

Date: 3rd April 2020

Ref - 20.7011

Planning Policy & Economic Development Team
Runnymede Borough Council
Runnymede Civic Centre
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Addlestone
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Sent by email:

planningpolicy@runnymede.gov.uk

Dear Council

Re: Runnymede: Draft CIL Charging Schedule

██████ appreciates the opportunity to express our views on the Draft Community Infrastructure Levy Charging Schedule. We understand this is due to be submitted to the Examiner in May 2020 with the Hearing scheduled for July 2020 (subject to any disruption caused by current measures to restrict the spread of Covid-19) in accordance with Regulation 16 of the CIL Regulations 2010 (as amended by the 2019 Regulations).

As requested by the Council we respectively confirm our desire to be heard at the public hearing in relation to the draft CIL Charging Schedule and wider discussions around the residential CIL rates.

██████ is representing ██████████, a Registered Provider and developer of Affordable Housing. Our client is preparing to submit a planning application for a mix of dwellings in Ottershaw. Within the emerging Local Plan there are two distinct allocated sites within Ottershaw:

- Policy SL2: Brox End Nursery: identified to deliver a minimum of 40 net additional C3 dwellings
- Policy SL12: Ottershaw East: identified to deliver 230 net additional C3 dwellings and two gypsy/traveller pitches.

The A2Dominion site is identified as the Brox End Nursery site within the emerging Local Plan. Under Policy SL2 the site is allocated for at least 40 net additional C3 dwellings, the draft policy for which also refers to the need to provide financial contributions via either CIL or S106' specifically the policy advises those financial contributions would be:

"...towards the expansion of early years and primary school infrastructure at Marshfields CofE Infant and Ottershaw CofE Junior Schools and a financial contribution towards secondary school infrastructure" and

"Provide or contribute to any other infrastructure identified at application stage which is necessary to make the site acceptable in planning terms".

For clarity, we note that the Brox End Nursery site, as allocated under Policy SL2, is included in the CIL Viability Report (November 2019) under the heading of Ottershaw East. The viability testing for which has been based on an overall site area of 14.1 hectares (6.6 ha for residential), a 400 sqm health hub and the development of 200 dwellings and two gypsy/traveller pitches.

The site in question is situated within Zone A of the draft CIL Charging Schedule which indicates a charge rate of £380 per sqm for C3a, C3c and C4 residential development, £495 per sqm for student accommodation and £50 per sqm for class B1a office development. All other development is zero rated.

Below we detail our concerns around the assumptions used by the Council and their viability consultant in arriving at the proposed £380 per sqm CIL charge for residential.

Ultimately we feel the costs of bringing forward specific sites such as our clients' has been underestimated in the 'Runnymede CIL Viability Report November 2019' (the 2019 Viability Study). We outline below our reasons why and our views on where the viability assumptions used should be considered for amendment.

Sites viability appraisals

While a selection of input pages from the HCA DAT model relating to the Ottershaw sub-market is included at Appendix 2 of the 2019 Viability Study, this does not include a detailed breakdown of all cost assumptions and timescales adopted. It would therefore be helpful if copies of the full model could be supplied as is the expectation in national planning policy.

The NPPG is very clear that landowners should be involved when establishing a CIL as follows:

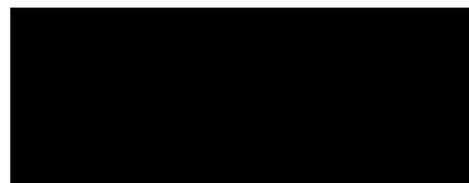
'It is the responsibility of authorities when preparing their charging schedules to collaborate with the local community, developers and other stakeholders, to create realistic and viable charging schedules.'

Paragraph: 015 Reference ID: 25-015-20190901

'In addition, a charging authority should directly sample an appropriate range of types of sites across its area, in line with [planning practice guidance on viability](#). This will require support from local developers, landowners and site promoters. Charging authorities that decide to set differential rates may need to undertake more fine-grained sampling, on a higher proportion of total sites, to help them to estimate the boundaries for their differential rates (see ['Can differential rates be set?'](#)). Fine-grained sampling is also likely to be necessary where they wish to differentiate between categories or scales of intended use.'

