For: West Berkshire Council

Viability Assessment Update

(2021 – 2022)

Local Plan Review

Autumn 2022

DSP21726

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High level summary

Introduction

1. This viability assessment (update) report and its appendices contribute to the evidence base for the West Berkshire Local Plan Review (LPR) to 2039 – alongside the Council's evidence on housing, infrastructure, other needs and factors all influencing the local approach to sustainable growth.

2. The work informing the reporting that follows was commenced for WBC (West Berkshire Council) by Dixon Searle Partnership (DSP) in early 2021 and has run through the Autumn of 2022. Its purpose has been to provide updated information following the Affordable Housing Viability Assessment provided by DSP for WBC (2018 – 2020) and in doing so continue to inform and support the final development of the LPR policies.

3. Applying the same principles but including updated assumptions on development costs and values as well as reflecting both the Council's LPR and national policies, this further work has again considered the viability of the emerging plan approach. This time the viability (likely financial health) of developments is considered reflecting the latest policy proposals on climate change response (focusing here on sustainable development) and other matters consistent in particular the nature of type of new homes required.

4. The National Planning Policy Framework (NPPF) expects there to be clarity provided by Local Plans on the level of developer contributions that will be required to support new sustainable development. The Planning Practice Guidance (PPG) sets out how development viability should be considered in this context, so that development schemes can remain able to come forward viably whilst providing appropriate infrastructure and development mitigation. This assessment has been conducted accordingly by highly experienced consultants, using well established good practice in an approach consistent with national policy and guidance.

Approach and further context

5. This has been done through reviewing the cumulative (collective) effect of the WBC policy proposals to explore and re-check to what degree the local property market is likely to be able to support the planning policies and obligations that the LPR proposes to set out. Using assumptions representing development costs as have been researched and considered with

the Council, and reflecting also on stakeholder consultations, the assessment methodology deducts estimated development costs from estimated development values (completed values on sale – i.e. gross development value or 'GDV'). This is within a calculation method known as residual valuation and the following report provides further information on both the principles involved and the detail of this.

6. As is typical and appropriate, this methodology is applied using, in the main, development 'typologies' which are assumed scenarios set up following the information gathering and discussions with the Council. The typologies based review is then supplemented and further informed by looking more specifically (using particular site information as far as available) at relevant strategic scale development which is considered key to the LPR delivery overall. In this case, the proposals for now circa 1,500 dwellings and other development at N E Thatcham as per policy proposal SP17 have been focused upon for additional review in this context, again following detailed consideration with the Council (and similarly reflecting upon stakeholder consultation as far as been practical).

7. The calculation (development appraisal) results each time in a residual land value ('RLV') which indicates the level of residual (i.e. potential amount left over) after allowing for the development costs including proposed planning policies. The RLV indicated from each test (appraisal) carried out in this way is then compared to an appropriate level or levels of benchmark land value (BLV) assessed based on the existing use value (EUV) of various potential site types plus a landowner's premium reflecting the need, usually, to incentivise the release of land from its existing use. Where the appraisal outcomes (RLVs) meet or exceed representative site BLVs, developments are considered viable when including all the development cost assumptions used as inputs (i.e. including the appraised policy costs, all viewed together). As can be seen through the results presented in the assessment appendices, overall the making of this strategic overview involves a great many appraisals to inform judgements.

8. Reflecting the likely role of various site (land) types, the BLV levels used range from £250,000 to £500,000/ha (pounds per hectare) for greenfield (larger/strategic and smaller sites respectively) and higher levels up to or perhaps in some cases beyond £3,000,000m/ha (£3m+) potentially applicable for some previously developed land (PDL – i.e. brownfield sites). Within the PDL variety in the local context we consider that BLVs in the range £1-2m/ha are likely to be most relevant overall.

9. Both sales values (house prices) and build costs have risen significantly. The report detail sets out the range of assumptions made and sensitivity testing on those. Some other policy related costs / anticipated planning obligations have moved too, but not all upwards.

10. Additionally on context, the latest assessment work has been conducted at a time of increasing economic uncertainty. At the time of reporting, many aspects around development are very challenging. Consistent with longstanding experience of running strategic (high level) assessments such as this, a wide range of sensitivity testing had been run. This has included running a range of affordable housing (AH) % test levels in different scenarios – across a main range 20 – 40% further exploring and reflecting the LPR policy proposals. Common to all such assessments, of all the various policy impacts that are influenceable locally, the affordable housing provision is seen to have by far the most significant effect on viability. This is why it has been a significant focus with both the previous study and this updated work. The AH viability impact comes from the fact that although its development costs broadly the same as market housing, overall its value on a mixed AH tenure basis is often not more than around half of market value (general approximation only, for the purposes of highlighting the degree of its effect typically and not just in West Berkshire).

11. Given the key theme to address, the long timeline of the LPR which is likely to be operated through varying economic and market circumstances, but also acknowledging current / short term circumstances that may well be seen to be reflected in development risk reward, development profit has been tested at 17.5% to 20% GDV (reflecting the mid to upper parts of the range noted in the PPG for plan making purposes).

12. However, it is important to reflect that while this is acknowledged and may flow through into early Plan stage delivery considerations, as only time will tell, the Plan is set to run over a long timeline to 2039. As such it is not appropriate to consider or set strategy and policy only based upon circumstances as experienced right now or even in the coming period – shorter term of up to the next few years, perhaps. Rather, a genuinely strategic overview and judgments are both needed and appropriate; around a range of assumptions, sensitivity tests and policy implications (both local and national) envisaging the planned development delivery and related infrastructure provision over the longer timeframe, through likely varying economic and other circumstances.

Findings

13. Necessarily again using information as far as available at the time of assessment, this has enabled a further appropriate level of revisiting and checking of the suitability of the proposed policy set in viability terms.

14. Amongst the key points, this confirmation of suitability at the required strategic level on viability includes the headline 40% affordable housing (AH) policy basis (Policy SP19) on greenfield sites; 30% on PDL. As an updated assumption 25% of the AH is now assumed (included within appraisals) as 'First Homes' in all cases as per national criteria established in May 2021 and here based on the national price cap (outside London) at £250,000 after a minimum 30% market value discount assumption.

15. Alongside all other relevant policies reflected through the assumptions, the influence of affordable homes provision is considered together with the main "corporate" theme of climate change response under the overall strategic aim of proposed LPR policy SP5 and in the case of this assessment, particularly the DM4 policy proposal on building sustainable homes and businesses.

16. On the basis described in the full reporting that follows (including the appended information on assumptions, findings and appraisal summaries), we have found the proposed Local Plan Review policies in West Berkshire suitable in viability terms, viewed together (i.e. 'cumulatively' as above). We consider that the LPR approach will continue to leave developments with the ability to come forward viably, noting that the proposed significant differential between affordable housing policy expectations on greenfield vs PDL sites is a key factor. This is because significantly higher EUVs of sites (so higher BLVs for viability in planning) are typically relevant in the case of PDL based development proposals and that factor is often present alongside higher development costs.

17. The findings apply to both the general nature of development represented (as above) through the typologies based review and the strategic scale development that has been considered at N E Thatcham (LPR policy proposal SP17). The proposals have been found to have reasonable prospects of viability, with the following report setting out the detail in a comprehensive approach to viability in planning at the plan making stage.

18. In addition the main focus areas as above, the report also provides information on the ongoing viability of the West Berkshire Community Infrastructure Levy (CIL) charging schedule (overall, considered to remain broadly suitable at the indexed rates having taken account of this through the assessment) and the development of non-residential/commercial uses.

19. DSP will be pleased to assist with any queries or further work should our input be required by the Council during or following the forthcoming Local Plan consultation period (Regulation 19 stage) and indeed subsequently as the LPR proposals progress towards examination and adoption.

High level summary ends

Final Report (v9.1)
Reflecting latest assessment work concluded Autumn 2022

1. Introduction

1.1 Introduction & Report Purpose

1.1.1 West Berkshire Council (WBC) is in the process of developing its new Local Plan Review (LPR), to cover the period to 2039; progressing towards the formal consultation stage on the Draft Plan review (Regulation 19 publication stage) during the early part of 2023. Once the new Plan is adopted, it will replace the current West Berkshire Core Strategy.

1.1.2 West Berkshire's Core Strategy was adopted in 2012 and together with the Housing Site Allocations DPD (adopted May 2017) forms the current basis for the Development Plan and sets the long term spatial strategy for the district.

1.1.3 The Council is now updating its strategy and policies through a new Local Plan Review in accordance with the National Planning Policy Framework (NPPF) that requires Local Plans to be kept-up-to date and to cover a minimum 15 year period (and longer in terms of any strategic scale developments where development is likely to occur over an extended period).

1.1.4 Following two rounds of Regulation 18 consultation in 2018, a further consultation was held on the emerging LPR between 11 December 2020 – 5 February 2021. The new LPR identifies the development that is required to meet local needs, sets out the strategy for distributing development within the district, as well as outlining policies for conserving and enhancing the natural and built environment.

1.1.5 In 2014 the Community Infrastructure Levy (CIL) was adopted in West Berkshire; brought into effect on 1st April 2015. The CIL Charging Schedule identifies differential charging rates for residential development in Newbury, Thatcham and the Eastern Urban Area at £75/m², and the remaining areas of the District at £125/m². These rates are indexed annually in accordance with the CIL Regulations (further detail on currently charged rates provided below and in Appendix I). While, in addition to the LPR, the Council has been considering a potential review of the current CIL to ensure that it remains appropriate in support of new development, this is not actively being pursued specifically at this time. This is in the context of both the settling of the LPR direction and also bearing in mind the Government's proposed review of the CIL, meaning that significant uncertainties are involved in what would be a costly and resource hungry review process.

1.1.6 Accordingly, the key purpose of undertaking this assessment has been to assess the viability impacts of emerging planning policies within the LPR, so as to inform their further development and final proposed draft iterations, and to assess the potential viability of key strategic scale development that has been identified with WBC for closer assessment. This has been done through taking account of the influence of the emerging policies cumulatively (i.e. collectively).

1.1.7 Overall, the council requires the assessment in order to check that the policies proposed on development standards and obligations will not unduly affect the ability of developments to come forward viably. This is in the interests of the Council, local communities, developers and all other stakeholders as part of ensuring that the proposed policies and nature of development identified in the Plan will be deliverable overall. This starts with informing and evidencing a sound Plan through the examination process, then going on acts in support of suitable developments having reasonable delivery prospects moving ahead.

1.1.8 This is equally true of the level(s) of the CIL that will be charged across the district and including following any review of the levy (or alternatively the introduction of a replacement Infrastructure levy (IL) or similar) as part of the overall costs of and support to sustainable developments being able to progress. At this assessment stage (viability review work carried out 2021 – 2022) the current approach is reflected by including the indexed CIL charges amongst the comprehensive development cost assumptions within the appraisals undertaken. Additionally, a section 106 planning obligations (s.106) contingency allowance has been made – details all as set out in later sections of this report.

1.1.9 The Local Plan must be prepared in accordance with the requirements set out in National Planning Policy Framework (NPPF) and the accompanying Planning Practice Guidance (PPG) – as updated 2018 and in some respects further amended through to 2021. Viability testing is an important part of the plan-making process. The NPPF includes a clear requirement to assess viability of the delivery of Local Plans and the impact on development of policies contained within them. The key guidance on how to address this is within the PPG, while other publications also provide reference sources.

1.1.10 In light of the above, the Council therefore commissioned Dixon Searle Partnership (DSP), an experienced consultancy in the field of viability in planning, to carry out this viability assessment. The assessment involves the review of financial viability using a site typologies approach (test scenarios representing a range of site types / development schemes likely to come forward through the emerging Local Plan Review) as well as more specific review of strategic scale development as far as possible at the study stage, where that is important in delivering the aims and objectives of the Plan overall.

1.1.11 The approach taken is consistent with this context and with DSP's long running and wide experience of similar assessments applying the same principles and methodology, undertaken reflecting the local characteristics. DSP carried out the viability assessment for the WBC CIL Charging Schedule evidence (assessment work 2012-13), undertook an Affordable Housing Viability Assessment (AHVA) for WBC (2018 – 2020) and commenced work on this latest, current assessment in February 2021. We have also undertaken decision taking (development management – DM) stage review work for WBC on a range of schemes as requested on an ad hoc basis in response to some viability submissions made to the Council at the point of some applications or associated occasionally with appeal proceedings.

1.1.12 As with the earlier work, this update assessment had been initiated, built and progressed through regular close dialogue with the Council's officers (and contact with others involved in contributing to the LPR evidence base) over a considerable time period. This has been a two-way process, with our work both informing the LPR policies development as it progressed through evolving information and feedback provided by the Council.

1.1.13 Consistent with much our strategic viability assessment work, and particularly in recent years, the approach to / phasing of our brief and in particular the overall project timing has changed during the course of the work. As we have found to happen frequently, there has been a pause during the assessment (while the Council considered changing national policy) resulting in an extended project period overall. Nevertheless, this has been an effective process with the dialogue continuing (and most recently allowing for) the further assessment of latest policy iterations and refinements up to Autumn 2022. Given that the process has evolved, rather than providing a separate / addendum approach to the latest sensitivity testing, we have incorporated that within this overall single reporting process. This has meant (but also enabled) keeping the information review and assessment open as far as possible prior to this rounding up of the reporting bringing together the review work we have conducted with the Council in the last approximately 2 years.

1.1.14 The main stages involved in this have been as follows:

1. Undertaken Spring 2021 (with findings reported to Council up to June 2021). Research and information review informing a full set of residential typologies appraisals and a first look at the potential viability of the North East Thatcham (N E Thatcham or 'NET') proposed strategic site allocation based on approx. 2,500 dwellings and related facilities.

    - The results of these first stage exercises are included in Appendix II, using assumptions as set out below and within Appendix I Tables A, B and D.

2. Further review work 2022 (completed Autumn 2022 and leading to the draft version and then final full reporting presented here). Reflecting the receipt of updated WBC information and further developed proposed policy positions for review as well as national policy developments since the assumptions setting for the 2021 assessment work, we ran further testing. This was based on sample typologies, using the 100 mixed dwellings on both greenfield (GF) and previously developed land (PDL i.e. brownfield) scenarios carried forward from the stage 1 review. Additionally, and while information was still building to a degree on a revised (reduced scale of) proposal for 1,500 dwellings at N E Thatcham, we revisited that as far as possible.

- Stage 2 assumptions as summarised at Appendix I Tables A, C and E. Further results updating and sensitivity testing at Appendix III (with additional sensitivity testing data relating to the typologies tests included at Appendix IIIa and sample appraisal summaries generated in the standard format using the Argus developer appraisal software also included - at Appendix IIIb). Stage 2 also included a typologies based approach to reviewing sample commercial / other development use types (viability indications as per Appendix IV and more on this below). At this stage in order to manage the information volume and focus on the most relevant sample, there are no appraisal summaries included in respect of the Appendix II or Appendix IV reported results (however others can be made available to the Council subsequently on request).

1.1.15 This viability assessment has been produced in the context of and with regard to the NPPF, PPG (including crucially on 'Viability' but also consistent with other PPG sections such as on First Homes) as well as other Guidance[1] applicable to studies of this nature. After setting out the assessment context, purpose and general approach within this 'Introduction' section, the following report structure, on the study detail, is presented over 2 main sections as included below (brief outline here):

- **Methodology** – approach to the study, residual valuation methodology, assumptions basis and discussion.

- **Findings Review** – overall results review based on the findings from the typologies and site specific assessment work. Focussing on the available strength of viability in the district in relation to supporting affordable housing (AH) proportions (%s) as far as possible bearing in mind affordable housing need; and when considered cumulatively alongside local and national emerging policies, including in areas such as climate change response (sustainable development / carbon reduction) and all other areas considered likely to have a direct influence (through a cost impact) on the viability of developments in West Berkshire.

1.1.16 The testing of Local Plans for viability does not require a detailed appraisal of every site anticipated to come forward over the plan period, but rather a proportionate test of a range of appropriate site typologies that reflect the potential nature mix of sites likely to come forward. The process should however include more specific consideration of any key proposals upon which the Plan relies overall for the delivery of its growth objectives – e.g. particular strategic sites and especially where there has not been more specific work underway already as schemes progress to or reach DM stage.

1.1.17 Equally, the Local Plan viability assessment does not require an appraisal of every likely policy but rather the emerging policies that are likely to have a direct quantifiable bearing on the overall development costs. In our experience this type of assessment involves a

[1] Including now the latest RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England' (March 2021 effective 1st July 2021); 'RICS Professional statement on Financial viability in planning – conduct and reporting' (1 September 2019) and 'Local Housing Delivery Group – Viability Testing Local Plans' (Harman, June 2012)

focus primarily on the viability prospects and potential policies associated with housing development. This is because the scope of WBC's or indeed other Councils' influence over the viability of other forms of development (i.e. non-residential / employment / commercial) through local planning policy positions is typically much more confined. There is no equivalent to affordable housing policy having a significant effect even by itself, or to the increased range of standards relevant to residential development. In this case, which is similar to others in our experience, the extent of emerging policy influence on the viability of wider development uses is limited, essentially, to the sustainable construction and development objectives of the emerging Plan (contributing to the net zero carbon aspirations – emerging policy DM4 'Building Sustainable Homes and Businesses').

1.1.18 The assessment approach applies sensitivity testing to explore the likely impacts of the potential policy costs - including on a range of affordable housing requirements and combined with allowances for meeting the requirements of other policies emerging through the Local Plan Review process. This covers areas such as the carbon reduction measures, water usage efficiency and space standards.

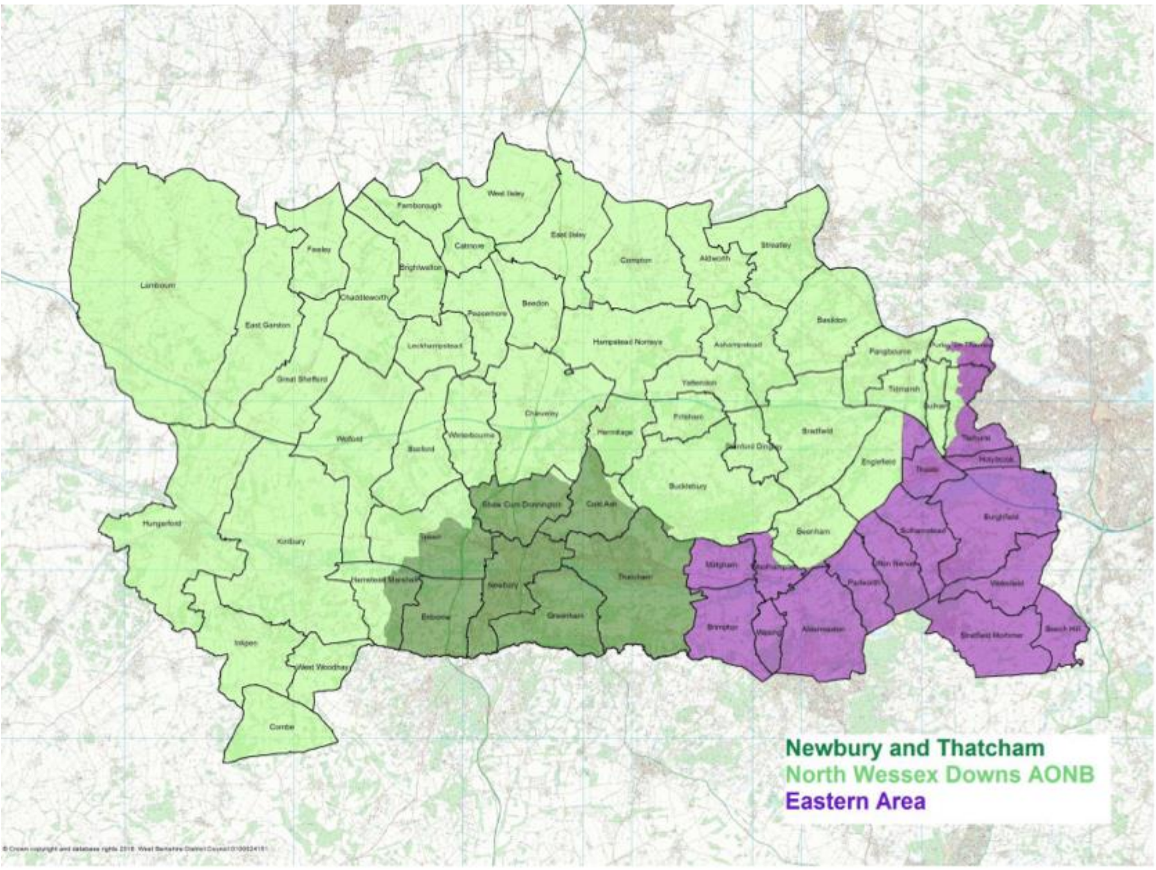
1.1.19 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics. The point in time and prevailing economic and housing / property market conditions as schemes come forward can also greatly affect the circumstances around particular developments. It is necessary to consider also that the Local Plan will be delivered over a relatively long timeframe and most likely through varying economic cycles, meaning that taking only an immediate / short term view of assumptions and judgements is not appropriate in this context (whereas it will be more so in most DM stage – PPG 'decision taking' – situations). All in all, there are many variables involved. Such an assessment seeks to take a course through the consideration of these and how they come together in looking at the potential for developments to be viable - at this strategic level.

