Sales		150	113	101	164
Contingencies	7	42	42	37	62
Interest	8	234	184	119	183
Margin	9	554	436	279	428
Total Cost Benchmark		**3,324**	**2,619**	**1,726**	**2,669**
Surplus/Deficit		**-324**	**-369**	**299**	**604**
Surplus/Deficit % on cost		**-10%**	**-14%**	**17%**	**23%**
Notes	1	A reduction of 10% of development value is made to reflect current market norms for rent free periods 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. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.			
	5	Fees are higher for smaller and/or more complex structures.			
	6	Site/development specific mitigation such as on-site and access or public relam			
	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			
		Costs exceed values			
		Values exceed costs by less than 10%			
		Values exceed costs by more than 10%			

Town Centre Comparison retailing

7.21 Trafford'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.[37]

7.22 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 Trafford's town centres and also an examination of development outside of the main shopping area using a broad average.

7.23 It is also very difficult to accurately estimate likely land acquisition costs, which are a major factor in redevelopment projects, given the fact that a large number of titles often have to be assembled.

7.24 Our analysis suggests that town centre comparison retail development within Trafford is currently at the margins of viability.

7.25 We have defined the town centres for this purpose as being within the area defined as the 'town centre' in the Trafford Unitary Development Plan Proposals Map[38] in respect of each of the four town centres.

Out of centre comparison retail warehousing

7.26 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.

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

Convenience retailing

7.28 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.

7.29 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

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

[38] http://map.trafford.gov.uk/ria/udp/

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.

7.30 Our testing of convenience retailing has focussed on larger out of town grocery stores. Nevertheless our evidence base would suggest rents and yields are broadly similar to those achieved for convenience retailing by major operators in smaller format stores in city/town centres. Whilst development costs are relatively high, the strength of covenant provided by their operators and the rents that they achieve outweighs these costs.

7.31 We have concluded that convenience retailing is viable in Trafford and generates a significant level of surplus.

7.32 In separately defining convenience and comparison retailing, there is an issue as to the split of retail floorspace by type that will be developed, and therefore the CIL charge that should be paid. This should be noted when developing administrative processes for CIL.

7.33 CIL charges are set on grant of planning permission (either outline or full permission). Whilst open retail consents are common for small developments, proposed schemes of any significant size would be expected to state the split between comparison and convenience floorspace that the development would deliver. Certainly, in the case of supermarket developments, this is expected because conditions are then commonly placed upon the planning permission stipulating the maximum proportion of comparison retailing floorspace which will be allowed.

7.34 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 viability on 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 EDUCATION, HEALTH, COMMUNITY AND EMERGENCY SERVICES FACILITIES

Introduction

8.1 This section considers the potential for CIL charging on a range of traditionally non-commercial forms of development. We see this category as including, but not necessarily being limited to:

- Schools, including free schools;
- Community facilities, including community halls, community arts centres, and libraries;
- Medical facilities; and
- Emergency services facilities.

Market overview

8.2 Both the state-funded health and education sectors face the pressure of on-going severely constrained public resources and this is likely to have an effect on the viability of development of such uses.

Viability analysis

8.3 A number of these facilities may be delivered in Trafford over the plan period and would potentially occupy net additional floorspace (thereby creating development which is liable for CIL).

8.4 We do not recommend that the council proposes to levy a CIL charge on these uses, for the following reasons:

- Ordinarily it is not possible to deliver new capital build state-led community, health, emergency services or education projects (including free schools, which are state provided) without funding support of the type that CIL is hoping to create. Raising a CIL against these uses would simply result in a circular funding stream that would require a return of the CIL funds raised to these uses. This would, amongst other things, incur management costs and so be inefficient.
- Completed developments of these types are not commercial in nature. They do not have a commercial value in themselves. They therefore do not create a residual site value. In other words, considered from a commercial perspective, such developments are not viable.
- Non-state education projects such as private schools generally have charitable status. They will therefore be exempt from CIL. There is therefore no point identifying a separate charge in the schedule.

8.5 Primary care facilities that are predominantly occupied by GPs; there is a commercial market for properties of this sort. We have analysed the price paid for completed investments across the country by specialist investors in the field and concluded that, again, the sites used are usually sourced on a preferential basis and the land values generated are not significant in most cases. It is possible that privately-funded BUPA-type health provision might be developed, but this is likely to be *de minimis*.

Scope for a CIL Charge

8.6 Given that these facilities are commonly and predominantly not commercially-driven developments, it is considered that there can be no evidence to justify a CIL charge for such uses. Indeed, there is simply no evidence to suggest that 'value capture' could be achieved from such uses which usually require public funding to be delivered.

8.7 We recommend that the proposed level of charge for these types of infrastructure development is zero.

9 SUI GENERIS USES

Introduction

9.1 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.