Paragraph: 020 Reference ID: 25-020-20190901

While we are not disputing the Council has undertaken analysis to understand the viability of bringing forward allocated sites in accordance with the emerging Local Plan; the issue is that the appraisals themselves relied upon to set the proposed CIL rate should be made available in order that the detail of those appraisals can be properly considered by developers and other interested parties. We are not aware of any collaboration or engagement undertaken by the Council or their viability consultant in preparing the 2019 viability appraisals for the CIL evidence base. Our client who has an allocated site in the emerging Local Plan and should therefore be known to the Council given representation on the Local Plan were not contacted.



Dwelling Size and Dwelling Mix

Dwelling size and mix assumptions have a significant impact on viability testing given they determine the quantum and type of floorspace to which sales value and build costs are applied.

We note that the 2019 Viability Study includes a worked example in Appendix 2 for Ottershaw, based on the 30 dwellings per hectare scenario. This assumes the following mix of units and floor areas:

Table 1 – Dwelling size assumptions

House type	No. Units	Floor Areas (sqm) (Private)	Floor Areas (sqm) (Affordable)	National Space Standard 2-3 storey (sqm)
1 Bed Flat	7	50	50	37 to 50
2 Bed Terrace	9	79	75	70 to 79
3 Bed House	10	93	88	84 to 108
4 Bed House	4	125	115	97 to 130

As can be seen, the assumed unit floor areas do sit within the nationally described space standards although the testing does not necessarily allow for the construction of larger units that may be expected in the Ottershaw area to attract buyers for certain units offering more spacious homes to justify the assumed price points and values.

It should be noted that the construction costs for apartments would be proportionally greater than for houses. This is attributed to having to accommodate similar fittings (bathrooms, kitchens etc) in to a proportionally smaller area as well as having to accommodate communal areas for stairways, lifts, corridors etc. The proportion of apartments within the 2019 Viability Study is broadly 23% of all unit types.

Within the Runnymede location, it is likely that to comply with the 35% affordable housing provision, a majority of affordable homes will be provided as apartments as these will ultimately be more affordable in terms of rents payable and initial equity payments on shared ownership units. It is therefore likely that the proportion of 1 and 2 bedroom apartments could be greater than the proportions currently tested in the 2019 Viability Study. It is our understanding that our client is at present preparing a planning application in which the affordable homes are limited to the smaller units in order to meet affordability criteria.

It is our view at the very least that the supporting viability study should have undertaken sensitivity testing to assess schemes with a higher proportion of apartments and also larger and more spacious homes which would be necessary to achieve the suggested values. We would welcome some sensitivity test from the Council to address this point.

Gross to Net Ratios

The dwelling mix applied to the 30 and 40 dph schemes include apartments. However, it is not clear from the 2019 Viability Study what gross to net ratio has been applied to the blocks of apartments. It would be typical for a gross to net ratio of between 80% and 85% to account for shared spaces such as corridors, stairways, lifts and communal areas.

We are aware that viability assessments undertaken in South Oxfordshire, Windsor and Maidenhead and London Boroughs of Hackney and Tower Hamlets have applied a minimum gross to net ratio of



85%. Using a rate that fails to account for the sufficient shared space and communal areas within apartment blocks can have a significant impact on overall scheme GDV and or build costs, plus of course the total cost of CIL to be applied to the GIA. This is a point of detail that the Council need to explain and advise what gross to net ratios have been adopted.

Benchmark Land Value

Based on current NPPF/NPPG guidance the benchmark land value (BLV) should be based on existing use value plus a premium (EUV+) to incentivise a landowner to release the site for development. Despite this having been a requirement for a number of years, there remains no strict guidance on how the premium element of the EUV+ should be assessed. It is therefore down to professional judgement to ascertain what level of premium above and beyond the EUV would need to be agreed to achieve a sale for the land. Greenfield and agricultural land can often present a more complex issue than previously developed brownfield sites as the EUV is typically low to start with and there is often no necessity for the current owner to sell the land.

It is noted within the 2019 Viability Study that a number of allocated sites are greenfield (para 6.8) and agricultural in nature. This applies to the land at Ottershaw East and the Brox End Nursery. Initial commentary in paragraph 4.18 of the 2019 Viability study makes reference to an overall site value of £282,000 which equates to £20,000 per ha for the gross 14.1 ha site. It does also reference a figure of £700,000 to acquire the existing dwelling on the south east corner of the site, which is based on indicative new house values within the Ottershaw area. We would note that, in addition, 183 Brox Road would need to be acquired by our client to create a suitable access road to the wider Brox Nursery site. As well as the cost of acquisition, in practice the current owners of this house would be aware of the possible 'ransom' value of this house and could therefore seek a substantial premium to enable the delivery of the new homes on this site.

