

Colchester Borough Council

Community Infrastructure Levy: evidence base

Final report



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CONTENTS

EXECUTIVE SUMMARY	I
1 INTRODUCTION.....	1
Our Approach	1
2 CORE PRINCIPLES.....	3
3 ASSESSMENT OF INFRASTRUCTURE NEEDS	7
Approach to Infrastructure Assessment	7
Clarification of CIL Infrastructure Evidence and Regs 123 List	7
Some infrastructure evidence was already available	8
Transport.....	10
Education	11
Other needs.....	13
Other infrastructure needs.....	14
4 THE INFRASTRUCTURE FUNDING GAP	17
5 APPROACH TO ASSESSING DEVELOPMENT VIABILITY	19
Determining the CIL Charge and Charge Variation Options	19
Step 1: What and where are the ‘core’ uses?	19
Step 2: Simple viability modelling to identify development value	21
Step 3: Incorporating Market Interpretation to Assumption Inputs	23
6 POTENTIAL CIL CHARGING LEVELS.....	25
Residential development.....	25
Non-residential development.....	28
What CIL is spent on – the ‘Section 123’ list.....	36
7 RECOMMENDED LEVELS OF CHARGE	39

APPENDICES

Appendix A – Full residential appraisal with £120/m² charge

Appendix B – Full residential appraisal with £150/m² charge

Appendix C – Non-residential viability appraisal

EXECUTIVE SUMMARY

1. This report represents the evidence base underpinning the CIL Charging Schedule for Colchester Borough.
2. Based on the infrastructure requirements in its adopted Core Strategy, updated to reflect changes since adoption, Colchester has a potential funding gap of £276m, as shown in the table below.

Infrastructure funding gap for 'necessary projects'

Infrastructure type	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Funding gap (£m)
Transport	149.10	0.00	5.10	144.00
Education	126.90	24.60	39.10	63.20
Utilities	4.00	0.00	0.00	4.00
Health	0.00	0.00	0.00	0.00
Community, leisure, open space and outdoor sports	31.20	0.00	0.00	31.20
Other	64.50	0.00	31.25	33.25
Total	375.70	24.60	75.45	275.65

3. We have assessed the potential for a CIL charge in Colchester and consider that the following charges are appropriate because they do not undermine the Core Strategy:

Use	Charge
Charge for all uses unless stated	£0/m ²
Residential	£120/m ²
Retail in town centres or ≤430m ² gross floorspace	£120/m ²
Retail in out-of-centre or edge-of-centre locations	£240/m ²

4. As a broad guide, these levels of charge would raise approximately £61m from CIL, so would not exceed the funding gap as assessed.

1 INTRODUCTION

1.1 Roger Tym & Partners was commissioned by Colchester Borough Council (CBC) to produce a Community Infrastructure Levy (CIL) Charging Schedule and supporting evidence base. This is not to say that CBC does not have a significant amount of evidence already completed. It has an adopted Core Strategy and Site Allocations Development Plan Document and much of the infrastructure needs to deliver growth have already been scoped out.

1.2 This study therefore seeks to achieve the following:

- To update the infrastructure evidence used to inform the Core Strategy, which was examined and declared sound in 2008.
- To assess the potential level of CIL charge, by type of development, which could be borne by development.
- To produce a CIL charging schedule and supporting evidence base which could be submitted for examination and ultimately approved and then adopted.

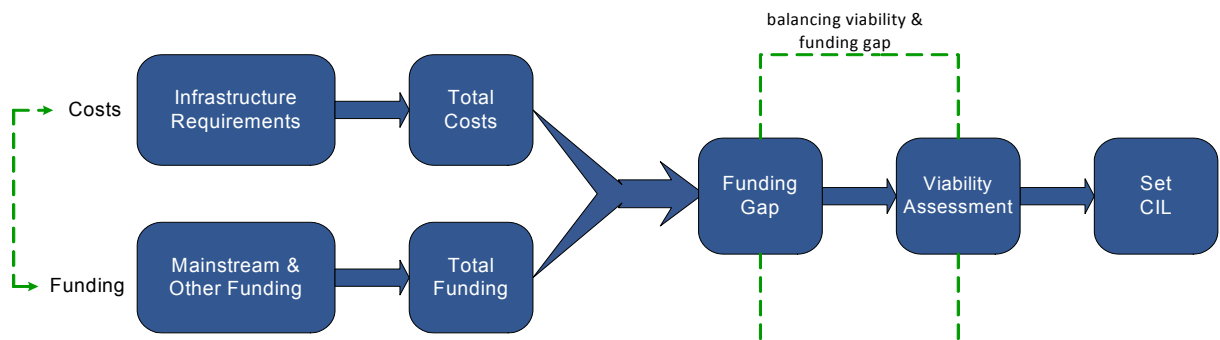
Our Approach

1.3 Our approach to deriving an appropriate CIL charge and producing an associated charging schedule is guided by the CIL Regulations (2010 and 2011) and the March 2010 Charge Setting and Charging Procedures guidance document.

1.4 In addition, we have been guided by DCLG’s CIL Team and the Planning Advisory Service (PAS), which have been providing support to the CIL Front Runners, of which CBC (and Essex County Council) is one.

1.5 Our basic approach to the CIL assessment is summarised in figure 1.1. The main steps, briefly were to update the existing infrastructure evidence base to arrive at a funding gap to inform the ‘CIL funding target’, undertake a viability assessment reflecting the scale and type of planned growth and assimilate the findings to arrive at a CIL charge that the majority of development can afford.

Figure 1.1 CIL Charge Setting Process



2 CORE PRINCIPLES

- 2.1 The following section outlines the core principles that we consider to be of most relevance to determining the level of infrastructure funding gap and viability assessment to inform the levy and produce a charging schedule.

Core principle 1: Appropriate balance between infrastructure funding and viability of development is at the heart of the CIL charging process

- 2.2 At the heart of the CIL charge setting process, is the need ‘to strike what appears to the charging authority to be an appropriate balance between the desirability of funding infrastructure and the potential effects of the imposition of the charge on the economic viability of development across its area’ (set out in CIL regulation 14 and expanded further in the guidance). The key advice in the guidance is that the CIL rate “should not put the overall development across their area at serious risk”¹.
- 2.3 A judgment must be made on this, as there are no hard and fast rules, it is up to the charging authority to decide ‘how much’ potential development they are willing to put at risk through the imposition of CIL. Thus, it is important in setting the charge to have a good understanding of its development context, the scale and type of development, the infrastructure requirements and the funding gap that the levy is intended to address, having taken account of other sources of available funding. This will demonstrate that there is need to levy a CIL charge and will provide the total ‘target’ amount that CIL can contribute towards.
- 2.4 The CIL must not be set at a level that would collect an amount in excess of this target. It needs to be emphasised that the Levy will usually form only a small part of the total overall funding of a development which will include where appropriate site specific Section 106, affordable housing and other obligations. In many cases other factors such as market fluctuations or the unique costs associated with the development of a particular site will have a much greater impact on development viability.

Core principle 2: Avoiding complexity in charge setting

- 2.5 Our aim is to provide a simple, transparent charge that is easy to understand and apply and one that is relevant to majority of expected development. Developments vary in value depending on their nature and location.
- 2.6 CIL Regulation 13 allows charging to be varied across the area and for different types of use (and by area and use). However, the objective of CIL is also to introduce simplicity and transparency to planning contributions. For that reason while we propose different rates of charge we have sought to keep the charge variations to a minimum and avoid undue complexity.