1.2 West Berkshire - Profile

1.2.1 The emerging West Berkshire Local Plan Review sets out the spatial characteristics of the district. This report section provides an outline only, feeding into the consideration of the local characteristics that are influencing the emerging Plan direction and therefore the review of policies and their viability in the relevant local context. The Council's wider evidence base provides an extensive range of information on the nature of the district, and the related planning issues and opportunities.

1.2.2 West Berkshire is a unitary authority of 704 square kilometres (272 square miles), which is located in the south east of England. It contains both towns and extensive rural areas, with about 90% of the district being rural in character. The North Wessex Downs Area of Outstanding Natural Beauty (AONB) is a nationally important and legally protected landscape, designated for the quality of its scenic beauty and covers 74% of the District.

Figure 1: Map of West Berkshire



Source: West Berkshire Council Local Plan Review to 2039 (Emerging Draft)

1.2.3 Approximately 44% of the total population (last estimated mid 2019 at approximately 158,000 live in Newbury and Thatcham urban areas. This rural population is dispersed across a large number of towns, villages and smaller settlements each of which has its own identity. This rural dimension is very important in shaping the character of West Berkshire, its community, economy and environment. The rural environment of the district adds significantly to the quality of life enjoyed by urban residents and is a considerable asset for the wider area.

1.2.4 West Berkshire is part of the Thames Valley which is recognised as the most dynamic and competitive sub-regional economy in the UK. Employment provision in West Berkshire is diverse. Rates of employment in the district remain high despite the uncertainties that Brexit and COVID-19 pandemic have brought universally. For general context only, as the viability assessment is rounded up, the far reaching market uncertainties have been further compounded in 2022 by circumstances around the war in Ukraine and increasingly established economic challenges within an environment, currently, of UK governmental changes, high inflation and rising interest rates; all coming together in what is being described as a cost of living crisis at the point of finalising this work in Autumn 2022. Nevertheless, a local plan is a strategic level document and as noted above at 1.1.19 will be delivered over a considerable timespan.

1.2.5 The largest settlements include Newbury and Thatcham and the urban areas of Tilehurst, Purley on Thames, and Calcot in the east of the district, close to Reading. Newbury is the largest town in West Berkshire and serves as the district's administrative centre.

1.2.6 West Berkshire is well connected in transport terms. At the centre of the District is an important road interchange. This is where the east-west M4 motorway intersects with the north-south A34. There are road connections to larger centres such as Reading, Oxford, Swindon, Basingstoke, and London. Mainline railway services to London and the south west of England run through the south of the district. These locational factors, combined with the high quality urban and rural area, contribute towards making the area a popular place to live and work.

1.2.7 Amongst the range of strategic objectives of the Council (on housing, sustainable quality development, economy, town centres, culture, heritage, AONB, green infrastructure and healthy living, transport and infrastructure) and as a common thread to be addressed by the LPR, response to climate change is a top priority. WBC has an Environment Strategy (2020 – 2030) and plans use the LPR to contribute to delivering its carbon neutral aim - by 2030 and thereafter. In terms of development coming forward through the LPR this reflects in positive policy proposals which aim to run ahead of current government requirements on the carbon reduction journey and which have been considered through current extra-over development cost estimated used as assumptions within the testing undertaking for this assessment. This is, however, one of a number of factors likely to influence viability generally, with affordable housing (AH) remaining by far the most expensive and therefore most influential (impacting) obligation for developments to support. The following assessment details cover this and all other assumptions, necessarily made at a point in time and a very early stage in terms of the longer run of the LPR delivery.

1.2.8 Reflecting latest available information (2022 base date), the assessed Local Housing Need (LHN) for West Berkshire is 513 dwellings per annum (referenced in the introductory / context sections of the draft LPR on 'Development Strategy'). The Council's Housing Trajectory 2022/23 – 2038/39 considers a +5% buffer over this (538 p.a.). As part of the housing need scenario, the Council's data indicated a net affordable and social rented housing need of approximately 330 dwellings p.a. (2021 base date). With such a scale of need for affordable homes, clearly there is a balance with viability and other matters to consider.

1.3 National Policy & Guidance

1.3.1 The requirement to consider viability stems from the National Planning Policy Framework (NPPF)[2] which says on *'Preparing and reviewing plans'* at para 31: *'The preparation and review of all policies should be underpinned by relevant and up-to-date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals.'*

1.3.2 NPPF para 34 on *'Development contributions'* states: *'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as*

[2] At the time of writing further changes to the NPPF were being proposed by Government.

that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.'

1.3.3 The updated national Planning Practice Guidance (PPG) on 'Viability', published alongside the NPPF in July 2018 and most recently updated on 1 September 2019, provides more comprehensive information on considering viability in plan making, with CIL viability assessment following the same principles. The Planning Practice Guidance on Viability states:

'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure).

These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types of site or types of development…Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan'.

1.3.4 The PPG states that site promoters should engage in plan making and should give appropriate weight to emerging policies. The latest revision to the PPG (paragraph 006) increases the emphasis on viability at the plan-making stage; therefore, if a planning application is submitted which proposes contributions at below the level suggested by policy, the NPPF expectation is that the applicant will need to demonstrate what has changed since the Local Plan was adopted.

1.3.5 However, the PPG (paragraph 010) is clear in stating that: '*In plan making and decision making viability helps to strike a balance between the aspirations of developers and* *landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission'*.

1.3.6 The Council adopted a CIL Charging Schedule which came into effect on 1 April 2015 and identifies differential charging rates for residential development in Newbury, Thatcham and the Eastern Urban Area at £75/m², and the remaining areas of the District at £125/m². The Charging Schedule includes a rate of £125/m² that is applicable to retail development across the District. A nil charge is set on all other development uses. Indexation applies to the rates relevant to all permissions issued since 2015, in accordance with CIL Regulation 40. At the point of carrying out this study, the prescribed approach to indexation by reference to RICS data had led to WBC's 2021 charging rates increasing to £97.56/m² (Newbury, Thatcham & Eastern Urban Area) and £162.60/m² (rest of the district). The same indexed rate of £162.60/m² applied to retail development district wide (2021). The 2022 indexed rates are very marginally lower at £97.27/m² and £162.11/m² respectively.

1.3.7 The Council's Planning Obligations Supplementary Planning Document (SPD) sets out the approach for securing contributions and requiring obligations from development, alongside the CIL.

1.3.8 Initially, as well as testing the viability of the emerging policies, the Council wished to ascertain whether its adopted CIL Charging Schedule is likely to continue to be suitable, i.e. with charges at a level that will apply to relevant development types and locations, and ensure the ability of developments to come forward viably with the policy burdens and other obligations proposed for inclusion in the emerging Local Plan Review. Accordingly, the applicable charging rates have been included as cost assumptions with the viability testing across this assessment, although with any scope for review of these currently deferred pending the establishment of the LPR approach as well as the Government's review of CIL being clarified.

1.3.9 With the study set up in this way, the LPR policies and approach settled and once further guidance at a national level on the future of CIL (or any similar levy) becomes available, the viability information provided here can be used and updated to supplement any CIL adjustments necessary – for the Council's further consideration if or as may be appropriate in due course. In the meantime and in order to focus on the LPR review, this reporting will not go into the detail that would be appropriate to also support either a review of the CIL Charging Schedule or the introduction of any new form of infrastructure levy.

1.3.10 Within this study, allowances have been made for the cost to developers of providing affordable housing and complying with other planning policies fully (based on assumptions relevant to testing allied to the LPR). This is whilst factoring-in the usual costs of development (build costs, fees, contingencies, finance, costs of sale, profit and land value).

1.3.11 The consideration of the collective planning obligations (including affordable housing, other requirements and CIL, together with any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others, which links back to ‘striking a balance’.

1.3.12 In most cases, where adopted, CIL replaces or largely replaces s.106 as the mechanism for securing developer contributions towards infrastructure. This is understood to be the case in West Berkshire although the assessment seeks to reflect development mitigation / obligations that may be required in addition to the CIL in order to make developments acceptable. Strategic scale development is a notable example of where this is likely to be the case. As with the typology assumptions, with the CIL in place this is allowed for in our currently early stage review work on the N E Thatcham site proposals (SP17) alongside any currently available estimated of specific planning infrastructure works / contributions (such as on Education infrastructure provision needs – new school places - which are specifically allowed for as far as known at this stage). The 2019 updated CIL Regulations and PPG reflect the greater flexibility that authorities now have to use funds from both section 106 planning obligations and the Levy to pay for the same items of infrastructure, regardless of how many planning obligations have already contributed towards an item of infrastructure (the previous s.106 ‘pooling restrictions’ have been removed).

1.3.13 The CIL Regulations (Amendment) have been taken into account in the preparation of this report and in our opinion and experience the preparation of this study meets the requirements of all appropriate Guidance.

1.3.14 In addition, further relevant information is contained in the publication 'Viability Testing Local Plans – Advice for planning practitioners' published in June 2012 by the Local Housing Delivery Group chaired by Sir John Harman (known as the 'Harman' report[3]). That sets out a stepped approach as to how best to build viability and deliverability into the plan preparation process and offers guidance on how to assess the cumulative impact of policies within the Local Plan, requirements of SPDs and national policy. It provides some still useful practical advice on viability in plan-making and its contents should be taken into account in the Plan making process.

1.3.15 Planning and in particular national policy are constantly evolving processes, particularly at the current time. A viability assessment such as this is carried out at a point in time based on knowledge of the system and policies in place at that time or taking into account likely changes to policy moving forward (through sensitivity testing). It needs to be acknowledged however that no study can cover every future eventuality and without re-starting projects at great cost. It therefore needs to be accepted that there may be cases where an update to an assessment such as this may be required as the Plan moves forward to Examination.

1.3.16 During the course of carrying out this assessment (viability review work undertaken and related latest dialogue with the Council between Spring 2021 and Autumn 2022) the Government has both consulted on and more generally considered potential short term and longer-term reforms to the planning system in England and Wales. The White Paper: Planning for the Future consultation (August 2020) sought views on wholesale reforms to the planning system which in some respects would make it almost unrecognisable from the system under which this assessment and the LPR are being produced. A second consultation – 'Changes to the current planning system' looked at shorter term objectives including the introduction of a First Homes policy[4] and temporary increase in the national affordable housing threshold[5]. The Government's response to its consultation[6] concluded that: '*On balance, we do not consider this measure to be necessary at this stage, particularly in light of the broader way in which the sector has responded to the challenges of the pandemic and the other measures we have available to support SMEs.*

[3] 'Local Housing Delivery Group – Viability Testing Local Plans' (Harman, June 2012)
[4] Policy that requires a minimum of 25% of affordable housing to be First Homes for sale at a minimum discount of 30% of market value.
[5] The government consulted on whether to increase the current affordable housing threshold (where affordable housing may be sought from developments of 10 dwellings or more) to 40 or 50 dwellings for a temporary period.
[6] https://www.gov.uk/government/consultations/changes-to-the-current-planning-system/outcome/government-response-to-the-first-homes-proposals-in-changes-to-the-current-planning-system (April 2021)

We therefore do not think any change to existing policy is currently needed'. The later topic appears to have been revisited recently by government to an uncertain extent, but so far there has been no move to raise the affordable housing policy general threshold from the 10 or more dwellings (reflecting 'major' development) level.

1.3.17 The longer-term major reforms proposed in the White Paper look likely to have a significant impact on the setting of planning policy and the way in which policy and wider plan development (meaning including the preparation of a CIL in this context) is considered, running also into the operation of policies. The Government's proposals include potentially a wholesale reform of CIL with potentially an Infrastructure Levy being set across the Country for all Local Authorities.

1.3.18 During 2022 the Department for Levelling Up, Housing and Communities (DLUHC) has introduced planning reforms, ushered in via the Queen's Speech and set out in the Levelling Up and Regeneration Bill (May 2022). Further, very recently at the stage of completing this assessment, yet more planning reform proposals were put forward through the Chancellor's September 2022 "mini-budget" that may lead to revisions to this new Bill; or scrapping it altogether. Although there is speculation at the moment, there is significant uncertainty about when we will know more and what any new arrangements might be. Given these wide-ranging, proposed planning reforms are not yet confirmed, we are unable to comment at this stage on what the impact may be on the viability assessment or indeed on the LPR or future infrastructure levy. The proposed wider reforms may not ultimately take the form envisaged and there could be a considerable amount of time taken before any changes enter the planning system.

1.3.19 However, in respect of First Homes, by Written Ministerial Statement 24th May 2021 the Government confirmed the introduction of a requirement for these to be delivered via section 106 of the Town and Country Planning Act 1990 (s.106). Therefore, while the potential influence of this new AH tenure was sensitivity tested as part of the earlier work stage (to Spring 2021) for the very latest updating review work we have assumed the inclusion of First Homes throughout our testing. So, the subsequent review stage to Autumn 2022 reflects the inclusion of First Homes in reaching all latest viability indications – results provided at Appendix III.

1.3.20 According to the Act and supporting guidance ('First Homes' is now a section of the PPG – added 24th May 2021) a minimum of 25% of all affordable housing units secured through developer contributions should be First Homes with a minimum discount of 30% of market value (MV). Increased levels of discount can be considered (at 40% or 50% of MV) subject to demonstrating appropriate need – although we understand the discount selection to be a district wide matter aside from the potential for Neighbourhood Plan areas to look at this more specifically. After discount, the First Homes must be available on the basis of not exceeding a price cap of £250,000 (cap figure outside London).

1.3.21 In addition to the above, during 2019 the Government consulted on and sought views on plans for a Future Homes Standard (FHS) for new homes from 2025, and proposed options for an interim increase to the energy efficiency requirements for new homes ahead of that. The consultation proposed that from 2025, new homes built to the Future Homes Standard will have carbon dioxide (CO_2) emissions at least 75% lower than those built to pre-FHS interim standards (standards applicable prior to the Building Regulations update this year).

1.3.22 Introducing the Future Homes Standard will ensure that the homes needed will be fit for the future, better for the environment and affordable for consumers to heat, with very high building fabric standards and low carbon heating.

1.3.23 The government's current approach is such that all homes will be 'zero carbon ready', becoming zero carbon homes over time as the electricity grid decarbonises, without the need for further costly retrofitting work.

1.3.24 The interim standard is such that carbon reduction of 31% over prior levels is required and this is now reflected through changes to the Building Regulations (Part L) that have become effective from 15th June 2022. In turn this reflects the direction of travel towards zero carbon, at this stage leading next to the wider implementation of the FHS from 2025 whereby it is expected that a reduction in CO_2 of 75% from pre-June 2022 standards will be achieved, as above.

1.3.25 West Berkshire Council's particular aims and direction of travel on this aspect – sustainable construction and development – seeks to be more ambitious in regard to this carbon reduction timeline (LPR policies SP5 and DM4). Further information on the assumptions used in this study is provided in Chapter 2 and within the appendices to this report.

2. Methodology & assumptions

2.1 General approach

2.1.1 The assessment as described in this report has involved a phased approach to informing and subsequently supporting the policies of the West Berkshire LPR and all conducted based on dialogue with the Council – with information feeding into and out of the study. To recap, this has been carried out in 2 main stages as noted above. Initial findings were provided to WBC during 2021 based on what was known of the LPR direction and wider (national) policy influences at the time. The very latest viability update review work (brought together Autumn 2022) reflects latest available information to this point.

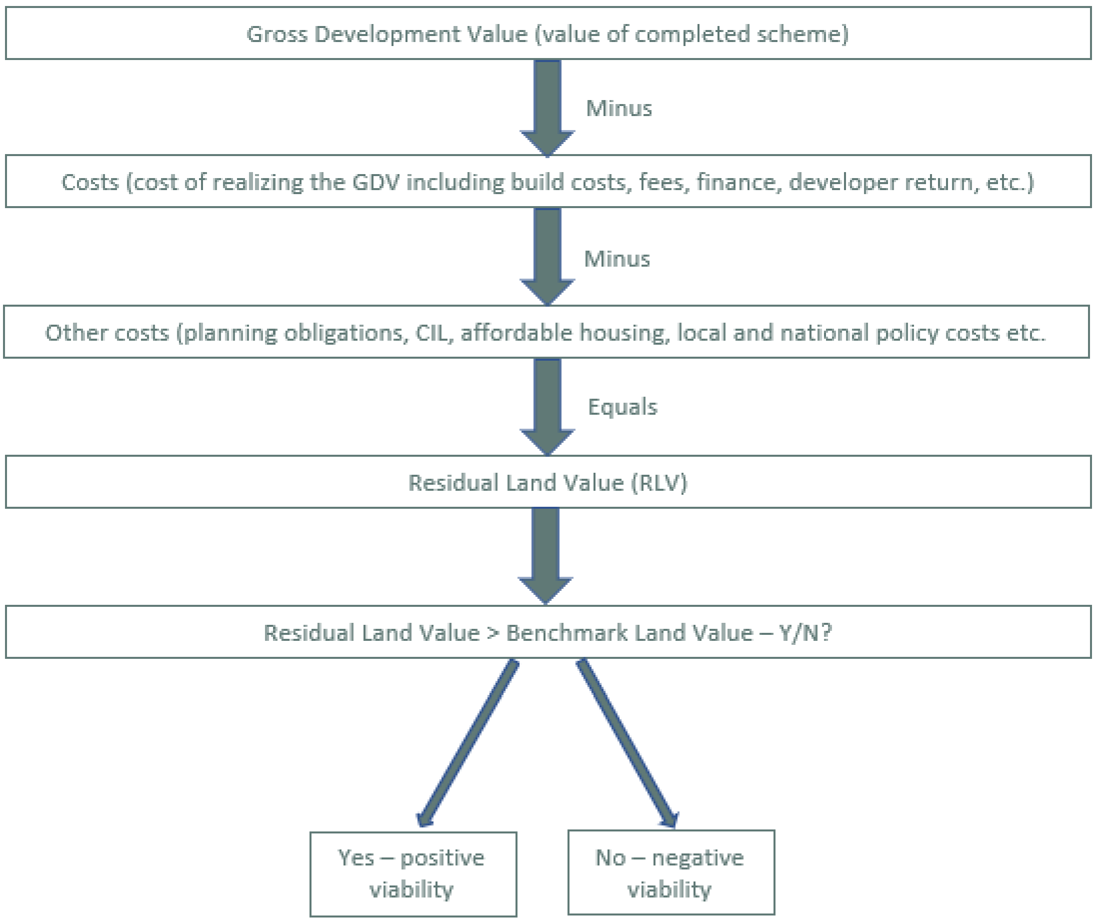
2.1.2 For each appraisals stage, prior to fixing assumptions, necessarily at a point in time, and as outlined in the following paragraphs we have undertaken an extensive information review, property market research and a development industry stakeholders' survey. As a part of this, a review of the potential policy proposals has enabled us to assess which are considered likely to have a particular development cost impact, or additional cost implications over and above the typical costs involved in the development process (for example build costs utilising the costs information from established sources such as the Building Cost Information Service of the RICS (BCIS), associated fees and contingencies, finance, sale costs, development profit; and land costs). At the rear of Appendix I we include as Table F our 'Policy Analysis' overview, which considers the likely level of influence of various policy positions and therefore their relevance directly (or otherwise) to the viability assessment assumptions. A similar overview is not included for the earlier policy iterations; the schedule focusses on the draft LPR policies scope as we have been aware of at the point of concluding this viability work. The assessment focus is on the policies which will contribute to impacting the viability of developments as part of the cumulative costs involved in completing schemes under the scope of the LPR.

2.1.3 Collectively, this study therefore investigates the potential viability and, therefore, deliverability of the Local Plan and its policies and obligations - including the affordable housing requirements, the level of CIL across West Berkshire and based on scoping with WBC an initial early review of the viability prospects for strategic scale development that is key to the delivery of the LPR housing numbers as a whole (in this case and at this stage referring to large scale development at North East (NE) Thatcham – proposed policy SP17).

2.2 Residual Valuation principles

2.2.1. The most established and accepted route for studying development viability at a strategic level, including for whole plan viability, but also used for site-specific viability assessments, is residual valuation. This is also consistent with the relevant guidance described above. Figure 2 below sets out (in simplified form only) the principles of the residual valuation calculation, which is the methodological basis of the appraisals sitting behind our results and findings.

Figure 2: Simplified residual land valuation principles



(DSP 2021 - 2022)

2.2.2. Having allowed for the costs of acquisition, development, finance, profit and sale, the results show the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.2.3. This assessment is consistent with the NPPF and accompanying PPG on Viability, with the NPPF no longer containing any reference to competitive returns to a 'willing landowner' and 'willing developer'. The emphasis has moved away from a market value approach to land that may have been used or carried greater influence in the past. The PPG on Viability has for some time now made it clear this benchmark land value (BLV) should be based on Existing Use Value (EUV) and states:

'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' ['EUV+'].

2.2.4. The NPPF and associated PPG on Viability indicate a greater link than previous between the role of strategic level viability work such as this assessment and the decision making (development management of planning applications/delivery) stage. The national approach has moved more towards a general acknowledgement that the main role of viability should be at the plan making stage.