Types of Development and Likely Viability

9.2 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 borough 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 Trafford. 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, with independent filling stations closing. It seems unlikely that there will be significant new stand-alone filling station development in Trafford.
- **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 Trafford 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 Trafford at the present time.

Scope for a CIL Charge

9.3 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.

10 CHARGE RATE OPTIONS

Introduction

10.1 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.

10.2 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

10.3 As mentioned previously, a reasonable benchmark in terms of the profitability/developer's margin is considered to be 20% of total development costs. Any profits over and above this benchmark level 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.

10.4 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 1ha and 10ha sites and in all market areas) to a greater or lesser degree. In respect of apartments, three of the four scenarios tested are shown to be of marginal viability.

10.5 For those scenarios with margins over 20% of cost, a sensitivity test of the CIL rate has been undertaken to establish the maximum possible CIL charge rate that is consistent with maintaining viability at 20% of cost. The findings of this exercise are set out in Table 10.1 below.

Table 10.1 Maximum Potential CIL Charge Rates - Residential

Houses							
Market Sub Area	**Land Cost (£ per ha)**	**Sales Values (£ per sq.m)**	**Density (units per ha)**	**Size of unit (sq.m)**	**Build Cost (£ per sq.m)**	**Margin**	**Max CIL Rate (£ per sq.m)**
1ha							
Cold	£900,000	£1,750	40	100	£850	24.2%	£48
Moderate	£1,450,000	£2,100	38	120	£875	24.8%	£70
Hot	£2,400,000	£2,775	36	140	£900	25.9%	£126
10ha							
Cold	£700,000	£1,800	40	100	£800	23.4%	£39
Moderate	£1,125,000	£2,150	38	120	£825	24.5%	£64
Hot	£1,800,000	£2,800	36	140	£850	25.9%	£117
Apartments							
Market Sub Area	**Land Cost (£ per ha)**	**Sales Values (£ per sq.m)**	**Density (units per ha)**	**Size of unit (sq.m)**	**Build Cost (£ per sq.m)**	**Margin**	**Max CIL Rate (£ per sq.m)**
1ha							
Cold	£900,000	£1,900	80	50	£1,000	17.1%	N/A
Moderate	£1,450,000	£2,300	80	55	£1,025	18.2%	N/A
Hot	£2,400,000	£3,175	70	80	£1,075	24.0%	£97
10ha							
	£1,200,000	£2,200	240	50	£1,350	18.1%	N/A

Proposed Charge Ranges & Rates

10.6 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.

10.7 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.

10.8 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. In each case, the maximum charge rates for larger sites is assessed to be smaller than that for smaller sites and thus provides the basis for setting of the range of potential rates.

10.9 The table below sets out the potential range within which residential CIL charges should fall in respect of each market area and, based on the above and our understanding of Trafford Council's attitude to risk, suggests a recommended charge rate.

Table 10.2 Proposed Charge Ranges & Rates – Residential[39]

Houses			
Market Sub Area	**Max CIL Rate (£ per sq.m)**	**Range (£ per sq.m)**	**Proposed charge (£ per sq.m)**
Cold	£39	£19 - £29	£20
Moderate	£64	£32 - £46	£40
Hot	£117	£58 - £88	£80
Apartments			
Hot	£97	£48 - £73	£65

Sensitivity Analyses

10.10 In order to test the robustness of the proposed charge rates, we have undertaken sensitivity analyses of the scenarios, taking account of the proposed charge rates and testing the impact on viability of changes to sales values; the factor which has the single greatest impact on development viability.

10.11 The sensitivity analysis tests the impact on the residual profit of falls in sales values of 1%, 2.5% and 5%, although the latter is considered highly unlikely and falls well out with any current projections for the housing market.

[39] The development of apartments in the cold and moderate sub-areas will fall under the 'all other chargeable development' category.

Table 10.3 Sensitivity Analysis on Sales Value Reductions

Houses					
Market Sub Area	**Margin (% of Cost)**	**Margin inc. CIL (% of Cost)**	**Margin inc. CIL Value -1% (% of Cost)**	**Margin inc. CIL Value -2.5% (% of Cost)**	**Margin inc. CIL Value -5% (% of Cost)**
1ha					
Cold	24.2%	22.4%	21.1%	19.4%	16.4%
Moderate	24.8%	22.0%	20.8%	19.0%	16.0%
Hot	25.9%	22.1%	20.9%	19.1%	16.0%
10ha					
Cold	23.4%	21.6%	20.3%	18.3%	15.1%
Moderate	24.5%	21.6%	20.4%	18.4%	15.2%
Hot	25.9%	21.8%	20.4%	18.4%	15.1%
Apartments					
Market Sub Area	**Margin (% of Cost)**	**Margin inc. CIL (% of Cost)**	**Margin inc. CIL Value -1% (% of Cost)**	**Margin inc. CIL Value -2.5% (% of Cost)**	**Margin inc. CIL Value -5% (% of Cost)**
1ha					
Cold	17.1%	N/A	N/A	N/A	N/A
Moderate	18.2%	N/A	N/A	N/A	N/A
Hot	24.0%	21.3%	20.1%	18.3%	15.2%
10ha					
	Margin (% of Cost)	**Margin inc. CIL (% of Cost)**	**Margin inc. CIL Value -1% (% of Cost)**	**Margin inc. CIL Value -2.5% (% of Cost)**	**Margin inc. CIL Value -5% (% of Cost)**
	18.1%	N/A	N/A	N/A	N/A