¹ DCLG CIL Charge Setting and Charging Schedule Procedures March 2010, paragraph 8

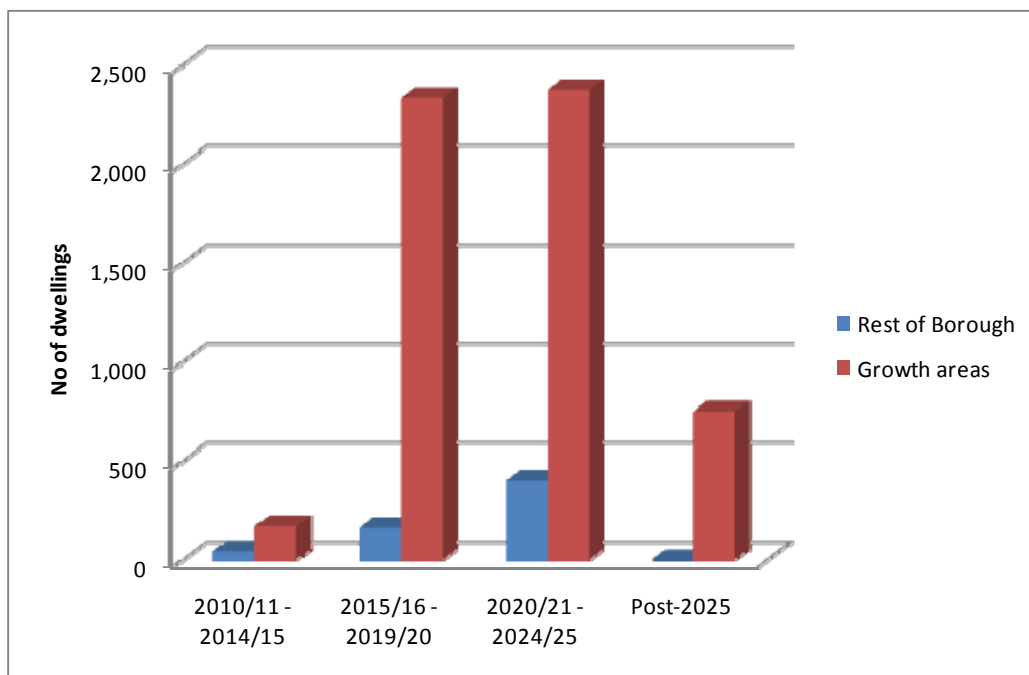
Core principle 3: Understanding the development context

2.7 The future development context of Colchester will inform the infrastructure and viability evidence base which in turn will shape the levy.

What is the scale and direction of growth?

2.8 Colchester Borough Council has undertaken a review of the remaining dwelling allocation to be delivered over the plan period. Figure 2.1 shows the breakdown by five-year period.

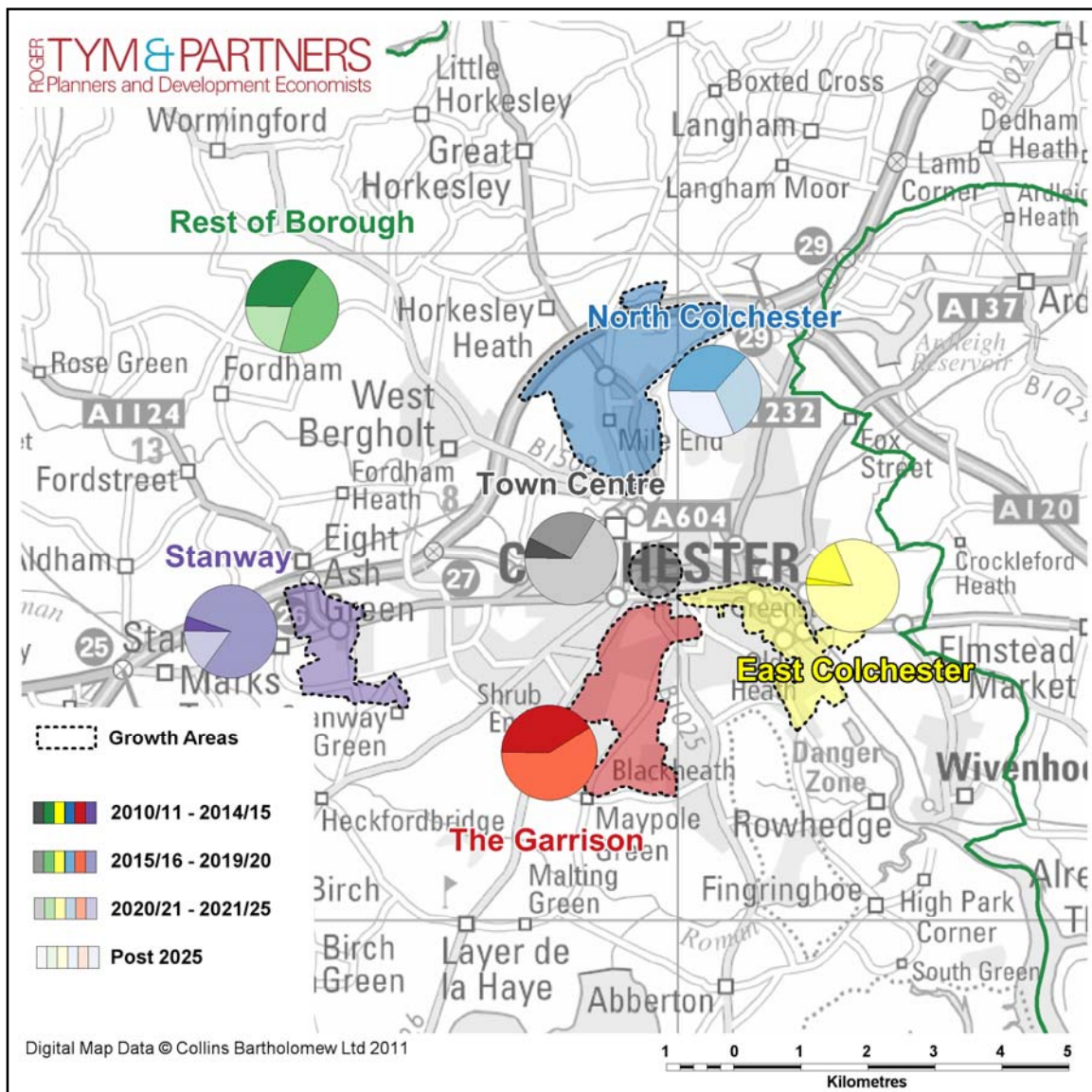
Figure 2.1 Remaining dwellings with planning permission, by time period



2.9 This shows that the Growth Areas are expected to deliver the majority of future growth in Colchester borough. Moreover, most of this growth is expected after the first five years of the plan period. This may be at a time when it is appropriate to review the CIL but to do so, it must be demonstrated that circumstances have changed.

2.10 North Colchester is the largest of the Growth Areas and its delivery is spread over the period 2015 onwards. At East Colchester, there is a similar picture, with most of the growth towards the end of the plan period, between 2020/21 and 2024/25. Stanway’s growth is expected to come forward sooner, starting in the current five-year period and largely being completed by 2019/2020. This is shown in Figure 2.2.

Figure 2.2 Expected phasing of sites without planning permission, by growth area



What are the 'core' uses expected in the future?

2.11 The development context will also be informed by the type of core uses likely to be expected in the Borough. Colchester borough has seen significant levels of growth over the past 5-10 years, principally in the residential, B-class commercial and retail sectors – (this is detailed further in section 5, and these are the core uses underpinning the development growth).

Core principle 4: Historic deficits are not included

2.12 One of the parameters guiding the use of CIL is that it should only be used to address the needs of future growth. It is not permissible to use CIL monies to address development that is under construction or has been completed, or to fund historic infrastructure deficits.

Core principle 5: Sites currently with planning permission are excluded

- 2.13 There are a significant number of sites, at March 2010, that have planning permission but where development has not commenced. Under CIL Regulation 128, any development that is approved by grant of full or outline planning permission is exempt from CIL if, on the date of approval, there is no Charging Schedule in operation. In view of the procedures required to adopt a CIL Charging Schedule including a formal examination, it is estimated that the Colchester Charging Schedule may not be in place until late 2011 at the earliest. It is therefore assumed, for the purposes of this study, that all sites with planning permission will not pay the CIL charge.
- 2.14 It should be noted that in assessing the scale of funding gap, a proportion of existing S106 monies already collected, along with a proportion of those to be collected from those sites with planning permission (or granted planning permission in the interim period), could contribute towards reducing that gap.