2.2.5. However, and consistent with our experience in practice to date, it appears likely that there will still be a role, albeit at a reduced level, for planning application stage / site-specific viability reviews but that it is '*up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage'*[7]. An indication of the types of circumstances where viability could be assessed in

[7] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment (Paragraph: 006 Reference ID: 10-006-20190509 Revision date: 09 05 2019

decision making is also included in the PPG. These include: '*for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force*'[8]. There is the potential for the development of some site typologies or sites identified by the Council to need to overcome abnormal issues and support added costs. The national approach recognises that within this picture and / or at certain stages in the economic cycles there could be sound reasons for site-specific viability evidence to be brought forward at the delivery stage in such circumstances; as a part of ultimately settling the development details and exact degree of support that can be maintained for planning obligations to secure infrastructure.

2.2.6. The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I (Assumptions overview) and V (research – market / values information review).

2.3 Stakeholder Consultation

2.3.1 The national policy and guidance reflects the need for and value of stakeholder engagement. Consistent with our established practice for strategic viability assessments, DSP sought soundings as far as were available from a range of development industry stakeholders as the assumptions were considered. This offered an engagement opportunity to a wide range of locally active organisations and interests, with a view to gathering feedback on our emerging study approach and inputs - to help inform the assessment.

2.3.2 This engagement process was conducted primarily by way of bespoke survey type questionnaires seeking information and views with which to help test our emerging assumptions at the early project stages, followed up with any subsequent dialogue as

[8] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment (Paragraph: 007 Reference ID: 10-006-20190509 Revision date: 09 05 2019

appropriate. The questionnaires set out our initial draft assumptions and testing parameters, with the opportunity provided for the stakeholders to then comment on those emerging positions or suggest alternative assumptions with reasoning. The survey proformas were issued as follows:

- **Development Industry** – range of active stakeholders in West Berkshire as per the Council's contacts lists and supplemented where appropriate from DSP's experience, including local property agents, developers, housebuilders, planning agents, industry representatives and others.

- **AH Providers** – range of locally active affordable housing providers, again through discussion with the Council. These parties were contacted with a directed survey form requesting guide information on likely AH revenue (payment to developer) levels as well as on underlying investment/valuation assumptions and any other commentary – again, all as far as available.

2.3.3 As part of this process, a full record of all stakeholder interaction is kept, including a log indicating the parties contacted, reminders issued, the feedback responses and level of response overall. Given potential commercial sensitivities / confidentiality in some instances, the details of the responses received are not included within our published report. However, this has all contributed to the overall information review, further informing both the consideration of the assumptions range, and the review of and judgments made around the results in the earlier and subsequent assessment stages. All in all, the work is informed by a combination of sources, including the Council and its information, our own extensive research process and experience and supplemented through the relevant stakeholder sourced feedback as far as available at the time.

2.4 Scheme development scenarios (residential typologies) and generally on assumptions

2.4.1 The site typologies modelled as part of this assessment reflect a variety of different types of development that are thought likely to be brought forward through the planning process across the plan area based on information provided by WBC relating to areas such as existing use, likely densities, dwelling numbers and types for example. This enables viability to be tested in a way that reflects the likely range of future housing supply characteristics, informed also by the local experience of development to date. This appropriately informs the development of local plan policy with the indexed CIL that is in place for the time being. All with the key aim of operating an appropriate balance between policy requirements (including provision of affordable housing and the desirability of funding infrastructure) and the objective of developments being able to continue to come forward viably on the basis of both the community needs and the commercial drivers being met as far as possible in the available circumstances.

2.4.2 While this cannot be and does not need to be an exhaustive exercise as the guidance recognises, in order to adopt a relevant range of residential development typologies, we have considered with WBC the broad nature of the housing supply expected to come forward over the emerging plan period – up to 2039.

2.4.3 In the earlier stages of this overall assessment (Spring 2021) a full range of housing development typologies was tested over a range of value levels (VLs) representing varying residential sales values considered appropriate at the time of review across West Berkshire by scheme location / type. As well as looking at the influence of location within the district, this sensitivity testing approach allows us to consider the potential impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) as well as how this key assumption may vary by location, development type and scale.

2.4.4 In each section covering the assessment assumptions below, first we will outline the Spring 2021 stage initial updating approach. Then, as far as is relevant, we will set out beneath those where we updated the assumptions for use as inputs, or scope of sensitivity tests, for Stage 2 (reporting Autumn 2022). This approach has been taken because only some assumptions needed to be updated in the wider LPR context at the point of completing the assessment based on latest available information. The updating, where appropriate, has been based on information both provided by WBC / on the latest available draft version LPR content evidence and sourced as far as available on the updated picture of development values and costs (and informed as far as possible by DSP's wider ongoing viability in planning workload).

2.4.5 Tables A and B in Appendix I set out the assumptions basis for the full typologies review (Stage 1 – Spring 2021) and Table C there provides as overview of the assumptions elements updated in the sample typologies based further updating completed Autumn 2022 – Stage 2.

2.4.6 A summary of the general residential scheme typologies tested in 2021 is shown at Figure 3 below, with the full detail set out in Appendix I (Table A).

Figure 3: Stage 1 – Full Residential site typologies range – summary

Scheme size appraised	Type of dwellings	Site type
2	Houses	PDL
5	Houses	PDL/Greenfield
6	Houses	PDL/Greenfield
10	Houses	PDL/Greenfield
15	Flats	PDL
15	Houses	PDL/Greenfield
25	Houses	PDL/Greenfield
30	Flats (retirement / sheltered)	PDL
50	Mixed	PDL / Greenfield
50	Flats	PDL, urban / town centre, small site
60	Flats (Extra Care)	PDL
100	Mixed	PDL, urban / town centre, large site
100	Mixed	Greenfield
250	Flats (6+ Storey)	PDL, town centre, large site
250	Mixed	Greenfield

(DSP 2021)

2.4.7 The latest update tests (2022) have been based on the 100 mixed dwellings typologies from the above reviewed in both a PDL and greenfield (GF) site context; with revisited assumptions all as noted. Table C in Appendix I clarifies the sample typology selections.

2.4.8 In addition to the use of the site typologies approach as above, more specific viability testing has been undertaken through this process on strategic development selected for review by WBC and proposed through the LPR. Again, this related to N E Thatcham with further detail on the assumptions set out at Appendix I Table D (2021 review assuming 2,500 dwellings) and Table E (further updated review Autumn 2022, reflecting a reduced c. 1,500 dwellings as now proposed through LPR policy SP17).

2.4.9 As part of considering the site typologies and seeking to make these as representative as possible of the emerging policy approach, an assumption is made in relation to dwelling mix, for which we have adopted the principles set out in Figure 4 below and Appendix I. These dwelling mix principles are based on information provided to DSP by WBC based on emerging evidence supporting the Local Plan Review (SP18).

Figure 4: Dwelling mix assumptions:

Stage 1 (2021)

Type	Overall Mix			
	1-bed	2-ded	3-bed	4+bed
Market Housing	5-10%	25-30%	40-45%	20-25%
Affordable Housing	20-25%	35-40%	30-35%	5-10%

(DSP 2021)

Stage 2 (2022)

Type	Overall Mix			
	1-Bed	2-Bed	3-Bed	4+Bed
Market Housing	5-10%	40-45%	35-40%	10-15%
Affordable Home Ownership	20-25%	45-50%	20-25%	5-10%
Affordable Housing (rented)	30-35%	35-40%	20-25%	5-10%

(DSP 2022)

2.4.10 While the overall mix picture remains quite similar, it now places even greater emphasis on the provision of the mid-range 2-3-bedroom homes, with the 4(+)-beds provision reduced in favour of more 2-beds.

2.4.11 In all cases it should be noted that assumptions based on a “best fit” of both the market dwellings mix and affordable housing numbers/mix and tenure assumptions have to be made, given the effects of numbers rounding and also the limited scope that can be available to reflect all aspects of this; particularly in scheme typologies with small dwelling numbers or lower tested AH %s. The assumed scheme mixes are by their nature hypothetical and are not exhaustive. Many other types and variations may be seen, including larger or smaller dwelling types in different combinations, according to particular site characteristics, localised markets and requirements etc. The affordable housing (AH) content assumed within each test scenario is set out in more detail below. As well as summarising the dwelling mix criteria that we have aimed to follow as far as possible, Appendix I also provides more information on the revenue levels associated with (assumed values of) varying AH tenure types.

2.4.12 For the site-specific appraisal testing much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount and type of housing that can actually be accommodated on site and the timing of its provision in relation to that of the accompanying infrastructure. At this stage, the details are far from being finalised and, as such, the site-specific testing for this viability assessment is based on a mixture of estimated requirements and costs (as far as available at the timing of appraisals), existing evidence through masterplanning work by others[9] (at Stage 1) and typical assumptions informed by reference to sources such as the Harman Report (as mentioned above), stakeholder engagement and through experience - as is appropriate for this level of viability testing, undertaken at a preliminary stage only.

2.4.13 The dwelling sizes (on a GIA i.e. gross internal area basis) assumed for the purposes of this study are as set out in Figure 5 below and based on the Nationally Described Space Standard (NDSS). This is proposed to be adopted by WBC under proposed policy DM30. As with the many other variables considered through assumptions, there will be a large range and mix of dwelling sizes coming forward in practice, with these varying by scheme and location. Due to the high-level nature of this study process, a sample of scenarios and assumptions can be tested rather than every potential iteration. This approach is sufficient to generate a suitable overview, in accordance with guidance.

[9] David Lock Associates & Stantec: Thatcham Strategic Growth Study Stage 3 Report: Thatcham Future (September 2020)

Figure 5: Residential dwelling sizes

Unit Sizes (sq. m.)*	Affordable	Market
1-bed flat	50	50
2-bed flat	61	61
2-bed house	79	79
3-bed house	93	93
4-bed house	106	130

Notes:

Older persons' housing – Retirement/sheltered dwellings assumed 1-beds @ 55 sq. m; 2-beds @ 75 sq. m

(DSP 2021)

2.4.14 Since there is a relationship between dwelling size, value and build costs, it is the relative levels of the values and costs that are most important given the nature and purpose of this study (i.e. with values and costs expressed and reviewed in £/sq. m. terms); rather than necessarily the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Value Levels' (VLs) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. Although methods vary, an approach to focussing on values and costs per sq. m. also fits with a key mode that developers and others tend to use to assess, compare/analyse and price schemes. It provides a more relevant context for considering the potential viability scope across the typologies approach, as part of considering relative policy costs and impacts, and is also consistent with how a CIL is set up and charged (as prescribed under the regulations).

2.4.15 The above dwelling sizes are expressed in terms of gross internal floor areas (GIAs) for houses (with no floor area adjustment – i.e. 100% saleable floorspace). For flats, the additional cost of constructing communal/shared non-saleable areas also needs to be taken into account. For the general flatted typology development tests, we have assumed a net:gross ratio of 85% (i.e. 15% communal space). The sheltered housing scenario assumes a lower proportion of saleable floorspace compared with typical general needs flats, at 75% (i.e. 25% communal) which is then further reduced through the selected assumptions to 65% saleable (35% communal) for the extra care development typology.

2.4.16 We consider these to be reasonably representative of the types of homes and other space coming forward within the scheme types likely to be seen most frequently providing on-site integrated AH, although again we acknowledge that all such factors will likely vary to some extent from scheme to scheme. It is always necessary to consider the size of new build accommodation in looking at its price per sq. m. rather than its price alone.

2.4.17 At this level of strategic overview, we do not differentiate between the value per sq. m. for flats and houses although in reality we often observe an inverse relationship between the size of a property and its value when expressed in terms of a £ sales value rate per unit area (£/sq. m or £/sq. ft. or shown as £/m^2 or £/ft^2).

2.5 Specific site allocation proposals – strategic scale development

2.5.1 As part of building its evidence base, the Council also asked DSP to consider the potential viability scope, at a high level at this stage, of selected proposed strategic development that is currently intended to be brought forward through the plan review.

2.5.2 Following dialogue with the Council it was clear that a number of sites were already at advanced stages of the planning or delivery process and so DSP was requested to include testing of one site to the North East of Thatcham (N E Thatcham / NET). This was known as Site THA20 within the Council's Housing and Economic Land Availability Assessment (HELAA) and remains proposed to be allocated via Policy SP17 of the emerging LPR.

2.5.3 Specific appraisals have been carried out at both 2021 and 2022 review work phases. However, in reality, given the Council's Housing Trajectory, the length of time over which development is planned in combination with detailed site information (including costings) available at this stage means that the results can only provide a high-level indication of the viability of such a site. Additionally, some dialogue has taken place with representatives of the promoters of this scheme proposal but, likewise, at an early stage it has not been possible to further build assumptions to more accurately assess the viability. This is not particularly unusual in DSP's experience of these matters.

2.5.4 Appendix I provides a summary of the specific assumptions for the strategic site appraised, where Table D shows the first set (as used 2021) and Table E the latest (2022). A majority of the infrastructure and s106 cost assumptions were taken from the above-mentioned NE Thatcham Masterplan document. For the 2022 further updated appraisals and sensitivity tests, the Table D larger scheme iteration costs estimates were converted to £/dwelling approximations and then applied to the reduced approximate 1,500 dwellings. The education provision cost estimates were the only specific updates received at the time of the updated appraisals and have been included as shown. This approach means that as now appraised the infrastructure estimates (works and s.106 contributions) included may be either over or under-estimated. We considered that on the one hand the approach might overstate the £/dwelling costs because some of the works or infrastructure funding needed to accommodate 2,500 dwellings would be greater than needed for 1,500, on the other hand this might act as a proxy for an inflationary allowance on some of the previously estimated costs. This is necessarily very high level.

2.5.5 At this stage, the earlier view provided on benchmark land value (BLV) has been maintained as a provisional assumption for the N E Thatcham reviewing to date. This is because the "red line" LPR plan for proposed SP17 allocation has not changed from the earlier iteration proposed to accommodate c. 2,500 dwellings and other development. However, with both a low density assumption in the mix within the large net developable site area estimate and also a maintained overall (gross) site area, it appears that these are now disproportionate. As assumptions they also have the effect of attracting a similarly over-assessed benchmark land value (BLV) level unless a different view is taken on the £/hectare (£/ha) rate of that i.e. the premium ('plus') level added to the existing use value (EUV) of the land when envisaged with the significantly reduced from previous development scope. At this stage we have taken the view that a likely over-allowance on the BLV may serve the purpose of considering the viability prospects in the event that the infrastructure or other costs are found to increase relative to the current mostly very high level assumptions / pro-rated figures from the previous iteration.

2.5.6 The 'Findings Review' section (3) below provides an overview of the assessment indications for the strategic development appraisals (early look at NET viability prospects) as well as those relating to the general range of typologies testing (residential results as per Appendix II (2021) and revisited 2022 (Appendix III); commercial/non-residential typologies at Appendix IV results tables as per the below).

2.5.7 Within all of these results tables, the appraisal RLVs are compared with the selected range of BLVs as 'viability tests', so that the relative strength of the viability outcomes and trends can be viewed. This has a "filtering" type effect with colour shading formatting within the results tables used with the aim of helping to highlight the strength of and variation within the results as both scenarios and test assumptions change. We provide a guide to the use of these visual aids to results reviewing below, in section 3.

2.5.8 Consistent with the key areas of review and viability influences seen within the general site typologies assessment, when looking at a site allocation the AH provision is the single most costly LPR policy to support. This is due to its value being significantly lower than market housing whereas it costs broadly the same to develop. This again tends to have the greatest single policy-based influence on the viability of residential-led schemes; the most significant influence outside the operation of the market itself or any major viability issues that are inherent in the characteristics of particular sites. However, the way in which affordable housing tends to be procured by the providers also enables developers to sell those homes off-plan, thereby reducing market risk exposure across a significant proportion of the scheme. In this way, affordable housing benefits the development cash-flow through staged payments and offers a range of savings such as reduced borrowing, reduced costs of marketing and sales, as well as CIL-exemption. As previous experience shows, in many cases when the market fails developers may look to affordable housing as a fallback option, which at times has helped sustain the industry and its supply chains when affordable housing can be delivered free of some of the market dynamics.

2.6 Scheme development scenarios (Typologies) – Commercial/non-residential development

2.6.1 To provide wider information for the LPR, particularly in relation to climate change response (sustainable development – net zero carbon) and also to inform the initial consideration of any future review of the WBC CIL Charging Schedule, this assessment has also considered the viability of a sample wider range of typologies representing potential commercial / non-residential development. These scenarios have been developed mainly through the information supplied for review by, and through dialogue with, the Council. This was supplemented with and checked against wider information and research analysis, including the local commercial market offer – existing development and any new schemes / proposals. Figure 6 below sets out the various scheme types (typologies basis) appraised at a high level for this additional aspect of the assessment, acknowledging that as is appropriate the assessment main focus has been on residential development (reflecting the much more significant policy reach of the LPR as directly influences viability). Appendix I provides more information too.

2.6.2 The commercial / non-residential aspects of this study adopt the same methodology (using the recognised and tested residual valuation approach) as described earlier in this report, considering the variable strength of the relationship between the development values and costs associated with different scheme types.

Figure 6: Commercial / non-residential development typologies

Development use type	Example Scheme Type
Large format retail	Large supermarket - out of town
Large format retail	Retail warehouse
Town Centre Retail	Comparison shops (general/non shopping centre)
Small Retail	Convenience store - various locations
Business - Offices - Town Centre	Office building
Business - Offices - Out of town centre /Business Park	Office building
Business - warehousing	Distribution centre
Business - industrial	Smaller / Move-on type industrial unit including offices - industrial estate
Business - industrial	Larger industrial / warehousing unit including offices - industrial estate
Hotel	Purpose build budget / mid-market
Residential institutional	Care Home

(DSP 2022)

2.6.3 Again, following the same principles and general process as the residential scenarios, a variety of sources were researched and considered in support of setting the assumptions. This includes information on rents, yields, sales comparables, land values and other development assumptions. The sources of information include CoStar Commercial Real Estate Intelligence resource, the VOA Rating List, other web-based review as well as feedback as available from the development industry consultation. Supplementary information sources included articles and development industry features sourced from a variety of construction related publications; and in some cases, property marketing details.

2.6.4 Collectively our research enabled us to apply a level of "sense-check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. The full research review is provided within and to the rear of Appendix V to this report.

2.6.5 In addition to the key set of commercial uses tests as set out above, further very broad consideration was given to other forms of development that may potentially come forward locally. These include for example facilities that are non-commercially driven (community halls, medical facilities, schools etc.) and other commercial uses such as motor sales/garages, depots, workshops, surgeries/similar, health/fitness, leisure uses (e.g. cinemas / bowling) and day nurseries. Full details of this exercise are not included within this assessment reporting for the LPR process, but the information provided here can be supplemented – forms a sound basis for readily revisiting and building upon should WBC progress to review its CIL charging schedule, or implement another type of Infrastructure Levy, in due course.

2.6.6 Clearly there is potentially a very wide range of such schemes that could be developed over the life of the Local Plan, and any revised CIL charging schedule(s). Alongside viability, it is also relevant for the Council to consider the likely frequency, delivery and distribution of these over the Plan and Schedule periods. In advance of potentially expanded typology test appraisals, it was possible to review (in basic but sufficient terms) the key relationship between likely completed value and the cost of building such schemes (in £/sq. m. terms). As far as considered relevant Section 3 below provides more information.

2.6.7 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the normal context that has been discussed above. This extends the iterative process, as an addition to the main appraisals, whereby a deteriorating strength of relationship between values and costs provides an indication of further reducing viability prospects compared with the more viable or marginally viable developments. This starts to indicate schemes that are considered more typically likely to require other financial support; rather than being clearly and consistently able to produce a surplus capable of some level of contribution to CIL, or S106 requirements as well as directly supporting the carbon reduction agenda to the level perhaps envisaged; without further funding.

2.7 Scheme revenue (gross development value / GDV) – Residential

2.7.1 A key part of the appraisal assumptions are the market housing sale values. For a proportionate but appropriately robust evidence basis, it is preferable to consider information from a range of sources including those listed below. Our practice is to consider all available sources to inform our independent overview - not just historic data or particular scheme comparables, including:

- Previous viability studies as appropriate;
- Land Registry;
- Valuation Office Agency (VOA);
- Property search, sale / market reporting and other web resources;
- Development marketing web-sites;
- Any available information from stakeholder consultations

2.7.2 A framework needs to be established for gathering and reviewing property values data. An extensive residential market review has been carried out in order to consider and appropriately reflect, at a level suitable for strategic assessment, the variation in residential property values seen across West Berkshire. This data was collected by both settlement and Spatial Area (as defined within the emerging LPR) and analysed using both sold and asking prices for new-build and re-sale property (with new build sold prices the most directly relevant as far as available). It must be acknowledged that the scope of the data varies through time and by location. In some instances, data samples are small (e.g. relating to a particular period or geography) and this is not unusual.

2.7.3 We considered this to provide the most appropriate and reflective framework for this data collection exercise, and the subsequent analysis to inform assumptions. This research enabled us to view how the value patterns and levels observed overlay with the areas in which the most significant new housing provision is expected to come forward over the plan period.