10.12 It is clear from the table above, that taking account of the proposed charges in each market area, all scenarios that were shown to be viable, retain margins of comfortably over 20% of cost. Furthermore, even if sales values fall by 1 per cent, all of these scenarios continue to show margins above 20%. If sales values fall by 2.5%, and taking account of the CIL charges as proposed, then the assessments show that in all cases development would become marginally viable and the rate or scale of development could be reduced. That said, such a fall in values is not expected in Trafford. Nonetheless, even a fall of 5% in sales values would not render schemes certainly unviable, with all shown to maintain a margin of over 15% of cost, which may be seen as acceptable for some developers and in respect of some sites where, for example, the land may have been acquired cheaply

10.13 In view of this analysis, therefore, it is considered that the proposed charges are robust and will remain fair in achieving a balance between the need to fund infrastructure delivery and the need to maintain development viability, even if market conditions change.

Non-Residential Development Viability

10.14 The findings of the non-residential viability appraisals are set out in Table 10.4. 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 Borough.

10.15 The shaded row at the bottom of each table shows the viability[40] 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.

10.16 As can be seen from Table 10.4 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.

[40] 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.

Table 10.4 Non-residential viability assessment

		Town Centre Office		Business Park Office	Industrial		Town Centre Comp. Retail		Retail Park/ Warehouse	Convenience Retail
		Altrincham	Other Town Centre		Trafford Park	Rest of Trafford	Altrincham	Other Town Centre		
Rent		£170	£140	£160	£65	£55	£250	£200	£180	£200
Yield %		8.50	9.00	8.25	7.25	8.50	7.50	8.00	8.00	5.50
Minus inducements	1	200	156	194	90	65	333	250	225	364
VALUES	2	**1,800**	**1,400**	**1,745**	**807**	**582**	**3,000**	**2,250**	**2,025**	**3,273**
COSTS	2									
Land + Purchase Costs	3	150	100	75	75	50	1,500	1,000	400	500
Basic Build Cost		1,100	1,100	1,000	520	520	730	730	600	1,000
External Works	4	55	55	100	52	52	37	37	72	120
Fees	5	116	116	110	57	57	77	77	67	112
Section 106/278	6	0	0	10	10	10	0	0	50	100
Marketing & Sales		90	70	87	40	29	150	113	101	164
Contingencies	7	64	64	61	31	31	42	42	37	62
Interest	8	142	137	130	71	69	234	184	119	183
Margin	9	343	328	312	169	162	554	436	279	428
Total Cost		**2,059**	**1,969**	**1,885**	**1,027**	**980**	**3,324**	**2,619**	**1,726**	**2,669**
Surplus/Deficit		**-259**	**-569**	**-139**	**-220**	**-398**	**-324**	**-369**	**299**	**604**
Surplus/Deficit % on cost		**-13%**	**-29%**	**-7%**	**-21%**	**-41%**	**-10%**	**-14%**	**17%**	**23%**

Notes	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. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
	5	Fees are higher for smaller and/or more complex structures.
	6	Site/development specific mitigation such as on-site and access or public relam works close to it.
	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%

Maximum Potential Charge Rates

10.17 Table 10.5 below, shows what the maximum possible charge rates, consistent with the bulk of development remaining viable, would be in Trafford. 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 10.5 Maximum Charge Rate Assessment

		Retail Park/ Warehouse	Convenience Retail
Rent		£180	£200
Yield %		8.00	5.50
Minus inducements	1	225	364
VALUES	2	**2,025**	**3,273**
COSTS	2		
Land + Purchase Costs	3	400	500
Basic Build Cost		600	1,000
External Works	4	72	120
Fees	5	67	112
Section 106/278	6	50	100
CIL at Maximum		123	320
Marketing & Sales		101	164
Contingencies	7	37	62
Interest	8	119	183
Margin	9	279	428
Total Cost Benchmark		**1,849**	**2,989**
Surplus/Deficit		**176**	**284**
Surplus/Deficit % on cost		**10%**	**10%**

1. A reduction of 10% of development value is made to reflect current market norms for rent free periods 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. Higher where extensive servicing and landscaping is required. Usually negligible in town centres.
5. Fees are higher for smaller and/or more complex structures.
6. Site/development specific mitigation such as on-site and access or public realm works close to it.
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.