Core principal six: The charge will take account of future expectations

- 2.15 Whilst an argument could be made that the CIL should be set at a level that reflects normal circumstances (i.e. not those presently being experienced). This does open up a debate about what constitutes ‘normal’ circumstances? The use of current values may lead to low levels of delivery that are being experienced in the current economic climate. The CIL must be set at a level which the majority of development can afford now.
- 2.16 In this respect, it is logical to undertake some analysis of what the effect of different future scenarios might be on the level of charge and on total CIL receipts. We have therefore looked at a number of scenario variants when considering the level of residential charge. It is residential use that will collect by far the largest level of CIL receipts, so any changes in the charge level for residential will create the largest difference in overall CIL take.

3 ASSESSMENT OF INFRASTRUCTURE NEEDS

Approach to Infrastructure Assessment

- 3.1 In determining the aggregate infrastructure funding gap, the CIL Guidance² states:
- “This target may be informed by a selection of infrastructure projects or types (drawn from the infrastructure planning for the area) which are indicative of the infrastructure likely to be funded by CIL in that area.” (our emphasis)*
- 3.2 So, it is not necessary to identify the full list of infrastructure identified (as was the case for the infrastructure planning process for the Core strategy). In this instance it is considered appropriate to focus on the items that CBC considers to be essential to support the proposed growth. Of these items, those that must be delivered in the first five years are considered to have highest priority so should be included in the infrastructure assessment.
- 3.3 The intention is not to identify an ‘absolute’ funding gap and then ensure that the CIL charge is set at a level that fills this gap. This could be open to challenge from the development industry, and leave Colchester vulnerable to having sufficient justification for a CIL levy, so we have aimed to provide evidence to support a ‘safe funding gap’ to justify that there is a need for a CIL.

Clarification of CIL Infrastructure Evidence and Regs 123 List

- 3.4 The inclusion of certain indicative infrastructure projects in this evidence base does not restrict how the CIL will eventually be spent. Rather the infrastructure evidence is provided to demonstrate the CIL funding gap target is justifiable. The guidance recognises the need for flexibility in the deployment of CIL funding to meet changing circumstances and priorities. For this reason, although various projects are included in this evidence base, it will be up to the charging authority to determine how this is spent.
- 3.5 The charging authority may decide (after the CIL examination) to publish on its website a Regs 123 list of relevant CIL infrastructure’ in order to avoid double funding developer contributions via CIL and S106. If this is not done then it is taken to mean that the local authority was intending to use the levy’s revenue for *any* type of infrastructure capable of being funded by the CIL, and consequently could not seek S106 planning contribution towards any such infrastructure
- 3.6 This S123 list does not have to be published in conjunction with the charging schedule. It can be published on the authority’s website once the CIL has been adopted. It will also be possible to update this list without the need for examination of the charging *schedule*; in theory this could be done as often as an authority wishes.

² DCLG Charge Setting and Charging Schedule 2010 – paragraph 14

Some infrastructure evidence was already available

- 3.7 Colchester Borough Council is well advanced in the LDF process, having an adopted Core Strategy and Site Allocations DPD. However, at the time of the emerging Core Strategy, leading into the Examination in Public (EIP), PPS12 had not been published. As such, CBC had not undertaken a full infrastructure delivery planning process as is now required. For the EIP, at the Inspector's request, CBC produced an Infrastructure Trajectory Paper which outlined the Council's position on infrastructure needs and delivery. This was used to inform Table 6d in the adopted Core Strategy on key facilities and infrastructure. It is this and the detail in the Trajectory Paper which forms the starting point for this updated assessment.
- 3.8 CBC identified infrastructure needs under two broad categories:
- Necessary Projects - These are the strategically important projects that the Borough and its partners consider are needed to unlock growth areas. They either "unlock" by providing sustainable access or are critical to improve "quality of life".
 - Local and Wider Benefit Projects - These projects are considered to create quality sustainable developments. The absence of any such project may not necessarily prevent development from occurring but it would be difficult to deliver the wider sustainable vision and strategic objectives of the Core Strategy and for Colchester to be a prestigious regional centre.
- 3.9 This list has been updated to reflect changes and what has been delivered over the intervening period since the EIP. For example, one of the key pieces of infrastructure identified as being needed was the new junction with the A12 and the final phase of the Northern Approaches Road. This has now been secured and the junction delivered. In addition, new items have been added that are felt to be required to support the remaining growth planned.
- 3.10 At this stage, it is also felt appropriate to merge these two categories of infrastructure to make one overall list of requirements. It is not the role of a study which underpins a CIL charge to assess the relative importance of the individual infrastructure requirements. This should be undertaken by CBC as part of a more detailed infrastructure delivery plan process.

Completed projects or with funding secured

- 3.11 Table 3.1 below shows the list of projects completed or with funding secured since the Core Strategy was adopted. These projects have obviously been eliminated from the assessment of the infrastructure funding gap.

Table 3.1 Completed/funding secured infrastructure projects since Core Strategy adoption

Infrastructure category	Projects	Cost (£m)	Delivery Body	Status
Education	1 new primary school (Queen Boudica) North Growth Area	10.90	Developer/ ECC	Phase 1 completed, phase 2 under construction
Transport	North Transit Corridor	7.00	Developer	Funding secured
Transport	Northern Approaches Road Phase 3 (NAR3)	9.80	ECC	ECC, HCA and GAF funding secured
Transport	Stanway Bypass	15.00	Developer	Funding secured
Leisure	Firstsite New site (Community Arts Facility)	n/k	CBC/others	Completion due September 2011
Leisure	Community stadium - north Colchester	n/k	CBC	Completed
Transport	Hythe Rail Station improvements - East Colchester	n/k	Network Rail/ ECC	Completed
Transport	Colchester-Clacton branch line re-signalling	n/k	Network Rail	Secured
Leisure	Gym Facilities Garrison - South Growth Area	n/k	Developer/ CBC	Funding secured
Health	Wivenhoe Health Centre	3.50	PCT/LIFT Strategic Partnership Board	Secured

Size threshold

- 3.12 In order to focus the analysis, it was considered appropriate to exclude projects costing below £1m from the detailed analysis. However, this is not to say that these projects are not important to CBC/ECC, or that they would not be able to use CIL monies to fund their delivery. Rather, the process of determining the level of funding gap that CIL must contribute towards addressing points to an approach which focuses on the items of greatest cost. As the analysis will show, when focusing on items of over £1m the funding gap is more than CIL can address on its own, which is sufficient for the purposes of this assessment.
- 3.13 The list of identified items below the £1m threshold is shown in Table 3.2:

Table 3.2 Projects below cost threshold

Infrastructure category	Projects	Cost (£m)	Delivery Body
Health	Medical Centre - South Growth Area	0.70	PCT
Health	Medical Centre - East Growth Area	0.20	PCT
Community	Community Hall improvements - Wivenhoe	Minimal	Developer/ CBC
Community	Village Hall improvements - Stanway Growth Area	Minimal	Developer/ CBC
Open space and outdoor sports	POS/Sports and Recreation facilities in Tiptree	0.56	Developer/ CBC
Leisure	Creation of Rowhedge Trail	0.80	Developer/ CBC
Community	Village Hall improvements - Rowhedge	Minimal	Developer/ CBC
Other	Re-engineering of Recycling Centre for Household Waste, Shrub End	0.65	ECC
Transport	Colchester Town Rail Station Improvements	0.35	Network Rail/ECC/CBC
Transport	Pedestrian and cycling bridge in East Colchester from King Edward Quay across River Colne	0.50	Developer
Leisure	Cultural Quarter (Public Realm)	0.80	Developer/ CBC