2.7.4 Overall, the data indicates that although there is some variation across West Berkshire (Padworth appears to indicate values towards the bottom of the overall values range with Pangbourne values higher than typical for the district as a whole), in terms of new build development in the areas where a significant proportion of development is likely to come forward (for example Newbury and Thatcham) at the time of the Spring 2021 work the latest available information indicated that a significant proportion of new build values fell in the range £4,000 - £4,500/m^2 with greater variation seen through the type of development rather than necessarily by location. By the time of the Autumn 2022 further updating work, house prices had risen significantly and have been indicated to be in the range £4,500 – 5,000/m^2 for the type of development that will support most of the LPR growth, viewed at this time, with higher values seen and some lower values also acknowledged as still relevant. Although necessarily based on research at given points in time, Appendix V provides more detail on the background.

2.7.5 As with all data, there are variations to this with specific properties and areas sometimes showing higher or lower values than discussed in what is appropriately a broad overview here, for the assessment purpose.

2.7.6 It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the dataset for a given location at the point of gathering the information. Again, in some cases, small numbers of properties in particular data samples (limited house price information) can produce inconsistent results. This is not specific to West Berkshire. However, these factors do not affect the scope to get a clear overview of how values vary typically, or otherwise, between ward areas in this case, given the varying characteristics of West Berkshire.

2.7.7 However, with this a key variable and its relevance perhaps likely to increase with the market currently changing, to provide a wide range of sensitivity tests that reflect both recent / current values as well as provide as an ability to consider the potential effect of higher and lower values, we carried out our modelling across an expanded range of values sensitivity tests; again, as shown in Appendix I.

2.7.8 The 2021 sensitivity testing on market prices was conducted across a range of 7 sales value levels (VLs) ranging from £3,750 to £5,500/m^2. For the 2022 testing the number of VLs tested was increased to 8, with the overall range kept the same but the additional VL added enabling a finer grained view between the initial £5,000/m^2 (VL6) and £5,500/m^2 levels; new VL test level added at £5,250/m^2 and providing 8 sets of VL sensitivity tests in all on the latest look. See Appendix I Tables A and C respectively, which VLs ranges are also shown in the related results tables at Appendix II (2021) and III (2022).

2.7.9 The values research for the assessment commenced in February 2021 and for that first stage of work was kept open through to (last visited) April 2021 at the point of preparing our initial feedback for WBC's review in late Spring 2021. As part of the wider assumptions review for the Autumn 2022 further updating, this was further revisited based on most recently available data - to August / September 2022. Consistent with the approach to all our assessments, we use the latest practically available data from a range of sources leading up to the point of needing to settled assumptions before the appraisal running progresses (and the same applied to the build costs assumptions, as below – see section 2.10 and Appendix I).

2.7.10 This means that the research, using latest available data, reflects the post-Brexit and COVID-19 influenced residential market environment to the extent that has been understood over the assessment period. As has been reported more widely, values have risen significantly – overall, negative impacts were not experienced to nearly the extent anticipated by many market commentators. In fact, in terms of both activity levels and prices, the residential market has shown a notable and unexpected level of resilience.

2.7.11 While the assessment period extended through 2021 and pending the revisiting in the later part of 2022, the reportable position remained positive overall. We found that although build costs rose sharply too, broadly the buoyancy of the market and the growing prices it supported were sufficient to balance out or even outweigh the costs rises.

2.7.12 As we have noted already, upon finalising the assessment in the Autumn of 2022, we are experiencing different and rather more unstable conditions it seems, and it will be necessary to see how this plays out as another set of potentially significant influences on the viability and wider progression of developments. Heightened economic uncertainty appears to be becoming the new norm, with a widely reported and developing cost of living crisis reflecting the high energy costs and inflation rates (at c. 10%), rising interest rates, changes in the leadership of government and resulting financial policy changes;

and in general an environment that is resulting in much greater uncertainty as to what the next year and perhaps coming few years might hold.

2.7.13 However, as noted and as we will revisit, the LPR timeline runs to 2039 – a long term strategic overview is needed, across which it is appropriate to make more typical assumptions reflecting potentially various economic cycles. Although the viability of strategic scale development and other aspects may be areas to revisit as more specific information becomes available to inform testing, it will not be appropriate to assume only the downside inputs related to deteriorating or poor economic conditions and a tougher housing market for development.

2.8 Scheme revenue (gross development value) – Affordable Housing (AH) Revenue

2.8.1 In addition to the market housing, the development appraisals also include affordable housing tested at various levels within the modelling. DSP also undertook an early stage assessment of affordable housing viability in October 2019 providing background to the emerging affordable housing policy within the draft LPR.

2.8.2 The Council's existing approach (Policy CS6 of the adopted West Berkshire Core Strategy (2011)) requires the provision of affordable housing in accordance with the following:

'On development sites of 15 dwellings or more (or 0.5 hectares or more) 30% provision will be sought on previously developed land, and 40% on greenfield land;

On development sites of less than 15 dwellings a sliding scale approach will be used to calculate affordable housing provision, as follows: -

30% provision on sites of 10 – 14 dwellings; and
20% provision on sites of 5 – 9 dwellings.'

2.8.3 A key part of the purpose of this assessment is to ensure a robust and deliverable policy set and advise the Council on an appropriate and viable level of affordable housing to seek from development through the emerging LPR. On this basis, we re-tested a range of affordable proportions against the residential development typologies, also reflecting the latest national policy position as set out in the NPPF and PPG; now including First Homes as 25% of the AH having initially sensitivity tested that element rather than included it as a base assumption. It is also important to note that not every percentage iteration has been tested on every typology as from our results analysis, it is possible to see where the likely viability lies and also to interpolate between results sets. In summary the earlier (2021) testing covered the following range:

- Sites of 1-4 dwellings: Tested at 0% (nil) AH;
- Sites of 5-9 dwellings: Tested at 20% and 30% AH;
- Sites of 10 or more dwellings: Tested at 20%, 30% and 40% AH;
- NE Thatcham scenario (c, 2,500 dwellings): Tested at 40% AH.

2.8.4 Alongside the affordable housing proportion, the Council also required the affordable housing tenure to be tested with a mix of 70% social rent (SR) / 30% intermediate housing as a base assumption for the assessment purpose, and reflecting that this or a similar mix would usually be sought in practice, subject to latest information and need. The NPPF (para. 65) also requires a minimum of 10% of homes to be provided as 'affordable home ownership' (AHO) products as part of the overall contribution from sites and this has been included within the overall dwelling mix assumptions as closely as possible. It should however be noted again that the target / base assumed AH tenure mix was accommodated as far as best fits the overall scheme mixes and AH proportion in each scenario.

2.8.5 Reflecting revised national policy, the assumed AH mixes in the 2022 revisit include an AH make up targeted at 70% SR, 25% First Homes and the remainder (5%) as shared ownership (SO) but with the notional rented and shared ownership elements having to vary where the combination of tested dwelling number and AH % does not provide scope for this targeted mix.

2.8.6 For the 2022 revisit and having previously explored the likely suitable parameters for affordable housing proportions (%s) we appraised:

- 20%, 30% and 40% AH on the 100 mixed dwellings urban PDL typology;
- 30% and 40% AH on both the 100 mixed dwellings greenfield (GF) typology and the N E Thatcham test scenarios.

2.8.7 The AH revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (AR) or capitalised net rental stream and capital value of retained equity (shared ownership). The starting assumption pending any review of viability and funding support which becomes available at a later stage for specific scenarios/programmes is that the AH is developer rather than part grant funded. We have therefore made no allowance for grant or other public subsidy or equivalent.

2.8.8 The value of the AH (level of revenue received by the developer) is variable by its very nature and is commonly described as the 'transfer payment' or 'payment to developer'. These revenue assumptions are based on our extensive experience in dealing with AH policy development and site-specific viability issues and consultation with local AH providers. The AH revenue assumptions were also underpinned by RP type financial appraisals – looking at the capitalised value of the estimated net rental flows (value of the rental income after deduction for management and maintenance costs, voids allowances etc.).

2.8.9 The assumed transfer values for the Social Rented AH units assumed for the study are shown in Appendix I.

2.8.10 In practice, as above, the AH revenues generated would be dependent on property size and other factors including the AH provider's own development strategies and therefore could vary significantly from case to case when looking at site specifics. The AH provider may have access to other sources of funding, such as related to its own business plan, external funding resources, cross-subsidy from sales / other tenure forms, or recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme-dependent and variable and so has not been factored in here. It follows that the transfer values assumed could therefore be a conservative estimate in some cases and in reality on some schemes an affordable housing provider (e.g. Registered Provider – housing association or similar) could include their own reserves and if so thus improve viability and/or affordability.

2.8.11 Following the setting of assumptions for the earlier stage of this assessment (which sensitivity tested the inclusion of the new tenure model), further details of the Government's 'First Homes' were confirmed – as noted above. Initially our view was that the inclusion of these homes essentially on a discounted sale model would if anything be likely to support or boost viability overall in comparison with other established AH tenure models. However, with a minimum 30% discount from market sale value and a likely greater profit requirement reflecting added risk over the main AH provision, this could not be certain. With the criteria settled the 2022 continuation of the assessment and further updating enabled the use of base assumptions including First Homes within the added sample typologies testing. The headline criteria for First Homes are as follows:

- Sales to be discounted by a minimum of 30%;
- After the discount is applied the initial sale price of a First Homes must not exceed £250,000 (or £420,000 in Greater London);
- Initial sales of First Homes must contain a legal mechanism to ensure each future sale maintains the discount (as a percentage of current market value). However, a mortgagee enforcing their security against the property will be exempt from this requirement;
- The First Homes requirement is that a minimum of 25% of section 106 units should be delivered as First Homes. With regards to the allocation of the remaining 75% of units after the First Homes requirement has been met, national policy will be that:
    - The provision for Social Rent as already described in the development plan should be protected.
    - Where other affordable housing units can be secured, these tenure-types should be secured in the relative proportions set out in the development plan.
    - In situations where the local plan allocates more than 75% of contributions to Social Rent, the 25% First Homes requirement will remain.

2.8.12 There are exemptions to the requirement to provide affordable home ownership following the principles set out at paragraph 65 of the NPPF and these include:

- Developments which provide solely for Build to Rent homes;
- Developments which provide specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);
- Developments by people who wish to build or commission their own homes;

- Developments exclusively for affordable housing, entry-level exception sites or a rural exception site.

2.8.13 Transitional arrangements were put in place based on the following criteria:

- Local or neighbourhood plans submitted for Examination before the implementation of the policy or that have reached publication stage before implementation and are subsequently submitted for Examination within 6 months of implementation will not be required to reflect the First Homes requirements;

- The requirement for 25% First Homes will not apply to sites with full or outline planning permissions already in place or determined (or where a right to appeal against non-determination has arisen) within 6 months of implementation of the policy (or 9 months if there has been significant pre-application engagement), although local authorities should allow developers to introduce First Homes to the tenure mix if the developer wishes to do so;

- The above arrangements will also apply to entry-level exception sites

2.9 Scheme Revenue (Gross Development Value (GDV)) – commercial / non-residential typologies

2.9.1 Following on from section 2.6 (including Figure 6) above, the value (GDV) generated by a commercial or other non-residential scheme varies enormously by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions are needed. Typically, these are made with regard to the rental values and yields that would drive the value of completed schemes within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered using the following methods:

- For the main commercial scheme typologies under review, consistent with those reviewed in most of our strategic level viability assessments, residual valuation methodology - as per the principles applied to the residential typologies, or;

- A simpler method adopting a value vs cost comparison for other commercial typologies clearly indicating a poor relationship between the two - resulting in full appraisals being unnecessary e.g. for surgeries, community centres, and a range of other development uses either typically provided by public agencies or generally non-commercially viable uses as stand-alone scenarios. More information on this can be provided to WBC in the event of reviewing its CIL Charging Schedule (or implementing a new form of levy) in due course - as noted above (section 2.6).

2.9.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was collated from a range of sources including (also see Appendix IV for more detail):

- CoStar property intelligence database (extract data reported appended – rear of Appendix V);
- Valuation Office Agency (VOA);
- Range of property and development industry publications, features and websites.

2.9.3 Appendix I Table F shows the range of annual rental values, investment yield and other assumptions used for each typology sensitivity tested for the purposes of considering the potential impact of the climate change response policies on sustainable construction and development (proposed SP5 and DM4 supporting WBC's net zero carbon objectives) and potential review of the CIL Charging Schedule which currently places CIL costs on retail developments.

2.9.4 The rental values were tested at three levels representative of low, medium / mid and high test values considered relevant to each scheme type across the study area. This enables us to assess the sensitivity of the viability findings to varying value levels, much like the residential appraisals. These are necessarily estimates and based on an assumption of new build development rather than older stock. As far as the CIL cost element is concerned, this is consistent with the nature of the regulations in that refurbishments / conversions / straight re-use of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m. is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). It is worth bearing in mind that many commercial or non-residential uses will make use of existing premises that are adapted; such schemes will not always involve new building or be wholly new build.

2.9.5 The quality and quantum of available information in this regard varies considerably by development type. Again, we do not consider this to be a specific WBC factor and it does not detract from the viability overview process that is appropriate for this type of study.

2.9.6 These varying rental levels were capitalised by applying yields of between 5% and 7% overall (varying dependent on scheme type). As with the level of rental value, varying the yields enabled the exploration of the sensitivity of results given that in practice a wide variety of rentals values and yields could be seen. This approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could potentially deteriorate whilst still supporting the collective costs. Particularly referring to the carbon reduction related costs as viewed at this time, in an equivalent exercise to that considered for residential developments, albeit reviewed proportionately given that from the commercial / other development uses typology testing it is usually quickly seen where the viability or non-viability lies (when using strategic assessment assumptions).

2.9.7 It is worth noting here that small variations in assumptions can have a significant impact on the GDV available to support the development costs (and thus the viability of a scheme). We consider this very important, bearing in mind the balance to be found between the desirability of infrastructure funding needs and / or supporting the carbon reduction agenda; and the potential effect on viability. While it is relevant to assume new development and appropriate lease covenants etc. rather than older stock, using overly positive assumptions in the local context could act against finding that balance.

2.9.8 This approach enabled us to consider the sensitivity of results to changes in the capital value (GDV) of the non-residential typologies and allowed us then to consider the most relevant results in determining the parameters for reviewing non-residential CIL rates (or other policy costs) for the study area, including any alternative differential rates that could or perhaps should be considered by WBC moving ahead if CIL is reviewed or a new level established. As with other elements of the study, the adopted assumptions will not necessarily match scheme specifics and therefore we need to keep in mind whether and how frequently local scenarios are likely to indicate viable results (including as values vary). See further detail at Section 3.

2.10 Development Costs - Generally

2.10.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, these cost assumptions have to be fixed by typology to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site-specific cases can be. Although the full set of cost assumptions adopted within the appraisals are set out in detail in Appendix I to this report, a summary of the key points is also set out below.

2.10.2 Each cost assumption is informed by data and supporting evidence from such sources as follows in accordance with relevant sections of the PPG:

- Royal Institution of Chartered Surveyors (RICS) Building Cost Information Service (BCIS);
- Locally available information as far as available following the stakeholder consultation process;
- Other desktop-based research;
- Professional experience.

2.10.3 For the site typology testing, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review or unduly pull down the view of the available scope to support important policies on sustainable development. Where issued are known as likely to impact and early costs estimates are available or can be devised, these are applied to the specific site allocation tests, however. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting policy and potentially review of the CIL charging rates, ensuring the latter are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.11 Development costs - build costs

2.11.1 The assumed base build cost level shown below is taken from BCIS; an approach endorsed by the PPG guidance on Viability and considered to be '*appropriate data*'[10] and rebased using a West Berkshire location factor. The costs assumed for each development type (e.g. houses, flats, mixed as well as non-residential etc.) are as provided in Appendix I – and summarised below – Figure 7.

Figure 7: Base build cost data – typologies assessments (BCIS Median)

Development type		Base BCIS build cost £/sq. m.*	
		Spring 2021 First Stage	Autumn 2022 Update
Residential	Build Costs Mixed Developments - generally (£/sq. m)	£1,274	£1,492
	Build Costs Estate Housing - generally (£/sq. m)	£1,258	N/A
	Build Costs Flats - generally (£/sq. m)	£1,274	N/A
	Build Costs Flats - Extension (£/sq. m)	£1,407	N/A
	Build Costs Flats - 3-5 Storeys (£/sq. m)	£1,388	N/A
	Build Costs Flats - 6+ Storey (£/sq. m)	£1,628	N/A
	Build Costs (Supported Housing - Generally) (£/sq. m)	£1,557	£1,774
Commercial / non-residential typology build costs assumptions	See Appendix I (Table F) for assumptions details		

**The above costs exclude external works and contingencies (these are added to the above base build costs at 10% in the case of mixed housing developments and typically 5% respectively).*
Max 5 year old BCIS dataset.

(DSP 2021 - 2022)

2.11.2 BCIS build costs do not include external works/site costs, contingencies or professional fees (all added separately). Across the assessment an allowance for plot and site works has been allowed for on a variable basis depending on scheme type (typically between

[10] https://www.gov.uk/guidance/viability (Paragraph 012 Reference ID: 10-012-20180724 Revision date: 24 07 2018

10% and 15% of base build cost). These are based on a range of information sources and cost models and generally not pitched at minimum levels so as to ensure sufficient allowance for the potentially variable nature of these works. Specifically, site works and infrastructure costs of £500,000/ha have been assumed for the range of site typologies tested. Specific cost allowances have been made in relation to site specific testing. See Appendix I.

2.11.3 For this broad test of viability, it is not possible to test all potential variations to additional costs. There will always been a range of data and opinions on and methods of describing, build costs. In our view, we have made reasonable assumptions in accordance with relevant guidance which lie within the range of figures we generally see for typical new build schemes (rather than high specification / complex schemes that may require particular construction techniques or materials). As with many aspects of viability assessment, there is no single appropriate figure in reality, so judgements on these assumptions (as with others) are necessary. It is important to note that as with any appraisal input, in practice this will be highly site specific.

2.11.4 In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.11.5 An allowance typically at 5% build cost has also been added (residential and commercial typologies) to cover contingencies (i.e. unforeseen variations in build costs compared with appraisal or initial stage estimates).

2.11.6 It is important to note that the interaction of costs and values levels will need to be considered again at future reviews of the Local Plan as base build cost levels typically vary over time. However, further sensitivity tests have been run and included where considered most relevant – information included at Appendices IIIa (further sensitivity data) and IIIb (sample Stage 2 appraisal summaries – generated by the Argus Developer appraisal software using the standard format). This additional information is included so as to allow the sensitivity of the various scenario test outcomes to build costs variation to be viewed as well, alongside the stated combination of other variables viewed – i.e. the VL applied, AH% level tested or assumed profit level. All as set out in the assumptions and results indications – Appendices I and III.

2.11.7 Appendix V includes some information on build cost trends / forecasts, as viewed currently.

2.12 Development Costs – Fees, Finance & Profit

2.12.1 Alongside those noted above, the following costs have been assumed for the purposes of this study and vary slightly depending on the scale and type of development. Other key development cost allowances for residential and commercial scenarios are as follows (see Figures 8 and 9 below). Appendix I provides the full detail.

Figure 8: Residential development costs – Fees, Finance & Profit

Residential Development Costs – Fees, Finance & Profit	Cost Allowance
Professional & Other Fees	8 - 10% of build cost
Site Acquisition Fees	1.5% Agent's fees
	0.75% Legal Fees
	Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT)
Finance	6.5% p.a. interest rate (assumes scheme is debt funded and represents costs including ancillary fees) – LPR overview assumption rate.
Marketing Costs	3% of GDV sales agent & marketing fees
	£750/unit legal fees
Developer Profit	Open Market Housing – based on range described in PPG of 15% - 20% of GDV (base 17.5% assumed within testing for LPR overview; sensitivity tested at 20% reflecting potential higher risk)
	Affordable Housing – 6% GDV (AH revenue on SR & SO; 12% GDV on First Homes)

(DSP 2021 - 2022)

Figure 9: Commercial development costs – Fees, Finance & Profit

Commercial Development Costs – Fees, Finance & Profit	Cost Allowance
Sustainability Allowance	+5% on base build cost
Professional & Other Fees	10% build cost
Yields	Variable applicability, sensitivity tested across range at 5% to 7%.
Site Acquisition Fees	1.5% Agent's fees
	0.75% Legal Fees
	Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT)
Finance	6.5% (including over lead-in and letting/sales period)
Marketing / Other Costs *(Cost allowances – scheme circumstances will vary)*	1% Advertising/ Other costs (% of annual income) 10% letting / management / other fees (% of assumed annual rental income) 5.75% purchasers' costs – where applicable
Developer Profit	15% GDV

(DSP 2022)

2.13 Build period

2.13.1 The build period assumed for each development scenario has been based on BCIS data utilising the Construction Duration calculator by entering the scheme typology details modelled in this study. This has then been sense-checked using our experience and informed by site-specific examples where available. The build periods provided in Appendix I exclude lead-in times. Sales periods are off-set accordingly (i.e. running beyond the construction period) – see Appendix I for detail.