10.18 The assessment in Table 10.5 shows that the maximum possible charge for supermarket development, that is consistent with keeping the residual margin at over 10% of cost is £320 per sq. m. The equivalent figure for retail warehouse development is £123 per sq. m.

Base Charge Consideration

10.19 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. 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.

Recommended Non-Residential CIL Charge Options

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

10.21 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 Core Strategy 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.

10.22 These findings are summarised in the Tables 10.6 below.

Table 10.6 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	£320	£160-£320	£250
Retail warehousing	£123	£65-90	£75
Town centre office	n/a	£0-10	£10
Business park office	n/a	£0-10	£10
Industrial and warehousing	n/a	£0-10	£10
Town centre retail	n/a	£0-10	£10
Education, health & community facilities	n/a	£0	£0

11 PRELIMINARY CHARGING SCHEDULE & REVENUE PROJECTIONS

Introduction

11.1 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

11.2 Table 11.1 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 11.1 Proposed Charging Schedule

Use	Proposed CIL charge (per sq.m)
Private market houses in:	
Cold market sub-area	£20
Moderate market sub-area	£40
Hot market sub-area	£80
Apartments in:	
Hot market sub-area	£65
Comparison retail outside of a defined centre	£75
Convenience retail outside of a defined centre and above 280 sq.m (net additional floorspace)	£250
Public/Institutional Facilities as follows: education, health, community and emergency services	£0
All other chargeable development	£10

11.3 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*[41]*.*

[41] DCLG CIL *Charge Setting and charging schedule Procedures* March 2010 (10)

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

Revenue Projections

11.5 In order to give the council a broad indication of the likely potential income from CIL, we set out below in Table 11.2 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 11.2 CIL & S106 Revenue Projections 2012-2026

	CIL Charge per sq.m	S.106 Charge per unit/ sq. m	No. units in plan period (note 1a)	Market units (note 1b)	Unit floorspace (note 2)	Gross floorspace (see note 3)	Estimated net additional proportion (see note 4)	Estimated net additional floorspace	Estimated CIL and S.106 revenue in plan period	Estimated annual CIL and S.106 revenue
Residential										
Houses										
Cold	20	1,000	3,918	3722	100	372,210	95%	353,600	10,794,090	771,006
Moderate	40	1,000	4,735	3788	120	454,560	95%	431,832	21,061,280	1,504,377
Hot	80	1,000	1,511	907	140	126,924	95%	120,578	10,552,824	753,773
Apartments										
Cold	10	1,000	1,700	1615	50	80,750	95%	76,713	2,382,125	170,152
Moderate	10	1,000	346	277	55	15,224	95%	14,463	421,428	30,102
Hot	35	1,000	-	-						
Non-residential										
Retail - convenience	250	100				-	95%	-	-	-
Retail - TC comparison	10	-				9,000	50%	4,500	45,000	3,214
Retail warehouse	75	50				-	95%	-	-	-
Industrial/warehousing	10	10				646,000	75%	484,500	11,305,000	807,500
Business Park Office	10	10				376,000	95%	357,200	7,332,000	523,714
Town Centre Office	10	-				15,000	50%	7,500	75,000	5,357
Total									63,968,747	4,569,196

Note 1a: taken from the Core Strategy - 2012-2026

Note 1b: affordable housing is not liable for CIL. We assume that policy levels for affordable housing are 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 190 ha in the Core Strategy Table W1. 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 4 storeys, and town centre offices at 75% site coverage with 4 storeys. Retail floorspace is taken from the Core Strategy less floorspace already completed of with planning permission.

Note 4: CIL is levied on net additional floorspace. Although in Trafford most of development will take place on brownfield land much of this is land is not currently in use.

12 IMPLEMENTATION

Introduction

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

Exceptional Circumstances & Discretionary Relief

12.2 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.

12.3 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

12.4 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.

12.5 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.

12.6 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 £500,000 (very broadly equal to likely charge from 50 houses).

Administration charges

12.7 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.

12.8 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

12.9 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.

12.10 Therefore, it is proposed the CIL receipts in Trafford 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

12.11 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.

12.12 Clearly, the viability of most forms of development has been negatively affected by the recent recession and could be considered to be at or close to the trough in the market cycle at this time. We suggested 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 a 6-monthly basis.

12.13 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.

12.14 We therefore propose the following guidelines: If three or more of the following criteria are met, then a full 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;

12.15 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.

12.16 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.