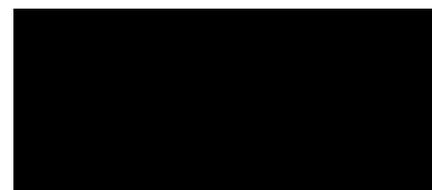
In responding specifically to the matter of agricultural land values, we would draw attention to the latest two publications of the RICS/RAU 'Farmland Market Directory of Land' indicate the price of farmland / agricultural land is over £10,000 per acre (circa £25,000 per hectare).

Table 2 - RICS/RAU 'Farmland Market Directory of Land'

Period	Price per acre	Price per hectare*
H1 2018	£10,936	£27,012
H2 2018	£10,519	£25,982

In section six of the 2019 Viability Study, further explanation is given to the selection of a suitable BLV and makes reference to various sources including a DCLG study, *The Cumulative Impact of Policy Requirements (2011)*, which suggested that "a figure of £100,000 to £150,000 per gross acre (£247,000 to £370,500 per gross hectare) is a reasonable benchmark for greenfield land. Assuming a net to gross factor of around 70%, this would mean a land value benchmark on a net basis in the region of £400,000 per hectare".

We note that the Local Plan Viability report (2017), also prepared by Andrew Golland Associates, assessed the BLV for Ottershaw to be in the order of £3,264,151 per ha although this was based on a policy requirement for 50% affordable housing. It is our understanding that the sensitivity testing in the same report indicated land values in Ottershaw with 35% affordable housing to be c.£5.81m (Table 6.2, pg 79).



At paragraph's 6.10 and 6.11 of the 2019 Viability Study however, it is determined that a universal BLV of £2,000,000 per ha is adopted. Based on an assumed density of 30 dph a land value of £2,000,000 would reflect only £66,666 per plot. With average house prices for three bedroom terraced houses reported in the 2019 Viability Study to be in the order of £558,000, we would argue that this is insufficient to incentivise a land owner to release the site for development. Despite alterations to planning policy via the NPPF and NPPG to ensure land prices reflect planning obligations and policy, landowners remain reluctant to release sites where prices do not reflect a significant proportion of the projected GDV. In view of this, we would argue that a significant premium to EUV would therefore be necessary to secure land for development.

The fact that these greenfield sites at Ottershaw East have been allocated within the draft Local Plan as suitable for residential development for a combined total of over 270 new dwellings would also add weight to the argument that land values would be significantly in excess of agricultural values. In such circumstances, landowners would be holding out for prices that would more accurately reflect the residual land values for the proposed developments, i.e. closer to the figure of £5.81m than the £2,000,000 now adopted in the 2019 Viability Study.

Therefore we feel strongly that the viability testing has not robustly reflected the 'real world' by adopting an artificially low benchmark land value which is set at such a low value that landowners would simply not be sufficiently incentivised to release their land for development.

Private Sales Values

We note from the 2019 Viability Study that the average private sale prices attributed to new-build homes in Ottershaw are as follows:

- 1 Bed Flats: £243,000 @50 sqm = £4,860 per sqm
- 2 Bed Terrace: £451,000 @79 sqm = £5,709 per sqm
- 3 Bed Semi: £534,000 @93 sqm = £5,742 per sqm
- 4 Bed Detached: £706,000 @125 sqm = £5,648 per sqm

An initial review on Rightmove.com for current new-build homes for sale in Ottershaw and within a ¼ mile radius indicates the following availability:

- 1 Bed Flats: £275,000 to £285,000
- 2 Bed House: £400,000 to £420,000
- 3 Bed House: £485,000 to £530,000
- 4 Bed House: £600,000 to £685,000

It has not been possible to verify floor areas for all units but the above range of current new-build homes indicates that the unit pricing adopted within the 2019 Viability Study is towards the very top end of the price range, if not beyond what is realistically achievable.

As at the date of preparing this submission, it should be noted that the UK and wider global economy has stalled while governments aim to restrict the spread of the Covid-19 pandemic. The short to medium-term impacts of this action are as yet unknown and it is therefore not possible to judge how this could impact on achievable sales values. At present, demand has been reported to have collapsed while mortgage lenders have locked-down and have temporarily ceased lending on all but the most secure of transactions with loan to value ratios of no more than 60% being considered.



While many would anticipate a return to normal lending criteria once the pandemic is under control, a resurgence in buyer demand is less certain as short to medium-term impacts on buyer's personal finances will need to be considered.