2.13.2 The WBC Housing Trajectory provided to DSP for our further update review completed Autumn 2022 showed the N E Thatcham site SP17 delivery housing at a rate of 150 dwellings total per year, over a 10 year period (totalling the revised 1,500) currently assumed to commence some time ahead – from 2029/2030. Accordingly, although (as is appropriate for the purpose) our current stage appraisals have a current start date, after the assumed lead in period they reflect this assumed delivery trajectory. Clearly, a range of factors influencing viability and the placing of and relationship between assumptions can change not only over the envisaged delivery period but in such a case in the interim as well, where, appropriately, development is not envisaged to be on the ground for a number of years. In the case of larger developments, the assumed sales offset (i.e. timing of first sales) is 12 months after the housing construction start. This offset then means that housing sales are envisaged to continue for 12 months after the completion of construction.

2.14 Key policy areas tested – Summary

2.14.1 A number of the Council's proposed policies have an impact on development viability, both directly and indirectly. Some do not add or add significantly to the typical costs of development or costs that, at the time of rounding up this appraisal in Autumn 2022, are now resulting from national level policy.

2.14.2 As discussed previously, a key purpose of this process was to test whether and to what degree those policies could be absorbed by development whilst enabling it to come forward viably (and therefore supporting the viability of the Plan overall).

2.14.3 The policy references in this section are to the latest (final) draft of the LPR shared with DSP during the last stage of this assessment – most recent updating (and as subsequently rechecked January 2023). These latest policy numbers are also included in the above mentioned 'Policy Analysis' schedule included in Appendix I (Table G). The direct impacts are from policies which ultimately result in a specific fixed cost assumption within the appraisal modelling. Those key elements not already discussed above - e.g. dwelling mix (SP18), affordable housing (tested to consider the SP19 scope), etc. are considered below.

2.14.4 Again, where the assumptions relating to these aspects have changed in moving to our 2022 updating, this is set out here (otherwise assumptions have been carried forward from 2021 reflecting no change in that emerging LPR policy area):

- **Nationally Described Space Standard (NDSS)**
  (Policy DM30) – Requirement for all housing to be designed to comply with dwelling sizes to meet the NDSS (source: Technical Housing Standards - former DCLG, 2015). The dwelling size assumptions used in the viability testing (across both stages) are set out in this report at Figure 5 and in Appendix I, consistent with the NDSS ranges.

- **Open space requirements**
  (Policy DM40) – Requirement for all residential development of 10 or more dwellings to provide high quality public open space on-site, off-site or via a financial contribution. For the purposes of this assessment open space allowances (reflecting both land take and maintenance cost contributions) have been included within the appraisal modelling in accordance with proposed DM40. Appendix I provides the details.

- **Water efficiency standards**
  (Policy DM7) – A base assumption of 110 lpppd (water usage not exceeding 110 litres per person, per day) has been used in all appraisals. The Council will need to demonstrate evidence of water stress in order to require any enhanced standard i.e. standard more stringent than the building regulations (Part G) base requirement at 125lpppd.

- **Carbon reduction – contributing to the Council's Net Zero ambitions**
  (Policies SP5, DM4) – Requirement for residential (and other / business) development to achieve net zero carbon (regulated and unregulated emissions) upon adoption of the LPR.

  a. There are a number of published sources of information relating to the costs of achieving various carbon reduction measures, with varying degree of detail and cost outputs. At the earlier stage of review, based on the Council's emerging policy iterations at the time, we discussed with BRE the cost of achieving the various requirements of the HQM standards and although they informed us that no detailed cost work had been undertaken, it was assumed that meeting the energy requirements of HQM would align to the Government's Future Homes Standard (Option 2). The cost of achieving the FHS Option 2[11] was noted to be in the region of 4% over base build costs and as such we initially assumed that level of increase in costs as a proxy for meeting the Council's then draft Policy DC3 requirements, including for on-site renewable energy generation.

  b. Policy SP19 required affordable housing to be built to zero carbon standards (which approach is continued as part of WBC now requiring this higher standard across all

[11] MHCLG: The Future Homes Standard - 2019 Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings: Impact Assessment (October 2019)

housing development). Again, information on the estimated costs of achieving zero carbon development vary between sources, depend on type of development and whether the requirement is for zero regulated or zero regulated *and* unregulated carbon emissions. Some time ago, a study by Currie & Brown for the Centre for Sustainable Energy[12] indicated the additional cost of achieving zero carbon in new residential development to be between 5%-7% for regulated emissions; 7% - 11% for regulated and unregulated emissions.

c. For the purposes of this assessment, therefore, at the earlier stage (2021 results as per Appendix II) we assumed a cost uplift of 4% on the market housing and 7% on the affordable housing in all scenarios with further sensitivity testing undertaken subsequently at +11% in some scenarios. It is assumed however that as the energy network becomes decarbonised over time (i.e. with more grid energy sourced from renewable sources) the cost of meeting zero carbon targets in development will reduce and this approach underlies the Government's (full) Future Homes Standard as is due to take effect in 2025.

d. In moving the LPR viability assessment on to the further updating stage in 2022, these assumptions have been considered further with the Council (as a top priority policy area) reflecting its latest available evidence. Based on a study by (and dialogue with) specialist consultancy Bioregional on behalf of the Council, in our latest tests we have included +5% build costs on considering the emerging policy DM4 implications for residential development (all dwellings) and bearing in mind that recent or current estimates do not build in any allowance for a reduction in the extra-over costs likely to be found relevant as the markets, technologies and efficiencies in these vital areas grow in the coming years.

e. At this stage and reflecting equivalent thinking for our Stage 2 high level review of commercial / non-residential development typologies (Appendix I Table F and Appendix IV) we have also included a +5% cost allowance for sustainability improvements to such developments, with occupiers and investors very likely to demand high standards and the most efficient possible premises to tun, as per the Council's aims.

[12] Currie & Brown – Centre for Sustainable Energy – Cost of Carbon Reduction in New Buildings (December 2018)

- **Electric vehicle charging points**
  (Policy DM44) - Requires all developments to provide electric vehicle either communally or individually for dwellings. An allowance of between £500 per dwelling (regardless of type) has been assumed within this study representing our view of the typical costs of complying with policy on new sites building in the policy from the design process onwards and taking into account that there will be some double counting alongside external works cost uplift allowances as well as the fact that the provision of the external 'box' for EVP could potentially be a consumer based cost. While we are aware of alternative views relating to higher extra over costs assumptions, we do not consider those representative of the likely picture moving ahead, again bearing mind the comments offered above in respect of the climate change response policy cost implications and rapid developments in these areas.

- **Biodiversity Net Gain (BNG)**
  (Policy SP11) – Requirement to deliver minimum 10% net gain for biodiversity either on-site or via off-site contribution. For the purposes of this assessment we have assumed the central scenario as set out in the Impact Assessment [13] associated with the Government consultation on BNG – 2021 assessment work. Appendix I provides more detail.

- **Self and custom-build**
  (Policy DM18) – From DSP's experience of this type of development, we consider the provision of plots (serviced and ready for development) for self or custom-build has the potential to be sufficiently profitable so as not to provide a significant drag on the viability of a scheme in general. Broadly, we would expect this activity it to be at least neutral in viability terms, with the exact outcomes dependent on site-specific details, as with other aspects of the development process. In this case, however, the Council is not proposing any specific requirements so that the proposed policy supports suitable proposals. In our view this is probably an appropriate and workable approach given the potential for practical challenges to be involved in integrating plots within general market housing schemes in a rigid way, such as based on a fixed proportion or other criteria that need to be made to work alongside the market sale and affordable housing development. In

[13] DEFRA: Biodiversity net gain and local nature recovery strategies Impact Assessment (October 2019)

practice, many self-builders will look to satisfy their own specific aims through the market – finding either an individual plot, re-build opportunity or similar.

- **Accessible homes**
  On moving from an earlier to the latest available iteration of the emerging LPR content, policy SP18 (Housing type and mix) will now be seeking an element of homes to enhanced Part M4(3) of the Building Regulations (based on 10%), facilitating homes accessible by wheelchair users; with the remainder to M4(2). At the time of finalising the assessment Stage 2, the latter provision will now come in on all new builds as a standard requirement. Therefore, although now proposed for inclusion by WBC such a standard will be in place in any event and is no longer additional to national policy. The additional allowances made at Stage 2 are shown within Appendix I (Table C).

- **Nutrient neutrality**
  Through discussion with WBC, it has been understood that whilst there is a likely issue with nutrients (nitrates / phosphates) requiring mitigation, this affects only a small proportion of the district and is considered likely to have an additional cost impact affecting only around 300 dwellings; a small proportion of overall supply and not a widespread issue. Therefore, it was agreed not to include this as a Plan-wide level assumption within the scope of the viability assessment. This means that, depending on the degree of impact, this may need to be treated as an abnormal development cost in some (relatively few) instances.

2.15 Community Infrastructure Levy (CIL) & s.106

2.15.1 As discussed earlier in this report, WBC currently has a CIL in place as implemented in 2015 with the charging rates indexed to the noted currently applied levels. At both update stages reported here the indexed rates have been included within the assessment alongside other planning obligations and policy costs.

2.15.2 As is the case here, with CIL in place there remains a need for some developments to provide some level site-specific mitigation measures (for example potentially relating to matters such as open space, highways work and any other particular requirements needed to make a development acceptable in planning terms). However, care needs to be taken not to add costs assumptions to the degree that those might overlap between this s.106, other specific allowances made (including on open space as noted above) and what is to be provided for via CIL.

2.15.3 Allied to the above, with the removal of the pooling restrictions on the use of s.106 agreements since September 2019 it will also be important for the Council to keep in mind the greater flexibility of s.106 (as appropriate) balanced with CIL. This approach will help to ensure that it maximises the level of funding for essential infrastructure across the district, as far as is appropriate.

2.15.4 For the purposes of this assessment and as agreed with WBC, we have assumed an additional £2,000 per dwelling contingency (on all dwellings, including affordable) to cover any site-specific s.106 requirements. For the strategic site testing (NE Thatcham), specific assumptions have been made with regard to site infrastructure and s106 costs based on information provided by DLA and Stantec in the Masterplan document referred to earlier. These have been made alongside the relevant CIL costs, with that charge in place until such time as the Charging Schedule reviewed in its entirety by WBC.

2.15.5 It is worth noting that were we to be reviewing afresh the potential application of CIL to a strategic site (such as NET – SP17), it may well be appropriate to consider the more adaptable and directly related to the site scope that s.106 provides for dealing with specific development mitigation. Again, Appendix I provides an overview of the assumptions made at this stage – in both the typologies and more specific review pf that large allocation proposal.

2.16 Indicative land value comparisons and related discussion

2.16.1 In order to consider the likely viability of any development scheme, the results of the appraisal modelling (the RLVs viewed in £/ha terms) need to be measured against an appropriate level of land value. This enables the review of the strength of the results as those change across the range of value levels, affordable housing policy targets (%s) and other planning obligations.

2.16.2 The process of comparison with land values is, as with much of strategic level viability assessment, not an exact science. It involves judgements and well-established acknowledgements that, as with other appraisal aspects, the values associated with the land will, in practice, vary from scheme to scheme.

2.16.3 Land value in any given situation should reflect the specifics of existing use, planning status (including any necessary works, costs and obligations), site conditions and constraints. It follows that the planning policies and obligations, including any site specific s106 requirements, will also have a bearing on land value where an implementable planning consent forms a suitable basis for an alternative use value (AUV) based approach that could be in place of the primary approach to considering site value (benchmark land value – BLV), which is now always "EUV plus" (existing use value plus) consistent with the updated PPG on Viability.

2.16.4 The levels of land values selected for this context are known as 'benchmark land values' (BLVs). They are not fixed in terms of creating definite cut-offs or steps in viability but, in our experience, they serve well by adding a filter to the results as part of the review. BLVs help to highlight the changing strength of relationship between the values (scheme revenue (GDV)) and development costs as the appraisal inputs (assumptions) change.

2.16.5 As noted above, the recently updated PPG on viability is now very clear that BLVs should be based on the principle of existing use value plus a premium to incentivise the release of the site for development.

2.16.6 As part of our results analysis, we have compared the wide scope of resulting residual land values with a range of potential BLVs used as 'Viability Tests', based on the principles of 'existing use value plus' (EUV+). This allows us to consider a wide array of potential scenarios, outcomes and the resulting viability trends seen in this case. The coloured shading within the Appendix II results tables (extract of the 'key' below for ease of reference) provides a graded effect intended only to show the general tone of results through the range clearly viable (most positive – boldest green coloured) to likely non-viability scenarios (least positive, where the RLVs show no surplus or a deficit against the BLVs).

Key:

	RLV beneath Viability Test 1 (RLV <£250,000/ha)
	Viability Test 1 (RLV £250,000 to £500,000/ha)
	Viability Test 2 (RLV £500,000 to £1,000,000/ha)
	Viability Test 3 (RLV £1,000,000 to £1,500,000/ha)
	Viability Test 4 (RLV £1,500,000 to £2,000,000/ha)
	Viability Test 5 (RLV £2,000,000 to £2,500,000/ha)
	Viability Test 6 (RLV £2,500,000 to £3,000,000/ha)
	Viability Test 7 (RLV >£3,000,000/ha)

2.16.7 The land value comparison levels (BLVs) are not fixed or even guides for use on scheme specifics; they are purely for this assessment purpose. Schemes will obviously come forward based on very site-specific circumstances, including in some cases on sites with appropriately judged land values beneath the levels assumed for this purpose.

2.16.8 As part of the process of developing appropriately robust BLVs, we have reviewed other available evidence, including previous viability studies (as well as those conducted for neighbouring/nearby Authorities) both at a strategic level as well as site-specific viability assessments. In addition, we have also had regard to the published Government sources on land values for policy appraisal [14] providing industrial, office, residential and agricultural land value estimates for locations across the country – including West Berkshire.

2.16.9 It should be noted that the MHCLG *residential* land value estimates require adjustment for the purposes of strategic viability testing due to the fact that a different assumptions basis is used in our study compared to the truncated valuation model used by the MHCLG. This study assumes all development costs are accounted for as inputs to the RLV appraisal, rather than those being reflected within a much higher “serviced” i.e. “ready to develop” level of land value.

2.16.10 The MHCLG model provides a much higher level of land value for ‘residential land’ as it assumes the following:

- All land and planning related costs are discharged;

[14] MHCLG: Land value estimates for policy appraisal – most recent version 2019 published August 2020

- Nil affordable housing requirement – whereas in practice the requirement for AH can impact land value by up to around 50% on a 0.5ha site with 35% AH.
- Nil CIL;
- No allowance for other planning obligations;
- Full planning consent is in place – the risk associated with obtaining consent can equate to as much as a 75% deduction when adjusting a consented site value to an unconsented land value starting point;
- Lower quartile build costs;
- 17% developer's profit.

2.16.11 The above are additional assumptions that lead to a view of land value well above that used for comparison (benchmarking purposes) in viability assessments. Overall, the assessment approach (as relates to all land values) assumes all deductions from the GDV are covered by the development costs assumptions applied within the appraisals. In our view this would lead to a significantly reduced residential land value benchmark when taking into account all of the above factors.

2.16.12 As set out in Appendix II (residential and commercial results overview tables), we have made indicative comparisons at land value levels in a range between £250,000/ha and £3,000,000/ha plus, enabling us to view where the RLVs fall in relation to those levels and to the overall range between them.

2.16.13 Typically, we would expect to apply an EUV+ based land value benchmark at not more than approximately £250,000/ha (applied to gross site area) for bulk greenfield land for greenfield land release, based on a circa ten times uplift factor (the "plus" element) from the EUV for agricultural land at not exceeding c. £25,000/ha. In our view, certainly moving outside the scope of the general typologies considered in this assessment (i.e. development of a greater scale than 250 dwellings) an appropriate BLV should not need to exceed this level based on following the viability in planning policy principles within the PGG as opposed to a more market orientated approach that may starts to become influenced by comparison with older (pre-PPG) deals and include more emphasis on 'hope value' or similar, rather than being purely EUV plus based.

2.16.14 Above that, we would expect an EUV+ of up to £500,000/ha could be applicable for smaller greenfield / amenity land use releases (e.g. perhaps for around 100 or so dwellings).

2.16.15 Although some previously developed land (PDL) may support only a very low value in existing use, looking at land with a higher EUV the BLVs range above that (from £1,000,000/ha to £3,000,000/ha) is representative of (PDL) i.e. 'brownfield' land more generally.

2.16.16 It is important to consider the wider context of the types of sites that are planned to come forward over the emerging plan period, as above. Taking into account the overall picture of delivery in terms of site type and planned locations, and the site typologies provided to DSP to test, we consider the lower to mid end of the PDL range is most likely to be relevant to a majority of the PDL site typologies tested as part of this assessment. Therefore, we consider the key BLVs for reviewing the results range from Viability Tests 3 to 4 at £1,000,000/ha to £2,000,000/ha. Some of the typologies may come forward on sites with higher existing use values, however.

2.16.17 Recapping on greenfield (GF) hosted development prospects, it is considered that the BLV range £250,000/ha to a likely maximum £500,000/ha will be relevant for viability in planning in West Berkshire, but bearing in mind that especially for bulk GF land, that should not be regarded as a minimum or absolute cut-off. Indeed, gross land area figures may include areas of land where for example lower values may be appropriate in support of ancillary provision, undeveloped mitigation land such as SANG or similar.

2.16.18 Figure 10 below shows, with some explanatory notes, the range of selected BLVs which have been used as 'viability tests' (filters) for the viewing and provision of the results interpretation / judgments – as per Appendix II and III results tables where these BLV levels are also shown as notes.

Figure 10: Range of BLVs ('Viability Tests')

EUV+ £/ha	Notes
£250,000	Greenfield Enhancement – Larger releases
£500,000	Greenfield Enhancement (Upper) – Smaller releases not exceeding 100-250 dwellings.
£1,000,000	Low-grade PDL (former community uses, yards, workshops etc.)
£1,500,000	PDL land values - industrial
£2,000,000	PDL - Commercial (Lower)
£2,500,000	PDL - Commercial (Upper)
£3,000,000	Upper PDL Benchmark/Residential land values

(DSP 2021 - 2022)

2.16.19 It is important to note that all RLV results indicate the potential receipt level available to a landowner after allowing, within the appraisal modelling, for all development costs (as discussed earlier). This is to ensure no potential overlapping / double-counting of development costs that might flow from assuming land values at levels associated with serviced/ready for development land, with planning permission etc. The RLVs and the indicative comparison levels (BLVs) represent a "raw material" view of land value, with all development costs falling to the prospective developer (usually the site purchaser).

2.16.20 Matters such as realistic site selection for the particular proposals, allied to realistic landowner's expectations on site value will continue to be vitally important. Site value needs to be proportionate to the realistic development scope and site constraints, ensuring that the available headroom for supporting necessary planning obligations (securing AH and other provision) is not overly squeezed beneath the levels that should be achieved.

2.16.21 The PPG[15] states the following:

'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient

[15] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment Paragraph: 014 Reference ID: 10-014-20190509 Revision date: 09 05 2019

contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)…

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'

3. Findings review

3.1. Stage 1 review – Spring 2021

3.1.1 This stage involved the comprehensive review of residential scheme typologies together with initial appraisal work reflecting the N E Thatcham strategic allocation proposal site (LPR policy SP17).

3.1.2 The results tables reflecting both elements are set out at Appendix II – Tables 1a - 1o, and 1p respectively. The appraisals and wide range of sensitivity tests applied the methodology and assumptions as set out in Section 2 above and in Appendix I – Tables A - B, and D respectively.

Use of results tables – typologies (Appendix II Tables 1a to 1o)

3.1.3 Each of the Appendix II typology tables outlines the nature of the typology tested. Shown in the column headings in each results section are the variables tested behind each residual land value indication (each £ figure being the outcome of an appraisal). The figures top (white / non-shaded) results table areas are the appraisal RLVs expressed in £s. Beneath those, the same RLVs are expressed in £/ha terms – in the colour shaded table sections. The £/ha RLV levels can then be compared against the selected range of benchmark land values (BLVs) – as are shown in the 'BLV Notes' below the results tables. The 'Key' shows how the "filtering" has been applied in setting this out

3.1.4 Used in this way, the colour shading aims to highlight the results trends and shows using graduated shades of green the results that meet or exceed at least the lowest BLV test through to those that meet higher BLV tests. So this acts like filtering, enabling the viewing of which scenarios are indicated to be viable at the various BLV levels used for comparison with the RLV results. With increasing intensity of green colouring, the RLVs are meeting higher BLVs, indicating likely viability across an increasing range of site types. Overall, this view covers the range of BLVs from lower levels relevant to greenfield sites (£250,000 – 500,000/ha) through increasing BLVs reflecting PDL sites (previously developed land i.e. brownfield) in varying potential existing uses and accordingly with higher existing use values (EUVs) through a range £1 - 3m/ha and in many cases not exceeding £2m/ha in the context of mixed site types in West Berkshire.

3.1.5 Looking at the trends, this shows how there can be more confidence in results as they surpass the higher BLVs. This is especially relevant to viewing the viability prospects associated with PDL development; particularly when it comes to higher value main urban area sites and town centre or similar main commercial locations with typically higher EUVs. In those situations it would often be necessary to consider higher BLVs (at £2.5 - 3m + / ha), with the lower PDL BLVs most likely representing the more suburban or wider PDL sites (for example land in former industrial and other lower value commercial uses).