Transport

- 3.14 This and the following sections focus on the core infrastructure requirements to deliver the spatial strategy. Each section addresses the needs, costs and an understanding of the funding gap, the reduction of which CIL can contribute towards.
- 3.15 Transport requirements represent the largest infrastructure requirement in terms of costs. The projects are a mixture of road, public transport and walking/cycling projects, with the road-based projects representing the highest costs. In addition, the cost of the dualling of the A120 between Braintree and the A12 is unknown and the scheme itself will only partially benefit Colchester Borough. Table 3.3 identifies the projects and the funding position:

Table 3.3 List of transport infrastructure projects and funding position

Projects	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Sources of non-developer funding	Funding gap (£m)	Delivery Body
A133 Central Corridor Improvements	20.00	0.00	0.00	N/a	20.00	ECC
North Park and Ride	6.00	0.00	0.00	N/a	6.00	ECC
East Transit Corridor	7.00	0.00	0.00	N/a	7.00	ECC, CBC and developer
Town Centre Improvements	5.10	0.00	0.60	Growth Area Funding	4.50	ECC, CBC and developer
Stanway road improvements, incl. Warren Lane and other local improvements	5.00	0.00	0.00	N/a	5.00	Developer
North/South Capacity Improvements (A133/A134)	20.00	0.00	0.00	N/a	20.00	ECC
A12 Junction Improvements	30.00	0.00	0.00	N/a	30.00	Developer / Highways Agency
Cycling and walking improvements	15.00	0.00	4.50	Cycle Town	10.50	ECC/Developer
Bus passenger interchange facility	6.00	0.00	0.00	N/a	6.00	ECC, CBC and developer
Southway Pedestrian/cycle bridge	5.00	0.00	0.00	N/a	5.00	CBC/Developer
Quality Bus Partnerships and Public Transport Improvements	20.00	0.00	0.00	N/a	20.00	ECC/Developer
Colchester North Rail Station Improvements	10.00	0.00	0.00	N/a	10.00	Network Rail/ ECC/CBC/ Developer
A120 Braintree to A12	Not known	0.00	Not known	Not known	Not known	Highways Agency
Total	149.10	0.00	5.10		144.00	

- 3.16 The total cost of the transport infrastructure schemes (excluding the A120 from Braintree to the A12) is £149m. A small amount of non-developer funding has been secured for cycling and walking improvements, leaving a funding gap of £144m.
- 3.17 The A120 from Braintree to the A12 is a scheme which could possibly address needs of growth over the very long term. Whilst it is not possible to put a cost on it, ECC considers that it is of sufficient importance to register as part of the overall infrastructure needs.

Education

- 3.18 Education requirements are substantial, principally relating to the need for new schools at the North Colchester and Stanway Growth Areas. Related to this are needs for Early Years and Childcare.
- 3.19 Table 3.4 identifies the projects and the funding position. This shows a total cost for education provision of £127m. It should be made clear that this includes estimates of possible land costs for the provision of new schools which could change significantly depending on the existing use value attached to that land. The value of the land could reflect a number of different positions – with the new schools being developed on greenfield sites, it could be agricultural land values (which are very low); alternatively it could be land

values for education sites (use class D1 - which is higher); or it could be residential values (which is much higher still). Given that there is no recognised correct approach, it is considered appropriate to adopt the middle value, reflecting education (D1) land values.

Table 3.4 List of education infrastructure projects and funding position

Projects	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Sources of non-developer funding	Funding gap (£m)	Delivery Body
3 new primary schools North Growth Area	26.70	6.30	0.30	ECC	20.10	ECC/Developer
New Primary School - Stanway Growth Area	7.00	0.80	0.00	N/a	6.20	ECC/Developer
New Primary School - South Growth Area	5.80	4.60	1.20	ECC	0.00	ECC/Developer
Expand secondary school capacity - North Colchester	38.00	6.00	5.00	ECC	27.00	ECC/Developer
Expand/reorganise secondary school, Stanway/south Colchester	30.00	6.60	23.40	ECC	0.00	ECC
Expand primary school Tiptree	1.00	0.00	0.00	N/a	1.00	ECC
Early Years and Childcare	4.70	0.00	0.00	N/a	4.70	ECC/CBC/private/developer
General primary expansions	13.70	0.30	9.20	ECC	4.20	ECC
Total	126.90	24.60	39.10		63.20	

Source: ECC

- 3.20 A proportion of that cost can be addressed through existing developer contributions collected and funding from Essex County Council. However, this still creates a funding gap of £63m.
- 3.21 It must be made clear that this represents Essex County Council's high-level assessment of the position at the time of this report. Multiple factors could serve to change the position over time and more detailed assessments will be necessary to refine their position statement on infrastructure needs.
- 3.22 One particular item which will need more detailed assessment is the demand for Early Years and Childcare provision arising from commercial development. Essex County Council considers that a significant proportion of people choose to use pre-school childcare facilities close to where they work, so just considering requirements arising from new residential development does not correctly assess true demand.
- 3.23 However, additional work needs to be undertaken in order to properly assess precise needs. As such, these needs are not explicitly identified in this study. The infrastructure delivery planning work that CBC should carry out shortly in order to underpin its infrastructure evidence base should include an understanding of these needs.
- 3.24 For the purposes of the CIL however, this assessment represents a sufficient understanding of core education requirements.

Other needs

Utilities

- 3.25 The two principal strategic utilities' needs identified through the infrastructure work are a new electricity sub-station and a new waste water pumping station to serve the North Colchester growth area. In respect of the latter, further work is required by Anglian Water in order to determine their preferred strategic approach to providing for such needs, and the associated cost and potential level of investment that could contribute towards delivering the scheme. As such, it is not possible to provide accurate costings towards these needs.
- 3.26 CBC should liaise with Anglian Water through their infrastructure delivery planning review to provide accurate figures for provision of waste water needs. This should be undertaken in the short term. Table 3.5 summarises the utilities needs:

Table 3.5 List of utilities infrastructure projects and funding position

Projects	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Sources of non-developer funding	Funding gap (£m)	Delivery Body
Electricity Sub Station - north Colchester	4.0	0.00	0.0	None	4.0	Electricity Provider
Waste water pumping station	TBC	0.00	TBC	TBC	TBC	Anglian Water
Total	4.00	0.00	0.00		4.00	

Source: CBC and Anglian Water

- 3.27 This shows that for the electricity sub-station, there is a funding gap of £4m.

Health

- 3.28 The east and south growth areas require new medical centres and the south area has already secured funding for a centre. All other projects in the pipeline have been abandoned so at present there are no identified health infrastructure needs.
- 3.29 This shows that there is a zero funding gap at present. This may change in time if the projects at West Mersea and Tiptree are taken forward.

Community, leisure, open space and outdoor sports

- 3.30 There are a large number of community, leisure, open space and outdoor sports projects to support the growth areas as well as further development elsewhere. In total, these infrastructure needs are estimated to cost approximately £31m, with the majority of this relating to needs in the growth areas.
- 3.31 There are several other needs, including improvements to village halls and need for allotments, but these are considered to be too small to be considered within the context of a CIL assessment. This is shown in Table 3.6:

Table 3.6 List of community, leisure, open space and outdoor sports infrastructure projects and funding position

Projects	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Sources of non-developer funding	Funding gap (£m)	Delivery Body
POS/Sports and Recreation facilities in North Colchester	6.90	0.00	0.00	N/a	6.90	Developer/ CBC
POS/Sports and Recreation facilities in Wivenhoe and Rowhedge	1.40	0.00	0.00	N/a	1.40	Developer/ CBC
POS/Sports and Recreation facilities in Colchester Town	9.30	0.00	0.00	N/a	9.30	Developer/ CBC
Community Hall improvements and new Community Centre North Growth Area	1.60	0.00	0.00	None	1.60	Developer/ CBC
Strategic public open space - East Growth Area (1 ha urban park)	5.00	0.00	0.00	N/a	5.00	Developer/ CBC
POS/Sports and Recreation facilities in East Colchester	3.00	0.00	0.00	N/a	3.00	Developer/ CBC
POS/Sports and Recreation facilities in Stanway	4.00	0.00	0.00	N/a	4.00	Developer/ CBC
Total	31.20	0.00	0.00		31.20	

Source: CBC

N/A under 'Cost (£m)' means that the project has either been completed or is under construction

3.32 At present there are no known sources of other funding so this leaves a total infrastructure funding gap of £31m. It may be more appropriate for some of these projects to be delivered as land in kind.