In view of this we would like to see additional sensitivity testing undertaken to ascertain the impact of falling house prices and to understand whether this would enable a reasonable buffer to be maintained once the proposed CIL rates are charged on developments going forward.

Affordable Housing Values

Based on the Ottershaw sub-market DAT attached to Appendix 2 of the 2019 Viability Study, we note that the affordable housing provision is based on a tenure mix of 27% Social Rented and 73% Shared Ownership. We note that *Policy SL20: Affordable Housing* in the emerging Local Plan sets out a tenure split of 80% Social/Affordable Rent and 20% Intermediate/Discounted Market housing.

On this basis we would question whether a policy compliant tenure has been tested fully.

The average unit values for a one bedroom unit attributed to these tenures appear to equate to:

- Social Rent: £80,000 per dwelling
- Affordable Rent: £150,000 per dwelling
- Shared Ownership: £157,950 (65% of OMV for Ottershaw)
- Starter Homes: £249,000 (Ottershaw)
- Discounted Homes: £194,400 (80% of OMV for Ottershaw)

We would comment that in regard to our client's proposed development there are no one bedroom homes. All affordable homes will comprise either two-bedroom apartments and houses or three bedroom houses.

In view of this it is possible that the values attribute to the affordable housing could be overstated, with values proportionally decreasing for larger occupancy units.

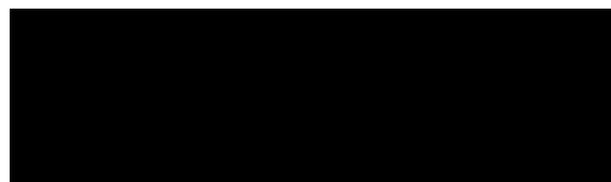
Construction Costs

The 2019 Viability Study applies the following construction Costs:

Table 3 – Build Cost Assumptions

Home Type	Baseline (£/sqm)	Externals (£/sqm)	Location Factor (£/sqm)	Total (£/sqm)
Two Storey Houses	£1,157	£174	£200	£1,530
Bungalows	£1,292	£194	£223	£1,709
Low Rise Flats	£1,334	£200	£230	£1,764

It is assumed the baseline and location adjustments are extracted from the RICS BCIS as at September 2019. The allowance for external works reflects an additional 15% on the baseline rate. We are aware that high level development appraisals often adopt allowances for external works, where a QS hasn't been appointed to provide specific build costs, in the range of 15% to 20% of baseline costs. Depending on the specific site, this can however result in wide inaccuracies in build cost assessment.



We have reviewed BCIS build costs as at the date of this submission and would concur that the baseline and location factor adjustments are reasonable in terms of the Median BCIS ranges. Although, we would question whether build costs would be closer to the upper quartile rates to ensure the proposed homes are finished to a high standard and capable of achieving the average sales values set out in the 2019 Viability Study. The location adjusted upper quartile BCIS rates are presently; £1,450 per sqm for two storey estate houses and £1,704 per sqm for low rise apartments.

In addition, we would question whether the allowance of 15% for external works was satisfactory. External works will typically include utilities/services, estate roads, hard/soft landscaping, lighting, drainage (including SUDS), etc. The actual cost will depend on scheme layout and the underlying site conditions.

Based on schemes that Boyer has been involved with recently that have included cost plans prepared by quantity surveyors, external costs have ranged from 11% to 29% of baseline costs. As such, an average allowance for the purpose of a viability assessment would be more appropriate in the order of 20% of baseline costs.

We note that an additional allowance of £10,000 per dwelling is included in the 2019 Viability Study for Sustainability related construction and development costs. This covers the cost for; electric vehicle charging points (£1,500), water efficiency (£6), M4 Building Regs (formerly associated with 'Lifetime Homes') (£1,650), 10% renewable energy (£2,000) and SANG/SAMM (£2,683).

Our appointment to review the 2019 Viability Study does not include a QS and we are therefore unable to comment specifically on these allowances at the present time. However, we consider the costs that have been adopted for 10% renewable energy and the impact of designing homes to be compliant with M4 building regulations are low relative to the costs we have experienced on other projects. We would like to see a more detailed explanation of these cost and comparable evidence to support them.