3.1.6 Consistent with section 2.16 above this is all based on BLVs reflecting the EUV plus principles as a basis for selecting the BLV guides, per the PPG.

3.1.7 As a further guide to the results tables and how these reflect the tested scenarios, moving from top to bottom are seen the range of sales value levels (VLs) tested – representing market housing sales values overviewed at £3,750 to £5,500/sq. m (approx. £348 to £511/sq. ft.). The two (indexed) CIL charging rates applicable and tested in combination with varying VL are shown in the column headings. Each of these sets of appraisals have been run at varying affordable housing (AH) % too – again as shown in the column headings and reflecting the overall scope of potential AH policy that has been considered with the Council, as is to be revisited through the LPR.

3.1.8 Looking at the main variables and accordingly the viability influences explored within these tables, the trends clearly show how the viability indications increase (improve) with increasing VL. The indications decrease (become weaker) with increasing AH% tested and to a significantly smaller extent with the higher CIL rate tested. The BLV filtering then overlays this, as above.

Findings - Review of typologies results – Values context

3.1.9 For the Spring 2021 review phase, we worked on the basis that for a majority of developments and the relevant district wide / overall picture, viewing strategically at the LPR level, the range was £4,000 - £4,750/sq. m (c. £372 - £441/sq. ft). i.e., VLs 2 to 5.

3.1.10 At the point of Stage 1 and as per 2.7.4 above we found a narrower range £4,000 - £4,500/sq. m likely to cover most new-builds at this time – was most typical in West Berkshire. Across most circumstances relevant to the overall supply, we found values within or do not getting far away from this key range. Overall, the new build values range in the places and the types of development that matter most for the LP delivery was considered therefore to be reflected by VLs 2 to 4.

Review of typologies results – Affordable housing (AH)

3.1.11 After testing 0% AH, on the smallest typologies attracting AH (5-6 houses as per Appendix II Tables 1b - 1c) we noted for WBC that more than 20% was not likely to be appropriate alongside the CIL, policy and other costs. This assumes mainly PDL based developments (e.g. small infill sites, replacement of non-conforming uses or older dwellings) although we also acknowledged that the upper BLVs were shown to be reached only with a higher than typical VL (sales 'value level') assumed. The higher CIL rate emphasises but does not change this picture when tested – i.e. continued to reflect in our view that more CIL can typically be supported in the usually higher value / generally rural areas and smaller settlements. Accordingly, this was also an indication of the existing CIL differentiation appearing to reflect relativities appropriately – still looking broadly suitable and working as was intended on adoption.

3.1.12 On considering 'major' development i.e. at 10+ dwellings and therefore the earlier AHVA[16] work together with emerging LPR policy (SP19) proposed AH proportions at 30% on PDL and 40% on GF sites, we found that these should still be generally workable – as a policy basis and part of the updated cumulatively costs review in 2021.

3.1.13 In discussion with WBC, however, we noted this to be in terms of headlines and being likely reasonable expectations / targets or equivalent in practice. This was in the relevant context of the Council needing to address both the district's AH needs and viability and given also the appropriate but high level nature of this review work. The assessment necessarily reflects the early stage (limited) information level available on sites and the consideration of a wide range of site and scheme types for this strategic overview; all through assumptions. In our experience of viability in planning at both plan making and decision making stages (as per the PPG), the acknowledged aim of NPPF paragraph 58 is

[16] Affordable Housing Viability Assessment for WBC (2018 – 2020) – as referred to at 1.11 above

likely to be difficult to achieve in terms of full front-loading of viability to the plan making (in this case WBC LPR) stage. For ease of reference paragraph 58 says: '*Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available*'.

3.1.14 With the reality of variable development costs across a wide variety of sites and schemes, there can never be a strict guarantee that the tested levels of AH and / or its tenure will always be viable alongside fully meeting other policies when viewed in the full, fixed way that we have done within this assessment.

3.1.15 Our provided view at stage 1 was that the greenfield (GF) based policy at 40% AH was considered as secure as possible at this level of review, but that unavoidably there were usual "caveats" as above in regard to the approach overall and particularly in respect of the 30% AH policy element for the development of PDL.

3.1.16 The results as well as our wider experience indicated that 30% AH on PDL was likely in our view to more typically represent the upper end of what is probably more realistically a range of outcomes unlikely to exceed a range 20-30% frequently. However, with a range not permitted in national policy owing to the need to create clarity, this brings us back to the Council considering a balance between the high AH needs and the ability of developments to continue to come forward viably.

3.1.17 Clearly, it is not likely to be appropriate to adjust this so far away from the needs end that PDL sites, or many of those, would be expected to provide no or only very low AH contributions as the norm throughout the plan period. Additionally, as above, while even a low-pitched AH % based only on the lowest interpretation of the viability prospects could not be guaranteed to be delivered in all cases (such as some town centre sites) this would underplay viability overall and would therefore “undershoot” the AH delivery potential on others (and therefore overall as well).

3.1.18 As further context, in working with the Council DSP only sees a very small proportion of site-specific (DM stage) viability submissions, which we review on an ad hoc basis for WBC (as well as for many other LAs). How much AH has been and is currently being achieved in various circumstances (in response to the adopted policy approach) is other important context for WBC to consider – the review of that should be informative alongside other evidence, and especially perhaps when considered over the last few years as development standards have been developing in any event. DSP was provided with a feel for this by WBC for the above noted AH Viability Study: ‘*Only 3 sites out of 44 within the past 6 years which have provided over 15 new dwellings have failed to meet the full policy requirement due to viability considerations. All sites providing 10 to 14 units have met the full requirement. Although many sites of 5 to 9 units have met the policy requirement, approximately half of these sites have failed to provide on-site affordable housing. Some have however provided an AH financial contribution, whilst some have provided a reduced or zero level of affordable housing for viability reasons. In particular the most recent two years have seen a high proportion of small sites failing to provide a fully policy compliant level of provision*’.

3.1.19 However, we are now looking at this in the context of increased ‘other’ policy costs i.e. around sustainability / zero carbon together with a social rented AH emphasis. We have also noted the economic context at the time of assessment, and particularly at Stage 2 (Autumn 2022), although again as above have to consider the longer term of the LPR operating through a likely range of circumstances overall.

3.1.20 Developing this further, based on the modelling using appropriate assumptions at this strategic level, flatted development was viewed as unlikely to support 30% AH regularly at Stage 1, and even 20% AH could be considered likely to be challenging it appeared.

3.1.21 These are not unusual findings by any means - we see this regularly across our work. From the information review and familiarity with Newbury and other areas as well as discussions with WBC we know that a fairly high volume of flatted development has been completed in recent years, so that the level of this remaining in the forthcoming period and its relevance to the LP delivery overall was noted as key for WBC to consider alongside our viability findings. We understand that the role of this type of development is likely to be much reduced in the coming period. Overall, on PDL context, we noted that if the LPR once further developed is considered to be reliant to a significant extent on this and other town centre development with typically higher EUVs and higher development costs, then in our view consideration should be given to a 20% AH policy element (and with that noted as reflecting potentially an upper level of viable AH provision in such circumstances). However, it was also considered that if ultimately the ongoing LPR development context would be largely comprised of houses / mixed dwellings schemes and include a range of site types and locations, then this would more closely link to a 30% AH headline on PDL – in balance with the high level of affordable homes need. These findings and the related thinking were considered closely with and by WBC.

3.1.22 While AH policy always has the most influence (owing to the significantly lower revenue levels supported by the AH), the second "caveat" area is that we cannot isolate or ignore the impact of the tenure mix that we have been assuming (i.e. including 70% social rent) along with other policies. In this case the fact that from the outset on the LPR there were key priorities around zero carbon and SP19 as drafted (at Stage 1) expected this on affordable homes; continuing the Council's objectives in response to the Climate Change Emergency. These, and especially together, were noted to make the AH very costly to provide – reflecting in its significant impact on overall viability. So, this is not just about the AH quantum (%) but also the nature of it. The emerging policy approach proposed to acknowledge that the needs, site specifics and economics of provision would be considered, and we noted that a rigid social rent assumption has a significant influence when it comes to looking to support a balance of policy aims. We noted that in looking to achieve more genuinely affordable homes and considering the recent AH delivery track record as part of the LPR progression, it would be beneficial for WBC consider the tenure of this too.

3.1.23 Overall, the main Stage 1 appraisals work (completed April 2021) and discussion with WBC left as a key point the consideration of a differential policy approach between PDL and GF developments, with the latter usually offering significantly more viability headroom to support growing national policy measures along with the emerging requirements in response to local objectives.

Introduction of First Homes

3.1.24 We will come on further to climate change response below. However, on AH tenure and with the main Stage 1 typologies reviewing work preceding the confirmation of First Homes in national policy, we went on subsequently to consider the introduction of First Homes to the mix, following the formal introduction of this in May 2021. Informed by and for further discussion with WBC officers, we progressed the review work (through to May and June 2021) to add further sensitivity tests on First Homes (reflecting the inclusion of these at 25% of the AH, in addition to the 10% Affordable Home Ownership already allowed for as per the NPPF – para. 64 at the time).

3.1.25 Owing to similarity with the already presented results (as per Appendix II) we have not included further results table for these tests. We ran further appraisals on 3 no. typology tests that we considered appropriately representative to get a feel for the potential influence of this new (national) policy area – 25 Houses, 100 Mixed dwellings (PDL) and 100 Mixed (Greenfield).

3.1.26 The introduction of First Homes (FH) was assumed at the minimum proportion of the AH provision (25%) and by applying the minimum level of discount at 30% (i.e. with FH revenue at 70% market value). We noted that while a higher level of discount (at 40% or 50% MV) could be applied subject to demonstrating appropriate need, such a locally set greater level of discount would negatively affect viability in comparison with our initial tests on this. In terms of profit on the FH element, at this stage we continued to apply the AH lower 6% AH revenue level, being part of the AH provision and given uncertainties at the time about the delivery of the FH proposals. However, we also noted the possibility that the FH would become seen as purely developer delivered which could result in the profit expectations on this element increasing. Although the effect of this would be less significant than applying a higher discount, we noted the inclusion of a larger profit would also negatively impact viability compared with what we were showing in these sensitivity tests and therefore this could balance out any improvement or outweigh the revenue gains seen at this stage from including FH in place of shared ownership, for example. Essentially, from a viability viewpoint we are taking the most positive view that we can of the impact (relative difference) likely to be seen from including FH.

3.1.27 Using this initial review approach, we saw the viability prospects improve, but noted this as a marginal positive effect.

3.1.28 If, however, increased levels of discount were applied (and/or developer profits on FH increased from 6% FH GDV), the amount of affordable housing revenue would reduce overall then putting negative (downward) pressure on the viability scope from the above base positions as appraised spring 2021 without FH. With the approach, the added FH units are assumed to be "traded" for similarly viable Shared Ownership units, as opposed to the Social Rented units which were assumed to be "protected" within the overall AH provision and reflecting WBC's likely overall approach. This was noted as a limiting factor on the revenue "gains" and the positive relativity involved with including the FH. So, if it were acceptable that the overall proportion of social rented homes were squeezed, some and some "transferred" to become FH (with more shared ownership dwellings remaining) we would see a more notable improvement in the strength of the results compared with the before FH position.

3.1.29 However, as presented initially, we could see the inclusion of FH tenure indicating an improvement on the RLV levels of approximately £50,000/ha, equating to an increase of circa +3.5% (noted as marginal though, as above, and subject to the assumptions made, as noted).

3.1.30 In summary, the increase in revenue and ultimately the appraisal residual land value (RLV) likely to be associated with including FH is not enough to move a PDL scheme into a more positive viability scenario capable of supporting the Council's emerging policy requirements without some level of adjustment – i.e. whilst even as appraised initially the FH might make a small positive contribution to viability, policy modifications and/or other interventions would still be needed.

3.1.31 In undertaking the further, final set of appraisals for this assessment (Autumn 2022) we continued to adopt the 30% minimum discount (i.e. most viable end of assumptions) on First Homes, by that stage included as a base assumption – part of all assumed dwelling mixes. Those appraisals included a significantly increased (doubled) level of developer profit on the FH (i.e. at 12% GDV) reflecting in our view a suitable balance between the reduced sale risk as affordable housing and the full developer risk rate. Our review of further findings including this updated assumption basis for FH is included in later sections of this report chapter.

3.1.32 For WBC's wider information and so that we could take a high level view on adjusted typology scheme make up when including the FH, the initial work on FH also included a review of which types of new build dwellings would be likely to fall within the £250,000 price cap given the range of sales value levels likely to be relevant in West Berkshire (starting with market value using our range of VLs and considering the base 30% discount as well as looking at 40% and 50% MV discount).

3.1.33 Figure 11 below (following page) provides a grid of how this picture looks, based on our information and assumptions. In the upper tables here, the red / pink shaded sections show the dwelling type and VL based market sale price levels where the prescribed discount level would take the First Homes outside the £250,000 cap (i.e. likely to prove unworkable unless WBC were to evidence and adopt a lower price cap which would also be likely to impact negatively on overall scheme viability). This indicates the dwelling types likely to be workable based on the cap after allowing for the discount on sale. It appears that it should be possible to provide a range of 1 and 2-bed dwellings as First Homes in the district based on the 30% discount. However, larger dwellings are unlikely to be workable as FH on this basis.

Figure 11 – First homes feasibility (review of dwelling type and VLs range against combination of discount level and price cap)

West Berkshire Council - First Homes Property Price Caps

Unit Type	Size of unit (m²)	VL1 £3,750	VL2 £4,000	VL3 £4,250	VL4 £4,500	VL5 £4,750	VL6 £5,000	VL7 £5,250	VL8 £5,500
100% Market Value									
1BF	50	£187,500	£200,000	£212,500	£225,000	£237,500	£250,000	£262,500	£275,000
2BF	61	£228,750	£244,000	£259,250	£274,500	£289,750	£305,000	£320,250	£335,500
2BH	79	£296,250	£316,000	£335,750	£355,500	£375,250	£395,000	£414,750	£434,500
3BH	93	£348,750	£372,000	£395,250	£418,500	£441,750	£465,000	£488,250	£511,500
4Bh	106	£487,500	£520,000	£552,500	£585,000	£617,500	£650,000	£682,500	£715,000

Unit Type	Size of unit (m²)	VL1 £3,750	VL2 £4,000	VL3 £4,250	VL4 £4,500	VL5 £4,750	VL6 £5,000	VL7 £5,250	VL8 £5,500
30% Discount									
1BF	50	£131,250	£140,000	£148,750	£157,500	£166,250	£175,000	£183,750	£192,500
2BF	61	£160,125	£170,800	£181,475	£192,150	£202,825	£213,500	£224,175	£234,850
2BH	79	£207,375	£221,200	£235,025	£248,850	£262,675	£276,500	£290,325	£304,150
3BH	93	£244,125	£260,400	£276,675	£292,950	£309,225	£325,500	£341,775	£358,050
4BH	106	£341,250	£364,000	£386,750	£409,500	£432,250	£455,000	£477,750	£500,500

Unit Type	Size of unit (m²)	VL1 £3,750	VL2 £4,000	VL3 £4,250	VL4 £4,500	VL5 £4,750	VL6 £5,000	VL7 £5,250	VL8 £5,500
40% Discount									
1BF	50	£112,500	£120,000	£127,500	£135,000	£142,500	£150,000	£157,500	£165,000
2BF	61	£137,250	£146,400	£155,550	£164,700	£173,850	£183,000	£192,150	£201,300
2BH	79	£177,750	£189,600	£201,450	£213,300	£225,150	£237,000	£248,850	£260,700
3BH	93	£209,250	£223,200	£237,150	£251,100	£265,050	£279,000	£292,950	£306,900
4BH	106	£292,500	£312,000	£331,500	£351,000	£370,500	£390,000	£409,500	£429,000

Unit Type	Size of unit (m²)	VL1 £3,750	VL2 £4,000	VL3 £4,250	VL4 £4,500	VL5 £4,750	VL6 £5,000	VL7 £5,250	VL8 £5,500
50% Discount									
1BF	50	£93,750	£100,000	£106,250	£112,500	£118,750	£125,000	£131,250	£137,500
2BF	61	£114,375	£122,000	£129,625	£137,250	£144,875	£152,500	£160,125	£167,750
2BH	79	£148,125	£158,000	£167,875	£177,750	£187,625	£197,500	£207,375	£217,250
3BH	93	£174,375	£186,000	£197,625	£209,250	£220,875	£232,500	£244,125	£255,750
4BH	106	£243,750	£260,000	£276,250	£292,500	£308,750	£325,000	£341,250	£357,500

Red denotes property value above the £250,000 FH cap.

Unit Type	Size of unit (m²)	VL1 £3,750	VL2 £4,000	VL3 £4,250	VL4 £4,500	VL5 £4,750	VL6 £5,000	VL7 £5,250	VL8 £5,500
Discount required to achieve £250,000 cap									
1BF	50	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
2BF	61	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
2BH	79	30.0%	30.0%	30.0%	30.0%	33.4%	36.7%	39.7%	42.5%
3BH	93	30.0%	32.8%	36.7%	40.3%	43.4%	46.2%	48.8%	51.1%
4BH	106	48.7%	51.9%	54.8%	57.3%	59.5%	61.5%	63.4%	65.0%

(DSP 2022)

Review of typologies results
– Climate change response – Carbon reduction / zero carbon

3.1.34 As with other policy elements, this cannot be isolated – its contribution to cumulative costs and impacts needs to be considered.

3.1.35 All as noted above, for the assessment purposes the emerging policy costs need to "monetised" as appropriately as possible. We do this using an overview of information as far as is available at the time of forming assumptions for use in the appraisals. At the time of the assessment there is a wide range of information as to how carbon reduction and especially zero carbon will be best and most cost effectively measured and achieved, leading directly, however, to uncertainty over what to assume cost-wise. Continuing with the broad approach used in DSP's previous AHVA work and consistent with our continuing information review on this aspect, it remains appropriate in our view to make an allowance for extra-over build cost while the measures are coming in and settling so that data on project costs (e.g. BCIS) is not likely to generally reflect higher standards.

3.1.36 At Stage 1, in our view +4% to base build costs represented a reasonable proxy for the direction of travel towards zero carbon, as represented by the Govt's Future Homes Standard (FHS) Option 2. FHS from 2025 would not fully reflect zero carbon in itself, being based on developments achieving a 75% reduction in CO_2 and setting up the potential for them to become zero carbon once the supply grid is decarbonised.

3.1.37 From an early stage, WBC's priority policy objective in this area has meant that the Council's strategy envisages going further / faster than the Government's approach at the time of this assessment.

3.1.38 At our Stage 1 point, the emerging policy approach by WBC included the use of the 'Housing Quality Mark' (HQM). As a consultancy, previously we had encountered this only on one other occasion and not at the heart of an LA's approach in this way - as had been worked into the Council's emerging policy by at this stage. Our understanding was that this would cover many aspects that should already be catered for through appropriate DM criteria on good design and sustainable development criteria generally – i.e. in many respects should not add materially to costs and especially if it is part of the design and cost planning development from early feasibility stages of projects. On the parts that relate to energy and sustainability it appeared reasonable to assume that, with the HQM Technical Manual prepared in 2018, it would be appropriate not to work on the basis demands and costs projecting beyond the Government's ideas and timeline. We consulted BRE (the Building Research Establishment) and were not made aware of any particular cost metrics or pointers towards assumptions that we could use relating to monetising the HQM criteria that would clearly add cost over the usual build and other assumptions – for this high level purpose of viability in planning, considered at plan making stage.

3.1.39 Having noted that it is appropriate to make an extra over cost allowance for carbon reduction improvements at this stage, and with the Council's net zero carbon aims key to its approach, we also need to be mindful that this is an assumption made at a point in time. Taking this approach means that no allowance is made for reducing costs over time – through rapidly improving awareness and technologies, expanding markets and essentially this becoming the norm as it will need to in any event over a relatively short period of time.

3.1.40 On this basis, and although additional build costs estimates and views related to carbon reduction and zero carbon developments vary greatly (we have seen ideas and opinions across a range approximately +1% to +15% overall) at Stage 1 our viability indications were generated using +4% on the market home and +7% on the affordable, reflecting the Council's higher aspirations for the latter within its emerging LPR approach at the time. For the Stage 2 updated findings as discussed later, we used +5% across all housing. For the assessment purpose, it is reasonable to consider both an aim of achieving this via the most cost effective route possible and the long term nature of the proposed LPR housing delivery overall – period to 2039. Looking at this another way, it is not likely to be appropriate to add assumed costs that are very high, possibly for good reasons on a now / snapshot based view only, in this scenario. As with varying economic conditions, the Plan context, and not only the current situation or that likely in the very early years of delivery, is going to be relevant. It also appears relevant to consider that currently we are adding % allowances to build costs at a point when the based cost have increased considerably.

Accessible homes

3.1.41 Although not typically of the same importance as the above policy areas (affordable housing and climate change response) in considering viability at this level, we noted at our Stage 1 that there were no specific WBC requirements for Building Regulations optional higher standards Part M4(2) and (3) provision (possible to implement with evidence of needs and viability).

3.1.42 This position was considered positive for the viability overview, compared with most other assessments we run where Councils have generally been looking to provide at least some homes to the enhanced accessibility standards.