Other infrastructure needs

3.33 The Core Strategy identified a number of other, specific infrastructure needs which do not fit into any of the preceding categories. Of greatest note is the need for river wall repairs from the Colne Causeway bridge to the Fieldgate site, which will cost approximately £10m but for which no funding has currently been secured. Table 3.7 lists the items:

Table 3.7 List of other infrastructure projects and funding position

Projects	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Sources of non-developer funding	Funding gap (£m)	Delivery Body
Magistrates' court - Town Centre	30.00	0.00	30.00	Central Govt	0.00	Dept for Constitutional Affairs
Roman Walls & Town Centre Public Realm	2.00	0.00	0.00	N/a	2.00	CBC
Refurbishment of Old Police Station as Creative Business Centre	1.00	0.00	0.25	European funding	0.75	Developer/ CBC
Cemetery expansion - Berechurch	N/a	0.00	N/a	N/a	0.00	CBC
Carbon reduction and sustainability improvements	1.00	0.00	0.00	N/a	1.00	CBC
Green Links and Walking and Cycling improvements	10.00	0.00	1.00	LTP/LSTF	9.00	ECC/CBC
River Wall repairs from Colne Causeway bridge to Fieldgate site	10.00	0.00	0.00	N/a	10.00	Environment Agency
Air Quality mitigation measures	6.00	0.00	0.00	N/a	6.00	CBC
Drainage	2.50	0.00	0.00	N/a	2.50	CBC/Developer
High speed broadband	2.00	0.00	0.00	N/a	2.00	CBC
Total	64.50	0.00	31.25		33.25	

Source: CBC

N/a under 'Cost (£m)' means that the project has either been completed or is under construction

3.34 In total, these other items costs £64.5m, with potentially over £33m to be funded by development.

4 THE INFRASTRUCTURE FUNDING GAP

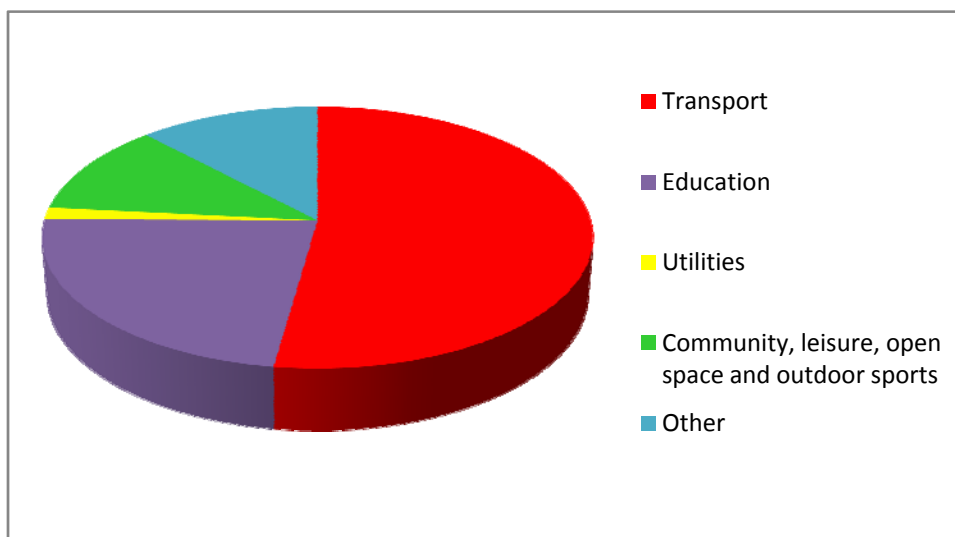
4.1 The overall funding gap of all the ‘necessary’ infrastructure requirements is shown in Table 4.1 below.

Table 4.1 Infrastructure funding gap for ‘necessary projects’

Infrastructure type	Cost (£m)	Developer funding secured (£m)	Non-developer funding (£m)	Funding gap (£m)
Transport	149.10	0.00	5.10	144.00
Education	126.90	24.60	39.10	63.20
Utilities	4.00	0.00	0.00	4.00
Health	0.00	0.00	0.00	0.00
Community, leisure, open space and outdoor sports	31.20	0.00	0.00	31.20
Other	64.50	0.00	31.25	33.25
Total	375.70	24.60	75.45	275.65

4.2 This shows that these projects have a total cost of £376m, with £25m already secured through developer funding and a further £75m funded through non-developer sources. This leaves a total gap potentially to be funded by development of nearly £276m. Figure 4.1 below shows that the majority of this gap is accounted for by transport and education requirements.

Figure 4.1 Funding gap by infrastructure type



4.3 This £276m figure represents the higher end of the likely gap because, over the lifetime of the Core Strategy, it is expected that additional funding from mainstream and other non-developer sources will be available. Some of this – through sources such as the New Homes Bonus – could be considerable and will serve to significantly address the funding gap.

4.4 For example, applying the CLG’s New Homes Bonus calculator to the 12,711 dwellings with planning permission or additionally required to deliver the Core Strategy creates a total

value of £89.9m³. The difference between this and CIL is that CIL monies comes in upfront in the development process whereas New Homes Bonus funding does not come until the properties in question are completed.

- 4.5 As such, a related issue is the need for funding to support early delivery of supporting infrastructure, particularly in the early years of the plan period. One option that some authorities are considering is prudential borrowing against future development. Whilst it is not possible to borrow specifically against future CIL receipts, prudential borrowing may be one way of filling the funding gap. Other related mechanisms such as Tax Increment Financing (TIF) may also be possible. Clearly this is a matter for the Borough Council to consider as it takes forward its infrastructure delivery planning.
- 4.6 Therefore, at this current point in time it is not possible to be definitive as to when this funding will be realised and how much it will raise. For the purposes of this assessment, no accurate figure can be put to this so it is excluded.

³ This assumes 35% affordable housing, a £350 premium per affordable home per annum and no loss from the existing stock of housing

5 APPROACH TO ASSESSING DEVELOPMENT VIABILITY

Determining the CIL Charge and Charge Variation Options

- 5.1 The fundamental premise is that the CIL must be set at a level that does not put at risk the overall level of development in an area.
- 5.2 As we have shown earlier, the majority of the development underpinning the Core Strategy is in the Growth Areas, mainly at the Northern and Stanway Growth Areas. This is on greenfield sites so it will be important for the viability assessment to largely consider greenfield locations. As will be shown below, this is the approach taken.
- 5.3 Our starting point therefore must be to understand what overall level of charge would not compromise viability for the majority of developments. To do this, it is necessary to understand the predominant land uses which have been developed over the last 5-10 years, along with a view of the land uses that are expected to represent the majority of change over the life of the Core Strategy.
- 5.4 Following this, it is then necessary to test whether it is appropriate to vary the charge rate for CIL (either up or down from the assessed rate). This variation can be applied in a number of different ways. Most commonly this will be a variation by area or by development type. Our approach will consider both of these alternatives.
- 5.5 For any variation by area, it is important that the boundary of such a change is clearly justified. Use of existing policy boundaries is not acceptable without adequate justification that must demonstrate alternative levels of viability within those boundaries.
- 5.6 CLG has made it clear that any variation in the charge by land use type, must be clearly justified. Therefore, it is necessary to consider two things for each land use:
 - i Whether it is necessary to vary the charge because the proposed level of charge is likely to make development of that land use unviable.
 - ii Whether the potential value capture from affordable higher charges for that use can be justified by way of an appropriate level of evidence.
- 5.7 We outline the steps to assessing the CIL charge and options considered for charge variation.

Step 1: What and where are the 'core' uses?

- 5.8 Colchester borough has seen significant levels of growth over the past 5-10 years (see also section 2 where we consider where the main growth will be), principally in the residential, B-class commercial and retail sectors.