Contingency Costs

The 2019 Viability Study does not include any contingency costs. From our experience, including a contingency is standard practice within viability modelling whether it is for CIL Charging Schedules; Local Plan viability assessment or scheme specific appraisals. This is recognised in RICS guidance¹ which states -

'E.3.2.3.4 In all costs, the inclusion of a contingency allowance to cater for the unexpected is essential. The amount is usually reflected as a percentage of the building contract sum and is dependent upon the nature of the development, the procurement method and the perceived accuracy of the information obtained.'

Based on our experience we feel a 5% contingency added to BCIS costs should be applied to take account of unforeseen increases in building costs. Given the modelling to support CIL charges is necessarily high level; testing generic type schemes; a contingency is considered even more necessary given the lower level of accuracy compared to viability testing for specific planning applications.

¹ RICS, Financial viability in planning (1st edition (GN 94/2012)

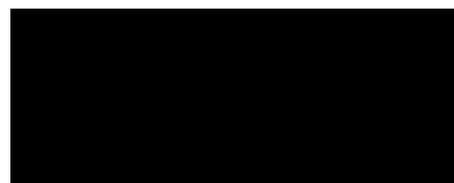


Table 4 – CIL Charging Authorities, approach to contingency costs

Charging Authority	Contingency Assumption ²	Charging Authority	Contingency Assumption ¹²
South Oxfordshire	10% ³	London Borough of Hackney	5%
Windsor & Maidenhead	2.5% - 5%	Hart	5%
West Oxfordshire	5%	Guildford	5%
Wycombe	5%	Mole Valley	5%

Infrastructure Delivery Plan

Our review of the identified infrastructure and its costs which are identified for our client's site within documents produced by and for the Council has highlighted a number of inconsistencies and discrepancies.

Below, we provide a table which compares these costs which we have drawn from the following documents:

- Infrastructure Delivery Plan (December 2017) - see Tables 82 and 83 at pages 201 and 206
- Emerging Local Plan – particularly Policy SL2
- CIL Viability Report 2019

The first point to highlight is that our client's site is identified separately from Ottershaw East in the emerging Plan Policy and Infrastructure Delivery Plan whereas the CIL Viability Study has combined the two. This makes direct comparisons of the infrastructure costs more complicated but we have sought to do this in the analysis below.

“expansion of early years and primary school infrastructure at Marshfields CofE Infant and Ottershaw CofE Junior Schools and a financial contribution towards secondary school infrastructure” and

“Provide or contribute to any other infrastructure identified at application stage which is necessary to make the site acceptable in planning terms”.

Table 5 – Comparison of infrastructure costs relating to the Ottershaw East / Brox Road Nursery site

Emerging Local Plan Policy SL2 /SL12	Infrastructure Delivery Plan – December 2017	CIL Viability Study 2019	Notes
Education – Early Years	£220,500 combined cost (CIL/S106) - Essential Cost	No costs specifically identified – assume this is to be covered in £1,500 per dwelling for s106 planning obligations	Brox Nursery costs in IDP for this are £32.5k
Education - Primary	£513,500 combined cost (CIL/S106) - Essential Cost	No costs specifically identified – assume this is to be covered in £1,500 per dwelling for s106 planning obligations	Brox Nursery costs in IDP for this are £78.5k
Education – Secondary	£514,00 combined cost (CIL/S106) - Essential Cost	No costs specifically identified – assume this is to be covered in £1,500 per dwelling for s106	Brox Nursery costs in IDP for this are £101k

² % of BCIS build costs

³ For strategic sites

		planning obligations	
<i>SL2 any other infrastructure identified at application stage which is necessary to make the site acceptable in planning terms</i>	Health (GP & Dentists) – Essential £1.33m (CIL/S106)	No costs specifically identified – assume this is to be covered in £1,500 per dwelling for s106 planning obligations	Brox Nursery costs in IDP for this are £23.7k
<i>SL2 any other infrastructure identified at application stage which is necessary to make the site acceptable in planning terms</i>	Recreation (Outdoor/ Indoor/Playspace - all Essential) Green Infrastructure (SANG-Critical/Parks and Gardens/Allotments-Essential) £1.82m (CIL/S106)	No costs specifically identified – assume this is to be covered in £1,500 per dwelling for s106 planning obligations Green Infrastructure £817,759 SANG £1.16m SAMM £146,160 Totals £2.12m	Brox Nursery costs in IDP for this are £138.6k excluding SANG which is costed separately at £105.2k Combined cost £243.8k
<i>SL2 any other infrastructure identified at application stage which is necessary to make the site acceptable in planning terms</i>	Not identified/costed in IDP	S278 Costs £363k	
Total	£4.398m	£3.747m [comprised of £300k (200 estimated no of dwellings multiplied by £1,500) plus £817,759 plus £146,160 plus £2.12m plus £363k]	CIL Viability testing approximately £0.65m lower than Infrastructure Delivery Plan