3.1.43 The Council's emerging policy position has changed, however, so that as noted in 2.14 above and Appendix I, additional costs have been allowed for in the further updating run at Stage 2. The allowance reflecting M4(2) provision are not considered likely to be prohibitive for viability and we have noted that this requirement has now come into national standards.

3.1.44 However, although the larger footprints could be designed in at early feasibility stage, the current view of costs associated with M4(3) provision is such that in our view this could have an impact which not all schemes may be able to bear. This could impact more on some schemes on PDL in particular, where there tend to be more constraints.

3.1.45 With the costs assumptions included in the viability testing we would not rule out this being possible to support but in our view this is probably an example of a policy that may need to be operated with some flexibility in mind. This is a theme that we will come to below, in rounding up on our Stage 1 findings. We will then go on to summarise the findings at that stage in respect of the initial review work on N E Thatcham (SP 17).

Stage 1 – Overview

3.1.46 Overviewing all of this as at Stage 1 (spring 2021) suggested in our experience that with our key point of differential needed within the AH policy (lowered % applicable to PDL sites) were progressed, and a practical approach were to be taken to other policy areas that might prove unworkable to a full extent if applied very rigidly, then overall the

Council should have a policy approach that drives hard on sustainable development but should still leave developments able to come forward viably.

3.1.47 On this theme of potential flexibility dependent upon circumstances, with additional costs being very significant on a current view basis (rather than allowing for reducing extra over cost in time), we considered that there may need to be some level of transition to developments being able to comply fully with the ambitious but very positive requirements of WBC. This is particularly when these are viewed together and especially so in a PDL development context. The Stage 1 indications were that for development of GF, there is a significantly higher potential to support the collective policy requirements, however.

3.1.48 Although as a further extended part of Stage 1 discussions with the council's officers we also explored different combinations of approaches to potential policy – looking beneath 20% AH on some PDL site types and / or reducing / removing elements supporting the road to zero carbon agenda – none of these permutations were considered suitable overall in exploring between scheme viability and the community needs sides of the equation. In other words, it looked as though following a wider approach of seeking to more fully reflect the challenging viability scenarios (as are likely to be seen in some circumstances) would mean not doing enough more generally across the LPR delivery for the carbon reduction objectives, affordable housing or planning infrastructure provision. Accordingly, and although probably needing consideration at DM stage in some cases, with those positions not pursued directly in policy, the further extended sensitivity results using Stage 1 assumptions are not included in this reporting.

3.1.49 Again, as noted, the Council has been gathering a wide range of other evidence and has to address the needs of local communities as far as possible. Viability is one facet and WBC will need to consider this as part of the mix overall, in deciding upon a balance between the viability pressures and addressing the needs relating to climate change, infrastructure, affordable homes and other facilities and amenities.

3.1.50 Below we will consider to what extent these earlier findings carry through to Stage 2 – as at Autumn 2022. First, we touch briefly upon the preliminary findings relating to the context for the Council's adopted CIL (charging rates as indexed) for WBC's wider information and outline the Stage 1 findings in respect of the N E Thatcham early stage review work (SP 17).

CIL charging scope preliminary review – context

3.1.51 Following on from the above, with the cumulative costs assumed as outlined we were not able to point to any likely scope to review CIL upwards for residential development uses at this stage, alongside the emerging proposed policy set.

3.1.52 We found that, if anything, the costs burden (with the adopted CIL as now indexed) looks full on at least some PDL schemes, and especially flatted developments. With the WBC CIL set up at it is, the charging would apply to strategic sites too, whereas later approaches to CIL charging schedules elsewhere (and including in DSP's experience) have often set differential rates for such sites (nil or low rate bases) reflecting both the scale and nature of site specific development mitigation and infrastructure, and the direct linkage with its provision that the s106 planning obligations route usually more readily creates. However, this does not mean that CIL is inappropriate on such sites per se. These are areas that might be looked at in the event of a CIL review.

3.1.53 Subject to further review, however, the findings could indicate some potential scope to explore any more CIL headroom on smaller GF developments that do not have the same on-site / specifically related development mitigation and infrastructure burdens. If explored further, consideration would also need to be given to how to clearly and successfully define this and how to set up any confirmed differential to reflect the viability variance - for the purpose of any revised schedule. Zoning / mapping would be needed for any confirmed approach looking to that as a basis, we think, as it remains uncertain that GF / PDL site type is in itself a secure basis for a differential even though viability is usually shown to vary between the two.

3.1.54 We also noted at this stage that in some recent studies we had been finding a need to recommend prospective charging authorities to consider lower or nil CIL rating for extra care developments (more consistent with typical C2 CIL findings) while retirement living / sheltered housing could usually be viewed as part of the spectrum of (C3) market housing for CIL purposes. We have noted that developments doing as much as possible to contribute to infrastructure provision as well as supporting affordable housing etc. is also a key objective of the Council.

3.1.55 In considering the Stage 2 findings, below, we will include brief commentary on what the final phase (Autumn 2022) review work has indicated to date on the likely continuing CIL charging scope of commercial / non-residential developments. Again, as preliminary further information for the Council.

Review of Stage 1 results – N E Thatcham (SP17) initial testing

3.1.56 This aspect of the review is as per Appendix I Tables A, B and D together with the results table at the end of Appendix II – Table 1p. Since Table 1p follows a different format to the display of the typologies results we will outline this first.

3.1.57 The smaller upper table provides an overview of some of the key assumptions applied, noting that the time that this review considered the then proposed c. 2,500 dwellings at this location.

3.1.58 The benchmark land value level (BLV rate £/ha) applied at £250,000/ha (equivalent to around £100,000/acre) to the gross (overall / total) assumed land area (172.4 ha or about 426 acres) produces the BLV figure assumed at £43.1m for the purpose of this exercise.

3.1.59 At this stage, we selected a base market sales value level (VL) – overall – at £4,000/m^2 (approx. £372/ft^2) and also ran these early stage tests either side of that - at £3,750/m^2 (approx. £348/ft^2) and £4,250/m^2 (approx. £395/ ft^2). Those VLs informing each scenario test - lower at VL1, base at VL2 and higher test at VL3 (VLs as used within the wider range of typology tests as described above) are shown across the top of the results tables.

3.1.60 There are two sections to the results, with each figure in the white (unshaded) table areas representing the RLV (residual land value) outcome of the appraisal that uses the stated VL assumption.

3.1.61 The lower, colour shaded table areas show the calculation of the RLV minus the stated BLV of £43.1m as per 3.1.58 above. The second (lower) set of coloured table section figures show the RLV surplus (or deficit) level indicated based on this; assumptions leading to an indicative surplus (i.e. viable scenario) in green and those leading to an indicative deficit (i.e. indicated non-viable scenario) where the figures are within the pink / red shaded sections.

3.1.62 The dual display provided shows this in the upper set on the basis or total £ surplus or deficit indicated. The lower part of Table 1p then shows this picture converted into a RLV £/ha rate and then a £/dwelling surplus or deficit for WBC's information.

3.1.63 There is an additional dimension of sensitivity testing shown here too. Showing in the left side column the Argus Developer software has been used to further sensitivity test the potential influence of rising or falling build costs from the assumed base assumption (base as at Appendix I Table D). At this stage we ran this at 1% increments both ways (build costs moving up and down by those test steps) simply to illustrate how this could well also have an influence alongside changing values as the time moves on and the market changes. The larger bold, boxed figures appearing in the centre of each table section represent the outcome indicated by the base assumptions set – i.e. as tested as VL2 with base build cost assumption (shown as 0% adjustment to base build cost).

3.1.64 So, the first bold (larger boxed) figure of £41.75m is the appraisal RLV £ sum (total) produced by the base testing assumptions used at this stage – assumptions all as per Appendix I Table D. The second one is that total converted into a total surplus (or deficit) £ sum (indicated at £2.65m when applying the base assumptions set).

3.1.65 Moving to the lower table section, the next bold figure is the result of the indicated RLV total (in this case c. £45.75m) divided by the assumed total (gross) land area, giving an RLV £/ha in this instance at approximately £265,000/ha (figure shown is £265,381/ha) which is above the BLV of £250,000/ha and therefore indicated as viable with all assumptions made, at 40% AH. The final bold figure simply converts the indicated total surplus sum (the c. £2.65m base) into a per dwelling indicative surplus (in this instance £1,061/dwelling surplus after making all assumptions as set out at Appendix I Table D.

3.1.66 Overall, the scheme on this basis i.e. using all assumptions stated and at base level was indicated to be viable at the 40% AH (as proposed in emerging policy on GF sites), although arguably relatively marginally so. However, this included all the available cost estimates and assumptions on infrastructure and s.106 along with the CIL cost at the prevailing (as indexed rate). Accordingly, viewed in that context this was not regarded as an insecure viability prospect. Further on this, while the additional sensitivity testing at this stage indicated how rising costs might affect outcomes and ultimately what the scheme of a scheme like this would be able to support when reviewed later with full information available, it also showed how increasing sales values have the potential to support (balance out) or outweigh the effect of rising costs - green areas of the tables to consider (surplus indications), as well as red (deficits). Again, the long run context of the LPR needs to be considered rather than just the short term, with a such a scheme delivered over a period of many years too. To be clear, this was all at Stage 1 based on an envisaged 2,500 dwellings with the level of infrastructure assumed as per the masterplanning work carried out by others as part of the wide ranging overall consideration of this by WBC.

3.1.67 Overall, these preliminary indications on N E Thatcham are to be considered in the context noted above as regards changing circumstances and the long term of both the LPR and delivery on such a site. In practice, the viability will be a dynamic aspect of the many changing influences that could be found.

3.2 Stage 2 review – Autumn 2022

3.2.1 In this overview of the latest updating viability assessment work completed during the Autumn of 2022 first we will look at the typologies as assessed again using assumptions updated as per Appendix I Table C.

3.2.2 The results of this part of the exercise are included in Appendix III – Tables 2a to 2f. Reflecting the same assessment approach continued and revisited using updated assumptions as appropriate, these tables follow the same display format used at Stage 1 (as per Appendix II) and so their use is again as described at 3.1.3 to 3.1.8 above. Consistent with Appendix I Table C, it also is worth noting that for Stage 2 an 8th VL was added, making the upper end of the same overall Stage 1 testing range more fine grained (as per 2.7.8 above).

3.2.3 For the revisited typologies, first we consider here a 100 mixed dwellings as envisaged on an urban PDL site. This could at a fringe of town centre or wider urban/suburban location. We then look at a mixed (houses and flats) scheme envisaged on a greenfield (GF) site, but which could also occur in a suburban or smaller settlement location (and as an alternative on a PDL site – previously developed land i.e. brownfield). Finally on the typologies reviewing, given the LPR's acknowledgement of the role of and need for older persons' housing, we have also revisited the 30 sheltered / retirement living dwellings (apartments) testing. The following commentary picks up on the latest findings from this exercise, taking the above updated typology based tests in turn. In looking at this scale of scheme, for its type we note that this is around or not much above the minimum level usually seen and usually considered viable in terms of critical size for communal areas and services. As with the other updating, the assumption and appraisals reflect a point in time too, with the BCIS sourced build cost assumption having risen significantly since the Stage 1 information gathering.

3.2.4 There are two tables representing each typology. The first based on developer profit at 17.5% GDV (the base assumption over the LPR as a whole and reflecting mid-range view as per the PPG – see 2.12 / Figure 8 above and Appendix I) and the second set of testing with 20% GDV assumed. In terms of the LPR overview the latter is a higher sensitivity test but the secondary purpose of this is to acknowledge that at the point of concluding this assessment there is undoubtedly currently a higher risk environment for development than that seen typically or earlier on in the study period.

100 mixed dwellings – PDL (higher density) - Appendix III Tables 2a and 2c

3.2.5 This has been a focus at Stage 2 owing to the earlier (Stage 1 as above) mixed findings on the viability indications for PDL development compared with GF generally. We have noted to date that particularly with the cumulative policy costs in mind, there needs to be a substantial differential (reduced AH% requirement) considered by WBC to reflect to a reasonable extent a difference between the affordable housing expectations on PDL compared with the levels supportable on GF sites. We will focus here on the lower CIL charging rate indications, reflecting a majority of development coming forward in West Berks. However, it can also be seen that where applicable, the higher CIL rate itself does not alter the tone of results and particularly when viewing bearing in mind that higher sales values (VLs) would usually be available to support viability in the relevant areas (AONB and East Kennet Valley mapped CIL zones).

3.2.6 With the LPR overview profit level the results, Table 2a 40% AH is indicated to need the support of VL4 to 6 to produce RLVs that reach the PDL BLVs range approximately £1-

2m/ha. With 30% AH similar results are reached at lower VLs – VL2/3 to 4/5. 20% AH increases the RLVs such that VLs 2 to 3 indicate similar outcomes.

3.2.7 Then looking at the highest BLV test at £3m/ha (although also acknowledging as noted above that land values could be higher still in town centre and potentially other circumstances) the 40% AH level suggests VL8 values are needed. This reduces to VL6 to 7 needed to support 30% AH and VL5 supporting the 20% AH tests.

3.2.8 Reviewing the 20% profit outcomes (Table 2c) reflecting further sensitivity testing of potential higher development risk such as may also relevant in current / shorter term circumstances, the viability indications all step down as would be expected (higher profit acts as more development cost). In this case the highest BLV is not reached even with the highest VL test (8). This is however reached at VL7 with 30% AH and at VL5 to 6 with 20% AH. Overall, the upper end profit sensitivity tests (at 20% GDV) provide information on the potential impact of such an assumption, with the effect seen always as a reduction in RLV since the profit element is a necessary risk reward and therefore regarded as a development cost.

3.2.9 Bearing in mind that, as was seen at Stage 1, a higher density all apartments scenario on PDL with realistic VL assumptions for West Berkshire has been seen to produce significantly lower still viability indications (see Appendix II Table 1n for example) the latest exercise continues to show the significant GF vs PDL viability differential, overall. All sites are different and there will be a great variety of these and related outcomes in practice as a result. In the circumstances, with the current economic climate (and short term future in mind as at Autumn 2022) our suggestion remains for WBC to consider the parameters 20-30% AH on PDL sites; weighed up alongside the needs picture.

3.2.10 Looking at this practically, in viability terms again it appears that some PDL sites may be able to support AH at levels up to rather than necessarily within these parameters (20-30%). This further viability pressure on typically less viable sites is expected alongside other policies and particularly in the short term while there is a coming together of likely challenging economic circumstances (resulting in property market conditions and development activity being less buoyant and resilient) and policy costs that are increasing in significant steps (nationally as well as locally).

Related findings - generally

3.2.11 The consideration of this key finding on PDL cannot be separated from our more general findings and suggestions as are offered below. These are mentioned here because although they may be more generally applicable in our view they will be most relevant in PDL scenarios. These are general points that are unlikely to need revisiting in detail later in the report. We will go on to comment if other latest testing scenarios suggest otherwise, however.

3.2.12 While there is a difference between the longer LPR timeline strategic overview and the likely short term challenges of potentially the next few years (hence AH policy %s not suggested at lower levels still) the findings continue to point to a significant policy differential based on broad site type as has been discussed. Beyond this, it is not thought necessary or appropriate to make policy more complex and thus its expectations less clear to stakeholders planning developments.

3.2.13 Extending this point, and again with a difference between the LPR overview (e.g. as economic circumstances pick up and currently viewed extra over policy costs reduce) it appears likely that WBC will probably need to consider some elements of potential flexibility over the operation of policy aims in the short term on matters such as the:

- AH content and perhaps especially its tenure (particularly the scope of social rent that may be deliverable) – SP19.
- exact scope or mode of achievable carbon reduction measures on some schemes – SP5, DM4.
- exact scope or mode of achievable housing accessibility measures on some schemes (Building regulations enhanced standards Part M4 – generally, but particularly perhaps the M4(3) scope – SP18.

3.2.14 This, however, this is not to undermine the LPR overview that the policy aims should be supportable and reasonably placed over the longer run that is relevant. The Council has to consider the sustainability of development, the affordable housing and other community needs in balance with viability. It is able to consider how much weight to give to viability at decision making stage as per the PPG. The purpose of viability in planning is to inform rather than constrain sustainable development and in doing so to enable the optimising of planning obligations to be considered.

3.2.15 Different appraisal inputs could result in different viability indications so that for example a varied dwelling number or mix, assumed density or other alternative assumptions could be expected to have an influence. The assessment does not amount to an options appraisal for sites or similar, whereas prospective developers can be expected to work up the most viable scenarios that will be able to address the individual site characteristics and requirements as far as possible.

3.2.16 It is possible also to consider the likely effect of intermediate levels of AH or other assumptions through interpolation – i.e. viewing between two results points, if relevant. Overall, the sensitivity testing information could also be used to broadly assess different combinations of appraisal inputs (assumptions) that would support similar outcomes or which might be viewed on a "trade-off" type basis if needs be in particular instances.

3.2.17 The significant viability impact of the affordable housing relates to its development cost being broadly the same as market housing while it generates revenue (sale value) at a very much lower level – often around half (50%) of market value when a blend of AH tenure is taken into account overall. This is also behind the affordable housing generally needing to be considered (and potentially not being provided at highest levels within a targeted range) when it comes to considering support of a mix of policy objectives within an overall balance. Aside from the nationally required First Homes now allowed for as a base assumption in Stage 2, the AH policy as impacts viability is entirely locally set. In balancing up, the cost of providing the AH is such that some adjustment in its provision can often "pay for" other less costly policy objectives in their entirety, and collectively. This has been both an unavoidable and important factor in the long-running two-way dialogue with the Council, feeding into and out of the viability assessment work; between this and the Plan's development progression.

3.2.18 DSP notes that this has been a common factor across such assessments undertaken in recent years, and continues to be. The dynamics described here are by no means unique to West Berkshire. In our extensive experience of these matters, they are typical considerations (albeit at varying policy levels etc. according to local characteristics and at this point in time exacerbated by circumstances in terms of short term effects).

3.2.19 Although clearly unhelpful for affordability within the market, a significant positive viability influence is seen to come from increasing market housing sale values which are a key driver of the viability scope and variations between locations and sites / schemes in some circumstances. The trend of increasing viability indications and consistency of positive outcomes with the higher tested cost variables shows that the achievable value level (VL tested) could be a key influence. This picture, and how it may move in the coming period, is difficult to assess at the present time. However the results indications are largely positive overall, with values assumed that are considered likely to be achievable for high quality new development.

100 mixed dwellings – GF (lower density) - Appendix III Tables 2b and 2d

3.2.20 With the significantly more positive indications seen from these updated tests, we will not consider the results in detail. These findings reflect relevant greenfield BLVs (EUV+ at £250,000 to £500,000/ha; higher end of this range for smaller site releases up to or potentially beyond around this level of development as opposed to bulk land release for larger scale schemes) so that the RVLs typically represent much greater headroom for planning policy costs and obligations.

3.2.21 At the base 17.5% GDV profit, 40% AH with the other policy costs fully appraised is supported by values at VL3 to 4 (Table 2b).

3.2.22 Tested at 20% profit (Table 2d) this is broadly maintained in the lower CIL zone, and maintained with slightly higher values (VL4+) as can reasonably be expected in the higher CIL zone.

3.2.23 Where the development mitigation / infrastructure costs grow increase from assumed levels then the general findings noted above may again apply (see 3.2.1 to 3.2.19 above). Balanced with this, however, we can also see how higher values – as may well be achieved – support scope for schemes to bear more than the appraised costs if that becomes relevant either in particular instances (e.g. specific schemes / abnormal costs) or more widely.

Sheltered housing / retirement living - 30 apartments – Appendix III Tables 2e and 2f

3.2.24 This typology was revisited at Stage 2, in the context noted at 3.2.3 above.

3.2.25 The achievable values for this typology were found to be difficult to judge at the time of the further updating – there were very few current or sufficiently recent examples to draw upon for sales values assumptions. As an exploratory approach again using the same principles these were sensitivity tested across a VL range going from a lower/mid-level for general market developments through to added higher VL tests up to £6,250/m^2 (approx. £580/ft^2) – highest test represent by the noted VL11.

3.2.26 With uncertainty on this, but current values expected to be beneath those upper test levels at perhaps VLs 6 to 9 in at least some cases, the results indicate potentially challenging viability when it comes to including more than around 20% AH equivalent (noting that the AH contributions from such schemes have usually been financial in-lieu of on-site provision). In this instance, from experience of site specific (DM stage) appraisals often use 20% GDV profit owing to the increased sales risk that is frequently noted. This means that in this case, our experience is such that the Table 2f results should probably be considered as more than potential sensitivities reflecting short term uncertainty and higher than typical risk through the development cycles overall. This reinforces the finding that the achievable AH level is unlikely to exceed the 20% or so noted here, viewed based on available information and experience at this time.

3.2.27 In making its overview however, the Council is able to consider that with these schemes usually coming forward on PDL, which does reinforce the above, they would usually attract lower AH% expectations - consistent with the DSP suggested approach to other PDL scheme proposals with which they would be competing for sites. Also worth noting is that should this type of development come forward as part of a larger GF site then the applicable BLV would be considerably lower and the results indicate that viability with some AH could be achieved on lower value schemes that noted above – potentially at VL7 to 8 (lower with 17.5% GDV profit).