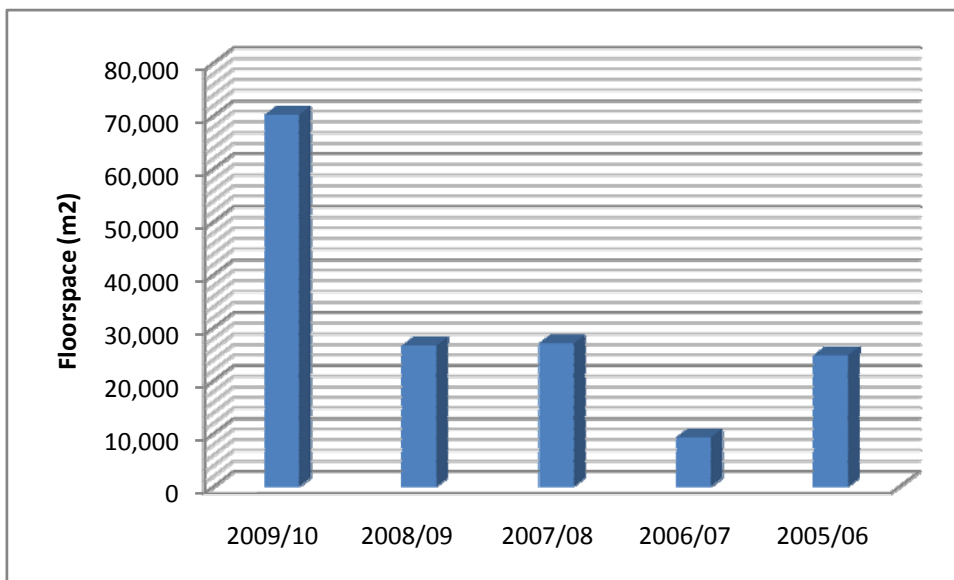
Residential

- 5.9 Between 2001/2 and 2009/10, 8,687 net additional dwellings were delivered in the Borough against a Regional Spatial Strategy target of 7,470 dwellings.

B-class commercial

5.10 Figure 5.1 shows that over the period 2005/6 to 2009/10, the following gross gains in B-class floorspace were made in the Borough:

Figure 5.1 Gross B-class floorspace gains in Colchester Borough



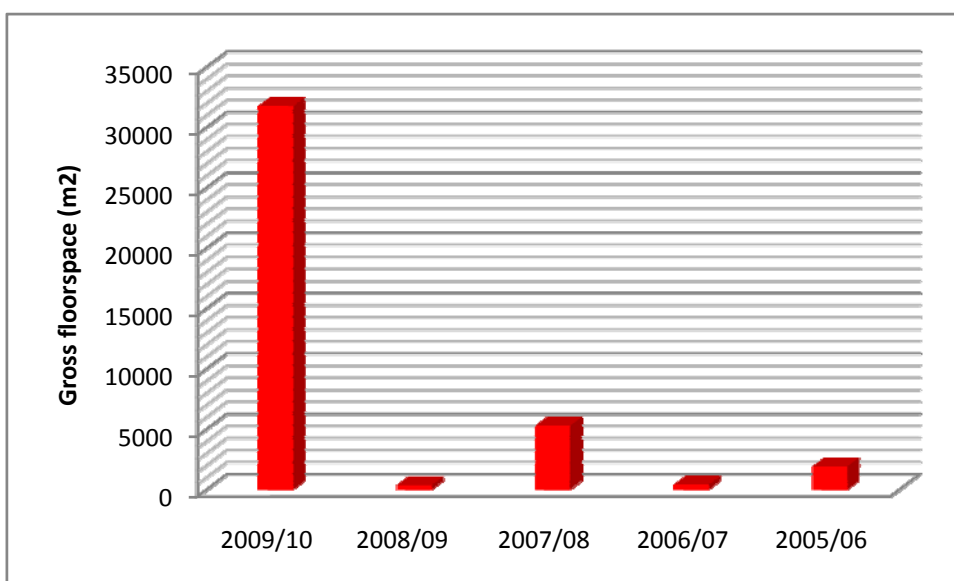
Source: Colchester Borough Council Annual Monitoring Reports

5.11 This totalled nearly 158,000m², at an average of nearly 31,600m² of floorspace per annum.

Retail

5.12 Figure 5.2 shows that over the period 2005/6 to 2009/10, the following gains in gross retail (A1 and A2 class) floorspace were made in the borough:

Figure 5.2 Gross retail floorspace gains in Colchester Borough



Source: Colchester Borough Council Annual Monitoring Reports

- 5.13 This totalled over 39,700m², at an average of nearly 7,800m² of floorspace per annum. There are some large variations in certain, due to the development of large format convenience superstores. Apart from this, there has been little other retail floorspace developed, although this is a trend being observed across the UK.

Other uses

- 5.14 No other uses have provided anything like as much floorspace over the same period. It is clear therefore that residential, B-class and retail uses have represented the vast majority of past growth in terms of new floorspace.
- 5.15 Colchester BC also identified a number of uses which were potentially considered to be important to the delivery of the Core Strategy, even if overall these may not deliver such significant quantum of floorspace. These uses are:
- Hotels
 - Larger fitness and leisure centres
 - Care homes

Our aim is to ensure overall development will not be frustrated by CIL charge

- 5.16 Based on the CIL Regs 14, our aim was to check that the overall development of the area will not be frustrated by a CIL charge. These uses are seen by Colchester BC as being strategically critical in this regard. It was requested therefore by officers that the study consider what level of CIL charge is achievable for these uses.
- 5.17 It needs to be emphasised that the Levy will usually form only a small part of the total overall cost of a development. In many cases other factors such as market fluctuations or the unique costs associated with the development of a particular site will have a much greater impact on viability.
- 5.18 Developments vary in value depending on their nature and location. Regulation 13 allows CIL to be varied across the area and for different types of use to reflect this. But it is also intended to introduce simplicity and transparency to planning contributions. For that reason while we propose different rates of charge we have kept the variations to a minimum.

Step 2: Simple viability modelling to identify development value

- 5.19 The core of our method is a simple comparison between:
- The sales receipts that might be generated though development.
 - The costs of development including allowance for standard construction costs as well as well as land purchase, finance and the usual level of return on the developer's investment etc.
- 5.20 The criterion is that there should be a positive balance.

Assumption inputs to modelling are critical to determining accuracy

- 5.21 The accuracy of an appraisal model depends primarily on the accuracy of the underlying assumptions rather than on the complexity of the calculation. For this reason and mindful of the benefits of simplicity and transparency a simple calculation has been used other than in

the study of residential development where the impact on values of affordable housing and open space requirements in particular prompted the use of a slightly more sophisticated calculation.

- 5.22 In the calculation we have used 'readily available evidence', which has been informed and adjusted by an assessment of the local transactions and market demand. Further information on our data sources and judgments in this respect are provided in the next section.
- 5.23 Because they are not focused on specific sites calculations of this type are inherently imprecise and involve a high degree of generalisation.
- Few specific sites for development have been identified for the purposes of this study.
 - Where specific sites can be identified, there is inadequate design and engineering data to ensure that a more detailed appraisal model would produce a more accurate result.
- 5.24 Because of this the assumptions adopted are cautious and in most circumstances the approach will return a more conservative estimate of what is viable and what is not, than might be expected on the basis of anecdotal information on the price paid for development sites in the past and Land Registry reports. (In the latter case, their data set is limited and in a particular area and time-frame can be skewed by specific transactions. In any event records of transactions are not fully informed by the terms of the contracts and reflect past circumstances rather than present or future planning and market realities).