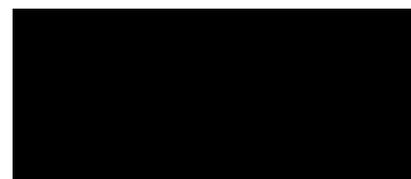
Based on the analysis above there are inconsistencies between Policy, the CIL Viability Study and the Infrastructure Plan. Policy requirements, and what are regarded as critical and essential infrastructure in the Infrastructure Delivery Plan, are either absent from or included at different value levels. The most significant conclusion from the analysis in the comparative table above is that development costs in the CIL Viability Study appear to be £0.65m lower than those identified in the Infrastructure Delivery Plan.

This cost difference is small relative to the potential CIL that will be collected based upon the rate currently proposed for the Ottershaw Area.

We explore the disconnect between costs in the following sections below.

On-site infrastructure costs

The 2019 Viability Study states that the Council has calculated the cost of on-site infrastructure for all major and strategic sites. With regard to Ottershaw East, it is our understanding that this totals £2,486,919. This is stated to comprise of the following infrastructure items:



- S278 Highways: £363,000
- Green Infrastructure: £817,759
- SANG: £1,160,000
- SAMM: £146,160

The total on-site infrastructure cost equates to £12,014 per dwelling based on 200 dwellings and two gypsy/traveller pitches.

However, we are not certain how these figures have been calculated and as highlighted above in the previous section there are differences compared to the Infrastructure Delivery Plan. We would ask the Council to explain how these costs have been calculated/derived for the Ottershaw East sites.

S106 and S278 Costs

The 2019 Viability Study includes an allowance of £1,500 per dwelling for s106 planning obligations.

We have reviewed current requirements for potential s106 contributions in regard to early years and childcare, primary and secondary education, Library services, SUDS and the Thames Basin Heath SPA. While some of these items are case specific and can only be negotiated once a final scheme is submitted for planning, it is possible to formulate a high-level view on the contributions that SCC may require for education and TBH SPA.

Based on our clients estimated scheme for the Brox Nursery site, it is estimated that the following approximate s106 contributions would be sought:

- Early years childcare: c.£30,000
- Primary school contribution: c.£150,000
- Secondary school contribution: c.£160,000
- Thames Basin Heaths SPA: c.£90,000

This would equate to approximately £9,350 per dwelling excluding any contributions for library services, SUDS etc.

We understand that s278 costs have been included in the appraisals as set out in the section above. However, we would reiterate that at this moment in time it is not clear how these costs have been estimated by the Council. Clarity on this issue would be helpful.

Build Programme

Upon review of the 2019 Viability Study, it is unclear what timescales are attributed to the development of each site in terms of pre-construction phases, construction phasing and sales rates. This data would be helpful to fully understand how part of the finance costs are calculated. Should it transpire that unrealistic timescales are applied to the build-out period and sale of completed units this would artificially reduce finance costs and show an improved viability position than was achievable in reality.

Sensitivity testing

With regard to the information set out in the 2019 Viability Study, it is not clear what level of sensitivity testing has been undertaken. While there is evidence of different approaches to determine the BLV, we have not seen any evidence of the sensitivity of the other key inputs such as average



residential sale values and selected build costs and whether negative events that could reduce sales values and/or increase build costs could significantly erode any buffer and endanger overall viability.

Given current uncertainty around the UK's economic relationship with Europe and the potential for a no-deal Brexit on the 31st December 2020, coupled with the unknown impact now being caused by the Covid-19 pandemic and the virtual lockdown of the UK / global economy there is a genuine concern that house prices will be adversely affected and could take a pro-longed period of time to recover. As such, we believe that negative impacts to growth should be fully tested as well as the potential for any upside improvements in viability to test the impact on development and the ability for schemes to absorb a CIL contribution.

Conclusion

I hope the above comments are considered constructive. The Council needs to publish the full viability appraisals for the assessed sites as a first step. Without this detail being provided for scrutiny we feel strongly that the Council have not properly evidenced their proposed CIL and this lack of robustness in the evidence means that the proposed CIL charge is not sufficiently justified. Should the range of issues we identify above be incorporated into the Viability Study we consider that a significantly lower CIL level will be evidenced.

Yours faithfully