3.2.28 Overall, on this development type it may be appropriate for the Council to consider the likely frequency of such schemes and whether that justifies a particular approach. We offer these comments bearing in mind that outcomes seem likely to vary to some extent. For the Council's consideration, we suggest that if there were a little more flexibility built into to the draft LPR policy wording (proposed SP19 scope as understood by DSP at the time of writing) - similar to that set to be provided for extra care housing schemes (which we often see developed on a broadly similar format) - then this may assist in respect of any potential viability issues. In our view this need not dilute too much the overall expectations / LPR approach and starting point.

N E Thatcham – Proposed strategic site allocation (SP17) Stage 2 update
– Appendix III Tables 2g to 2j

3.2.29 As noted in sections 1 and 2 above, these appraisals were revisited in Autumn 2022 based on a significantly lowered assumed scale of development at c. 1,500 dwellings. The revised assumptions have been set out at Table E of Appendix I. We have noted that it has been necessary to conduct this exercise using information as far as available from WBC (and with the promoters unable to add further at this still very early stage in terms of site viability although having usefully commented on assumptions earlier in the process). Accordingly, this remains a preliminary look at the viability prospects based on high level assumptions and in some cases adapted from those in use for the earlier c. 2,500 dwellings iteration.

3.2.30 Continuing the preliminary review and although uncertain as acknowledged, the BLV assumption at Stage 2 has been left unchanged – as per the £41.3m shown at the top of the results tables (see 2.5 and 3.1.58 above on this).

3.2.31 The results display follows the same format and is intended to be used to provide indications in the same way that the 2021 version with Appendix II did. Accordingly, the guide to this will not be repeated here (see 3.1.58 to 3.1.65 above for the principles).

3.2.32 There are however two aspects of detail (updating) to note. The first is that the 2022 version uses a base VL assumption at £4,750/m^2 (market sales values at approx. £441/ft^2) and tests have been run either side of that at £4,500/m^2 (approx. £418/ft^2) and £5,000/m^2 (approx. £465/ft^2). The second updated feature of the results display is that the construction costs further sensitivities have been run at wider steps up to 20% higher and lower than the central, base assumption taken from latest available information. This reflects the volatility that has been seen recently, with costs having risen steeply (as values have also done). All in the context noted above and for wider information for WBC bearing in mind both the current economic uncertainties and the longer / wider LPR context overall. The aim is to help with the consideration of the potential influence of changing values and costs; but noting that we cannot project and many other iterations could be seen to play out. It should also be noted again that even apparently small adjustments to assumptions (used as appraisal inputs) can make a large difference to the indications. At this early stage, it is not unusual to see a wide range of potential indications or figures that move around a lot. As more information becomes available in due course, if appropriate it would be possible to revisit the viability on this and potentially to do so over multiple stages.

3.2.33 Appraised on this basis, the current stage viability indication appears clearly and relatively healthily in surplus when tested at 17.5% GDV profit with 40% AH and all policy costs applied as assumed (Table 2g). This indicates some potential scope to bear costs beyond those assumed or to be potentially workable still with lower values than the base assumption. The £4,500/m^2 sales test is shown to be only marginally unviable (indicated deficit of only -£2.6m in the context of the very large figures involved).

3.2.34 As with the trends seen from the typologies reviewing, the potential very positive effect of rising values (in LPR context) is shown again. So is the potential effect of rising costs, however, unless these are also accompanied by values growth. As with the equivalent Stage 1 results set, the green and pink / red table shading gives a feel for the potential upside and downside areas respectively of this likely variable picture over time.

3.2.35 While again as expected the added cost of the 20% profit test pulls all indications down and has the effect of roughly halving the indicated potential surplus in the central (base) scenario, that indication remains clearly above the BLV level (again noting this to be considered high based on the previously assumed land take). The indication falls only to a marginal deficit level with construction costs increased by 5% although again falls away more markedly with significantly higher costs or lower values assumed.

3.2.36 The 30% AH sensitivity tests provide further information for WBC should viability come under greater pressure than currently envisaged, but then indicate significantly more scope for values to be lower and / or costs to rise. In our view this again primarily supports the SP17 and SP19 objectives in viability terms but also shows again that even with increased viability pressure the scheme should be able to support AH provision at least these tested parameters and to 40% policy being suitable. Although acknowledged as preliminary still at this stage, prior to worked up site proposals, the findings indicate development here certainly to have reasonable viability prospects in terms of the context of the NPPF and the approach to viability in planning within the PPG.

3.2.37 As at Stage 1 the development costs assumptions include the WBC CIL at the indexed rate. As a general comment for now, should the CIL be reviewed then this may be an aspect of the charging schedule to consider for this and potentially any other relevant strategic sites that carry their own significant development mitigation / infrastructure provision.

Commercial / non-residential typologies review – Appendix IV Tables 3a to 3e

3.2.38 As part of Stage 2 these further development typologies were considered as noted within section 2 above and using assumptions set out at Appendix I Table F.

3.2.39 The assumptions used and appraisals run are consistent with those we use in CIL viability assessments which then in some instances have also provided additional information for Local Plan / Plan review viability context.

3.2.40 DSP understands that currently WBC is not directly considering a review of its CIL charging schedule, pending the settling of the direction of the LPR for submission and also given the still awaited further Government announcements on any remaining proposals to overhaul or replace the CIL with another form of Infrastructure Levy (IL). This may be the subject of further assessment work building on this study in due course – all details unconfirmed and not part of our current dialogue with WBC.

3.2.41 Therefore, this part of the exercise has been included at this stage to provide further information for WBC with two aspects in mind:

- Considering the potential influence of additional development cost on the viability of wider scheme types (non-residential) and particularly with emerging LPR Policy DM4 in mind – 'Building Sustainable Homes and Businesses'. As per the context noted in section 1 and approach noted in section 2 of this report.

- Preliminary information towards considering review of the WBC CIL should that become relevant (ready to potentially revisit and further update / build upon); and in the meantime taking a look at whether (in addition to the residential rates as discussed above) the indexed charging rates are still broadly appropriate on these other forms of development. Currently the charging schedule nil rates (sets a £0/m^2 CIL charge) on all forms of development except any new qualifying retail space (indexed charge £162.11/m^2 as per 1.3.6 above).

3.2.42 As we found on considering viability for the adopted CIL, and needing to keep away from the margins of viability in making an assessment, viewed at a strategic level in this way there are few forms of development that are shown to be clearly and consistently viable. This reflects an often difficult relationship between development costs and values in non-prime locations for particular uses. The recent high level work shows that higher rents and / or more positive (lower) investment yield assumptions would need to be used to show viable schemes in most cases. This is not unusual to West Berkshire and it helps show why there are relatively few speculative development schemes.

3.2.43 The Appendix IV viability indications show that larger format retail developments (e.g. foodstores and retail warehousing) will be likely to continue to be viable and come forward where demand and planning policies permit.

3.2.44 From our information review it has been noted that cost estimates around carbon reduction / zero carbon developments for non-residential developments are not widely available and vary greatly, including by source and scheme type. At this stage we have considered that +5% construction cost is a reasonable assumption to use, given that we have seen some estimates both within this and much higher depending on what is assumed. This assumption for example significantly exceeds extra over cost that is likely to be involved in many cases in reaching a standard such as BREEAM Excellent or equivalent.

3.2.45 However, we acknowledge that costs could be higher or significantly higher in some cases, with the WBC zero carbon objectives in mind. Looking ahead though, and as per residential, it appears reasonable to consider that the level of extra over costs that is relevant will fall over time. The pace of change in these areas both needs to and should increase.

3.2.46 The main point we can draw from this is that the related costs at levels likely to be relevant appear unlikely to switch a viable scheme into non-viability, much as it can be seen that the adopted CIL is unlikely to do on a viable retail scheme. The trial CIL rates testing approach can also be used as a proxy for considering the effect of other added scheme cost at varying £/m^2 levels (up to £300/m^2 at £25/m^2 intervals), which levels can also be compared with the build cost assumptions shown in Appendix I (Table F).

3.2.47 All in all, the indications suggest that neither the adopted CIL or significantly increased sustainable development expectations would be likely in themselves to unduly affect the viability of schemes that are considered to have the demand and viability to drive their progression.

3.2.48 However, while the indications are that the current CIL rates (as indexed) are indicated to remain broadly suitable and have been taken by the indexing to around the levels that would likely be appropriate, there may be an issue if inflexible zero carbon or other initially costly policies came in alongside the CIL that takes a fixed top-slice from relevant retail developments.

3.2.49 We also offer a slightly separate point that although new developments wholly triggering the CIL (as opposed to re-purposing or part using existing premises) may well be infrequent, on any review of its CIL it may in any event be appropriate for WBC to consider its application to smaller retail developments particularly, and especially if the economic climate remains similar to existing at any review point. Having said this, on the demand aspect as above (i.e. developments will not be viable and progressed anyway if demand does not exist) it appears unlikely that the CIL that is in place will have been or will be unduly affecting the prospects for new development of this type. The same is likely to the case in respect of higher development standards. However, as above, the most a CIL charging authority could do to reflect viability after significant policy costs are added would be to nil-rate (or nominal rate) affected uses where the assessment shows inherently poor viability prospects. The council will be able to consider its monitoring and assessed development needs information to consider further the local context on development delivered and any planned / in the pipeline.

3.2.50 Although the appetite for new development of a wide range of types may be affected in the short term with economic conditions as they are, again there is the wider LPR context to consider – delivery to 2039 through varying circumstances.

3.2.51 There is also a growing recognition in the commercial property market that greater sustainability and carbon reduction goes hand in hand with lower running costs and so contributes to improved business efficiency. This will be increasingly reflected in the setting and maintaining of optimum rents and values compared with those on less efficient properties, with more emphasis placed upon this by occupiers and investors. If anything, this appears already to have been gaining more traction in the commercial sector where it directly impacts business models, than it has done so far in much of the residential market (although as noted in the commentary above we expect that will also be changing rapidly).

Stage 2 – Overview (latest update) – Concluding

3.2.52 This has been a very challenging time at which to consider development viability – as it is challenging time for development activity at the point we are concluding this assessment – over the Autumn of 2022 and using assumptions as mostly gathered to September 2022, some slightly later.

3.2.53 With a need to consider recent and current circumstances but above all a requirement to look across the LPR period (to 2039) overall, this assessment has been done at a point in time but also reflects on this more strategic, longer term relevance as part of the LPR overview. This is consistent with the application of viability in planning at plan making stage, as per the NPPF and reflecting the PPG.

3.2.54 We have acknowledged that in making a high level overview consistent with the plan making stage the costs allowances for carbon reduction and particularly zero carbon may prove to be underestimates in some cases when taking a now or short term view (next few years potentially). However, again we note that available information and assumptions tend to be on a snapshot basis whereas during the relatively long term life and strategic approach of the LPR, current estimates of extra over costs can reasonably be expected to reduce very significantly, as higher standards quickly become the norm and other matters develop with new techniques and growing knowledge. This commentary is considered relevant to both residential and other development use types.

3.2.55 We expect also that multi-purpose solutions to supporting measures for achieving biodiversity and other elements of the landscaping, open space, environmental and ecological requirements will be developed too, whereas currently we are taking more of an individual costs assumptions approach to some of these elements. All in all, within the nature of viability in planning it is appropriate to consider how development can and will come forward, rather than only how it might not be able to comply with reasonable requirements.

3.2.56 The same context applies to other policy related matters proposed by WBC, including on accessible homes, although latest national requirements are now set to mean that universal application of Building regulations Part M4(2) will become standard, meaning that WBC's additional policy becomes the M4(3) element proposed and which we have acknowledged as costly to fully provide (within LPR proposed SP18 scope).

3.2.57 With the other policies and requirements applied, we have continued to find that in the wider LPR context a 40% AH policy on greenfield (GF) developments should prove suitable as a basis overall.

3.2.58 However, with mixed results generated but typically lower viability on PDL sites, a significant differential reflecting this has been strongly and consistently suggested for WBC's consideration.

3.2.59 The positioning of this suggested AH % policy differential is a matter for the Council on reflecting upon its wider information. That context includes considering the balance with the need to do all possible to meet affordable housing needs and the nature of the proposed land supply (site types) supporting the delivery, particularly the site types that are most relevant to the LPR overall.

3.2.60 Apartments based development is not now expected to be such a significant feature (as compared with what has come forward in the fairly recent past in Newbury for example). The planned delivery overall may no longer be influenced by the types of PDL developments that we now find typically support viability outcomes that are most frequently amongst the poorest, usually offering the least scope to support affordable housing (up to 20% maximum say) alongside other planning policy cost and infrastructure.

3.2.61 Therefore, with more of a mix amongst the PDL based scenarios alongside the significant planned role for GF developments, it may be appropriate for the Council to consider the 20-30% (max 30%) AH policy parameters that we are putting forward here for a range of PDL schemes. We have acknowledged that on PDL we expect 30% AH involves viewing this as more of a target, again given the mixed findings and noting the expanded policy scope (and related increased development cost, as viewed now) that is set to come in with the LPR. To further explain this, looking only at viability or only short term, were those relevant positions, we would be inclined to suggest an AH headline level at maximum 20% (target) on PDL.

3.2.62 On the whole, taking the wider LPR context rather than only the short term, we are able to support the viability prospects related to the policy directions and nature of development coming forward and. All in all, we consider that approach proposed by the Council should be capable of supporting viable developments.

3.2.63 This is upon reviewing the draft policies as included within our assessment scoping and on the basis of the zero carbon objectives as will influence individual sites as they come forward; both positively (for sustainability) and negatively (impacting viability in the short term). The policy proposals have been tested cumulatively and the nature of the development proposed is considered able to come forward viably, including on the proposed strategic allocation at N E Thatcham (emerging LPR Policy SP17).

3.2.64 However, it is also appropriate in our view to consider that in the short term (likely next few years) the increased development costs related to local as well as national policy requirements will be impacting at a time when the economic circumstances are likely to be very difficult. So, it is likely that there will be a coming together of aspects that will be challenging for viability in at least some cases. This will be likely to influence matters across the board, but the assessment suggests this will be at its most difficult on some PDL sites. These are where more frequently there will be inherently less or very limited viability headroom owing to higher site values (BLVs based on existing use plus as per the PPG) in combination with often higher development costs.

3.2.65 With this context set out we have provided further commentary extending this point about the difference between the necessary LPR overview (e.g. including reflecting matters as economic circumstances pick up and currently viewed extra over policy costs reduce) and the immediate period / short term. Similarly, although build costs are continuing to rise, there are some indications that this pressure may be beginning to ease and this can be expected to happen in the event of a decline in demand.

3.2.66 Nevertheless, it appears likely that WBC will probably need to consider some elements of potential flexibility over the operation of policy aims in the short term (next few years possibly while the climate change response gears up perhaps and particularly while immediate circumstances are challenging). This would be on matters such as the:

- AH content of schemes and perhaps especially its tenure (particularly the scope of social rent that may be deliverable) – SP19.
- exact scope or mode of achievable carbon reduction measures on some schemes – of all types – SP5, DM4.
- exact scope or mode of achievable housing accessibility measures on some schemes (Building regulations enhanced standards Part M4 – generally, but particularly perhaps the M4(3) scope – SP18.
- way in which these and other matters come together – including in some potentially challenging circumstances as may be encountered.

3.2.67 These points are made in earlier. We also reiterate here that this is not to undermine the relevant LPR overview that the policy aims should be supportable and reasonably placed over the longer run. The Council has to consider the sustainability of development, the affordable housing and other community needs in balance with viability. It is able to consider how much weight to give to viability at decision making stage as per the PPG. The purpose of viability in planning is to inform rather than constrain sustainable development and in doing so to enable the optimising of planning obligations to be considered.

3.2.68 As far as we are aware, the LPR policies are developing so as to be constructed with some appropriate flexibility in view, but with that potentially exercisable once all compliance has been fully explored and tested. So that the bar would be kept high in terms of expectations as the starting point and that clarity of approach to those is provided.

3.2.69 Very soon it should be possible to assess whether more energy efficient homes and business premises attract higher values. There have been suggestions of this for some time, but mostly anecdotally that we have seen and so with data on this awaited. We have noted that this is being seen already in some commercial sectors, but we expect it to flow through into residential. That along with the cost efficiencies anticipated over time (demand leading to bigger markets, economies of scale, improved designs and technologies) may well help further to balance out what will undoubtedly be some initial viability pressures. Nevertheless, it seems very likely that there will be some form of transition to make and probably some time taken with that.

3.2.70 In summary on other matters covered we have found through our preliminary work on commercial / non-residential scheme typologies reviewing that there is unlikely to be viability sufficient to extend the scope of CIL charging. If anything, it looks possible that although new developments will be limited, a revisit of the approach to charging CIL on retail developments (and perhaps especially smaller convenience stores / comparison goods based shopping units), could be appropriate. This would need to be considered further, in the context of the objectives of the LPR on 'Building Sustainable Homes and Businesses' (DM4).

3.2.71 As a wider point on a key objective of the Council, responding to climate change (SP5) and DM4 as above, we assume this would in the short term increase the development cost of a range of development uses and facilities. These would include community facilities that are already not viable in the usual commercial sense. The same could be true of other premises development. Clearly there would be other benefits involved, again with reduced running costs amongst these. However, the Council may wish to consider how this might influence provision and the investment / funding requirements for a range of other development provision, some of which may fall into the category of infrastructure itself. Longer term, again we could reasonably expect the inclusion of higher standards to become the norm without the current stage view of extra over development costs also being involved.

3.2.72 With the existing CIL rates as indexed allowed for within our development costs assumptions and the findings as they are, we have found that the current residential charging approach and levels remain appropriate for the time being. There is not considered to be scope to increase these at the point of the policy costs stepping up, with the possible exception of exploring this further perhaps on smaller greenfield developments that do not come with significant specific infrastructure requirements. Further work would be needed on CIL should it be reviewed or replaced with another form of levy, as has been noted. This extends potentially to considering the application of CIL to large strategic developments such as the N E Thatcham example initially appraised at this early stage, where typically schemes carry their own high levels of infrastructure provision / cost and s.106 typically continues to provide the most direct and adaptable, tailored route to getting that in place.

3.2.73 DSP will be pleased to assist West Berkshire Council with any further work or points in relation to this assessment.

Notes and Limitations

i. Following on from the earlier Affordable Housing Viability Assessment (AHVA) for West Berkshire Council (WBC) (work undertaken 2018 – 2020), the purpose of the further assessment reported in this document (as conducted between early 2021 and late 2022) is to continue and build upon the evaluation of viability; informing and supporting the firmed-up policies now proposed as part of the emerging West Berkshire Local Plan Review (LPR) – current proposed submission draft Regulation 19 stage.

ii. Gathering up and reflecting on the testing of typologies and strategic scale development over 2 main stages of assessment (Spring 2021 and Autumn 2022) this report sets out additional information considered as part of the Council's further development of its LPR proposals from a viability perspective whilst also taking into account national policies and initiatives that may have an impact on development viability.

iii. This has been a desk-top exercise based on information provided by WBC supplemented with information gathered by and assumptions made by DSP, once again as appropriate in the context of Local Plan development ('plan making').

iv. This review has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment many assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.

v. It should be noted that every scheme is different, and no review of this nature can reflect all the variances seen in site specific cases. Accordingly, this assessment (as with similar studies of its type) is not intended to directly prescribe assumptions. Assumptions applied for our test scenarios are unlikely to be appropriate for all developments. A degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing and supporting the Council's approach to and proposals for a robust and viable Local Plan Review.

vi. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indications generated by the development appraisals for this strategic purpose will not necessarily reflect site specific circumstances. Nevertheless, the assumptions used within this study inform and then reflect the policy requirements and strategy of the Council and therefore take into account the cumulative cost effects of policies.

vii. The research, review work and reporting for this assessment has been assembled at a time when there remain economic uncertainties associated with Brexit, the after effects of the COVID-19 (Coronavirus) pandemic situation, more latterly the war in Ukraine, and challenging economic circumstances in general, with the latter coming to more the fore as this assessment write-up has been finalised.

viii. This may run through into many potential areas affecting development viability or deliverability, particularly in the short term. However, there could be a range of influences and effects, not necessarily all negative in their impact on viability. It is of course only possible to work with available information at the point of carrying out the assessment. At this stage it appears that it will be for Local Authorities and others to consider how this picture may change – monitor it as best possible and consider any necessary updating of the evidence and local response in due course.

ix. This is consistent with the approach that typically is taken already when either a significant amount of time passes, or other circumstances change during the period of Plan preparation/review and potentially pending or during examination. In the meantime, this work contains information on the impact of varied assumptions applied within a wide range of sensitivity tests. Run in this way, and through regular dialogue with the Council while in progress, this has helped and continues to inform the Council's consideration of development viability in the wider plan delivery context.

x. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

xi. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd (DSP) accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.

xii. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies will be applied from case to case.

xiii. DSP conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have undertaken a number of site-specific viability assessments on behalf of West Berkshire Council over a number of years now – requested on an ad hoc basis and the subject of specific arrangements. We have continued to carry out some review work for WBC on a small number of such 'decision taking' stage cases during the course of this strategic assessment work.

xiv. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment. Our project costs are simply built-up in advance, based on hourly/day rates and estimates of involved time. In the preparation of this assessment DSP has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

Report ends (Final) – DSP v9.1