Cost and S106 estimates

- 5.25 Where possible we have based our cost estimates on cost studies produced by Cost Consultant's Davis Langdon⁴, only using generic cost index data as a last resort. This:
- assists an effort to make a proper allowance for the increase in costs contingent upon the requirement to comply with the revisions to Part L of the Building Regulations; and
 - helps to match the types of building implied by the cost estimates with the type identified as comparators when assessing values.
- 5.26 We have used high level approximations of the costs involved such as external works, fees, finance and developer's profit margins. We have also made separate provision for Section 106 and other site-specific planning contributions. These represent the average over a range of scheme types. In practice there is wide variation depending on the specific site and proposal. A particular issue is identifying the cost of the land to be developed. Again a high level allowance for land costs has been allowed. It is axiomatic that the imposition of the levy at any level means that, at the margin, sites with a very high 'hope value' or value in its current use are less likely to come forward for development.

⁴ These are published in the journal 'Building' and in the Spon's series of Architects and Builders Price Books.

Step 3: Incorporating Market Interpretation to Assumption Inputs

- 5.27 The modelling assumption inputs was supplemented by incorporating a degree of market interpretation based on the following considerations:
- **Local information of land transactions.** Over a number of years, because the market has been subdued, there have not been many transactions and in the absence of sufficient local information and also being mindful of the fact that conditions have been changing, we have treated the local information with caution.
 - **Circumstantial evidence on the appetite for development.** An absence of existing buildings or proposals for certain types of development which might be expected to be acceptable in suitable locations is taken as prime facie evidence that achieving viability is a challenge.

6 POTENTIAL CIL CHARGING LEVELS

- 6.1 This section considers the appropriate level of CIL charge that should be set. Across the uses which are considered to be fundamental to the delivery of the Core Strategy, we assess their potential to support a charge in the present economic conditions. This evidence underpins the CIL charge – applicable to all development unless stated – and the variations to that, against which it is considered that an alternative CIL rate can be levied.
- 6.2 In respect of residential development, the analysis also considers whether there is sufficient justification to vary the charge by area. This is mindful of the guidance from CLG, namely that the essence of a CIL charge is its simplicity and that any variation must be clearly justified by demonstrating that across the boundary where an alternative charge level is set, viability is different for the same use. Only residential development is considered because this is the only use which has the potential to support a CIL charge and also has sufficient local information to make a judgement about differing levels of viability across the borough.

Residential development

- 6.3 The majority of development across the borough is expected to comprise residential schemes. An adequate supply of new homes is seen as critical to the overall development of the area.
- 6.4 Because the value of these is complicated by the impact of affordable housing requirements and cash flow issues are also critical, the economics were analysed separately using a simplified residual land value appraisal model with a summary cash flow.
- 6.5 The notional scheme is a large residential site on the outskirts of the Colchester urban area, principally because this is where the critical mass of new housing is planned to appear (at the Northern Growth Area and the Stanway Growth Area). A summary of the core appraisal is shown in Table 6.1 with the full core appraisal shown in Appendix A.

Table 6.1 Summary of residential appraisal with a £120/m² CIL charge

Site Assumptions		
Gross Area	10	hectares
Area developable for housing	6	hectares
Dwellings per ha	40	of which
% of Houses	90%	
% of flats	10%	
% Market homes	65%	
% Shared ownership Homes	7%	
% Social Rented Homes	28%	
Sale proceeds		
	45,577,224	
Land Cost		
	3,180,000	
Development Costs		
	34,232,080	
Finance & Cash Flow		
	1,136,112	
Total Cost		
	38,548,192	
CIL/m²		
	120	
Margin on Cost		
	18.2%	
Net Present Value		
	2,683,303	

- 6.6 This shows that, on the notional 10-hectare greenfield development, the assumed scheme would have a margin on cost of 18.2%. Whilst this is considered to generally be acceptable to a developer, it is moving towards the margins. This factors in the established Core Strategy policy for 35% affordable housing, with a 60:40 split of social rented to intermediate (shared ownership) dwellings. It also assumes that there is no grant available for affordable housing.
- 6.7 In order to understand whether a higher CIL charge could be achieved, the same exercise was carried out with a £150/m² charge. The results are shown in Table 6.2 (with the full appraisal shown in Appendix B) and illustrate that the margin on cost would reduce to 16.8%. It is far more questionable as to whether development would be brought forward at this rate.

Table 6.2 Summary of residential appraisal with a £150/m² CIL charge

Site Assumptions	
Gross Area	10 hectares
Area developable for housing	6 hectares
Dwellings per ha	40 of which
% of Houses	90%
% of flats	10%
% Market homes	65%
% Shared ownership Homes	7%
% Social Rented Homes	28%
Sale proceeds	
	45,577,224
Land Cost	
	3,180,000
Development Costs	
	34,681,360
Finance & Cash Flow	
	1,174,740
Total Cost	
	39,036,100
CIL/m²	
	150
Margin on Cost	
	16.8%
Net Present Value	
	2,340,470

- 6.8 We conclude therefore that a levy of £120/m² is more appropriate and commensurate with viability. Compared to the potential £150/m² charge, there is a far greater balance of probability that schemes will be delivered on an adequate proportion of the sites expected to come forward for housing in the borough. In particular, the analysis has focused on the strategic greenfield sites, such as those at the Northern Growth Area and the Stanway Growth Area, where the majority of the borough's growth is to occur. It is evident from the analysis that the development in these growth areas will not be compromised by a CIL charge at this level.
- 6.9 So following the CIL Guidance, the £120/m² figure is recommended because it is below the ceiling of what might be theoretically affordable, which the £150/m² charge represents.

Three residential charging options were considered

- 6.10 Three other residential charging options were considered. Two relate to the probability of development proposals coming forward in the surrounding villages and towns where values vary compared to Colchester urban area. The third option relates to residential development within Colchester urban area.
- i In the first instance, a higher levy charge in the higher value areas was rejected because the volume of anticipated development would be low, therefore this did not warrant the additional complexity it would add to the CIL. This will be reviewed if those circumstances appear likely to change.
 - ii In the second instance, a lower CIL on housing in the low value areas was rejected for two reasons:
 - These are expected to involve smaller sites. In this situation, while housebuilders will incur higher building costs due to the lack of economies of scale, they will

usually be spared the higher burden of providing extensive on site infrastructure and open space cost requirements.

- As before, the volume of anticipated development will not be critical to achieving the overall planned number of houses and did not warrant the additional complexity of a differentiated charge in the CIL.

iii With the third option, the Council is keen to see redevelopment within the Colchester urban area itself and in particular in the East Colchester Regeneration Area. The expectation is that in normal market conditions these urban locations might lend themselves to higher density developments with a high proportion of flats. These would normally sell at a higher price per square metre than houses and when values exceed costs, the higher density of development feeds back directly into higher land values.

Conclusions

6.11 The available evidence suggests that at present, an adequate price premium for residential development is not obtainable. This is likely to be partly because there has been a historic oversupply of flats in the borough (at least in the recent past) which has fed back into weaker prices. And it is recognised that other factors such as the need for land assembly will pose a significant threat to scheme viability in the short term. Notwithstanding this, there is not seen as being an adequate case to justify a departure from a £120/m² charge for residential space because:

- it would be difficult to define the scope of a differentiated charge either in terms of type of scheme or location;
- the key obstacle to viability is not seen to be the level of the charge. Rather, it is the likely price of land for development and the general level of demand for, and price of, town centre flats;
- this level of charge does not compromise viability in the Northern Growth Area and the Stanway Growth Area where the majority of development is planned; and
- other planning requirements which are negotiable - in particular affordable housing - will have a greater impact on viability.

Suggested level of charge for residential uses: £120/m²

Non-residential development

6.12 As shown in Section 7, the 'core' uses which are fundamental to the delivery of the Core Strategy are residential, B-class commercial and retail uses. In this section, we focus on the B-class commercial and retail uses and also the other uses identified by officers for further examination – leisure centres, hotels and care homes.

6.13 For all these non-residential uses, we have undertaken a high level viability assessment using typical values and costs for a range of development types and tabulated the conclusions in each section below. The analysis of all of the sectors and assumptions, with both a £120/m² and £0/m² charge, is shown in Appendix C.

B-class commercial

- 6.14 The commercial property markets are subdued at present. Many transactions are being concluded at much lower prices than might have been obtained (say) five years ago. It is not clear how long these circumstances will persist but market commentary suggests that full recovery in areas such as Colchester is some way off.
- 6.15 In the analysis the general assumption is that the price sought for new development will reach the higher levels obtainable in the current market. This implies that development finance will be available and that there is some confidence in occupier demand. To the extent that this assumes a better development climate in respect of finance and demand (as opposed to headline prices and costs), it is axiomatic that, without this, very little development is likely to come forward. Of course, some owner occupiers may choose to do so.
- 6.16 It is clear that in Colchester borough, not much B-class commercial development is underway and the Council are mindful that to achieve the continuing economic viability of the area requires the creation of employment on a wide range of sites and not merely those that are that are the easiest and cheapest to develop. Therefore, as it stands, imposing a CIL charge on employment development would pose a significant risk to the prospects of new development and to economic viability and for that reason no CIL charge can be justified. This will be reviewed if market conditions change significantly.

Table 6.3 B-class commercial viability analysis with a £0/m² CIL charge

	Town Centre Office	Business Park Office	Distribution Centre	Small Industrial
VALUES	2,570	2,350	890	1,000
COSTS				
EUV + Purchase Costs	500	100	100	100
Basic Build Cost	1,600	1,300	450	600
External Works	160	130	45	60
Fees	264	172	50	79
CIL @ £0/m ²	0	0	0	0
Section 106/m ²	0	50	50	0
Marketing & Sales	129	118	45	50
Contingencies	101	80	27	37
Interest	252	170	64	84
Margin	601	414	156	202
Total Cost Benchmark	3,607	2,533	987	1,212
Values - Costs	-1,037	-183	-97	-212

- 6.17 The analysis for town centre offices, business park offices, distribution centres and small industrial uses is shown in Table 6.3. This shows that, in all cases, costs are greater than values so development is usually unviable, even with a zero CIL charge. As such, the charge for these uses should be set at zero.

Suggested level of charge for B-class commercial uses: £0/m²

Retail

6.18 Within the retail sector, it was considered important to distinguish between two elements that operate very differently in development terms; smaller town centre/local retail and larger out-of-centre retail, the latter commonly being supermarkets and retail warehousing. We look at each in turn.

Town centre and local retail

- 6.19 Town centre retailing outside of London is in a period of transition. The majority of retail led regeneration schemes have stalled due to a combination of weak consumer demand, constraints on investment capital and poor retail occupier performance. Developers in the sector have therefore been going through a process of redesigning existing schemes in order to make them deliverable in the current economic climate and more appropriate to future consumer demand. This has often involved reducing the scale of potential developments and targeting better quality, financially stable retail operators.
- 6.20 We are of the opinion that well designed, prime retail accommodation in Colchester that is free of substantial abnormal development costs would be economically viable. Actual delivery nevertheless will depend upon the re-emergence of occupier demand, fresh development capital into the property sector and – especially in regional and sub-regional town centres such as Colchester – the reduction in existing use value of the sites for development.
- 6.21 The exception is large scale food stores which continue to be sought after; these are addressed separately below.
- 6.22 The rate at which it is proposed that the levy should be set is likely to be small in comparison with the relatively high values generated from relatively modest investments in the shops and stores themselves, with the exception being local convenience provision. The main obstacle to development in many cases is not so much project viability as occupier demand and the availability of suitable sites at a sensible price.
- 6.23 For retail space in town centres and local neighbourhood centres, the levy is recommended to be charged at the same rate as residential development, i.e. £120/m². Although town centre retail development will be valuable, the costs associated with site assembly are likely to be high, so this level is considered to be appropriate. This is shown in Table 6.4.

Table 6.4 Town centre and local retail viability analysis with a £120/m² CIL charge

	Town Centre Retail	Local Retail
VALUES	5,000	1,425
COSTS		
EUV + Purchase Costs	2,500	200
Basic Build Cost	750	600
External Works	0	0
Fees	113	72
CIL @ £120/m ²	120	120
Section 106/m ²	0	0
Marketing & Sales	250	71
Contingencies	43	34
Interest	348	99
Margin	801	215
Total Cost Benchmark	4,925	1,411
Values - Costs	75	14

- 6.24 Whilst the local retail market suggests that development is only just viable, the level of development of local retail is expected to be de minimis, so there is no justification for an alternative, lower charge for this type of retail use. This will not compromise the delivery of the Core Strategy.

Out-of-centre/edge-of-centre retail

- 6.25 Larger out-of-centre or edge-of-centre convenience retail continues to be one of the best performing sectors in the UK. Leases to the main supermarket operators (often with fixed uplifts) command premiums with investment institutions. Although there are some small regional variations on yields, they remain generally strong with investors focussing primarily on the strength of the operator covenant and security of income.
- 6.26 We would therefore suggest the evidence base for large, out-of-centre or edge-of-centre retail can be approached on a wider regional or even national basis when justifying CIL charging. We would suggest the charge should be at least double that of the maximum residential levy at circa £240 per m² on such developments. Table 6.5 demonstrates that such a charge level is viable.

Table 6.5 Viability analysis for major food retail and retail warehousing with a £240/m² CIL charge

	Notes	Major Food Retail	Retail warehouse
VALUES	1	3,200	3,075
COSTS	1		
EUV + Purchase Costs	2	100	100
Basic Build Cost		1,200	750
External Works	3	120	75
Fees	4	132	83
CIL @ £240/m ²		240	240
Section 106/m ²	5	100	100
Marketing & Sales		160	154
Contingencies		73	45
Interest	6	179	125
Margin	7	393	266
Total Cost Benchmark		2,697	1,938
Values - Costs		503	1,137

Differentiating retail development for CIL charging

- 6.27 It would be simplest to base the two CIL levels proposed for retail on a floorspace threshold. However, this would be overly simplistic and would ignore the fact that new development within defined town centres is commonly by way of applications for comprehensive development, i.e. multiple stores, thereby exceeding any reasonable threshold that could be set to differentiate it from larger out-of-centre and edge-of-centre retail units.
- 6.28 Rather, the use of the definitions of town centre, edge-of-centre and out-of-centre, as given in Planning Policy Statement 4 ('Planning for Sustainable Economic Growth'), is preferred. Accordingly, town centre retail will pay a CIL rate of £120/m² and out-of-centre and edge-of-centre retail will pay a CIL rate of £240/m².
- 6.29 The only issue arises with the provision of local neighbourhood retail, which can be in single units in out-of-centre or edge-of-centre locations. This would therefore subject it to the higher (£240/m²) CIL rate for out-of-centre or edge-of-centre retail uses, which would be contrary to the evidence. As such, an appropriate threshold is set below which retail units not in town centres can pay the lower charge. It is considered that such a threshold is based on the Sunday Trading Act 1994, which permits all units below 280m² net floorspace to trade for longer than six hours. A reasonable net-to-gross assumption is 65%, creating a gross floorspace threshold of 430m².

Suggested level of charge for retail floorspace in defined out-of-centre or edge-of-centre locations: £240/m²

Suggested level of charge for retail floorspace in defined town centres or ≤430m² gross floorspace: £120/m²

Other non-residential uses

Leisure development

- 6.30 There is no generic type of leisure development. For instance the value of a cinema varies with location and size; and has nothing at all in common with the economics of developing a leisure centre or nightclub.
- 6.31 For the most part, leisure uses and especially those developed on a larger scale, do not generate significant land values; the economics are inherently marginal and development only occurs when market conditions are favourable and on especially suitable sites. Providing facilities such as exhibition space, studio size cinemas and theatres, etc, on a commercial basis is especially challenging and it is rare to find needs met by new development.
- 6.32 Valuable exceptions include well-located licensed premises but there is no evidence that development opportunities in this respect are currently being sought on any scale in the Colchester area (all market transactions over the past five years recorded on the EGi database have involved existing premises).
- 6.33 There is an identified need for additional indoor sports and leisure facilities. Private sector development is expected to meet this need which is regarded as important to the overall development of the area, particularly given the new urban extensions. There is no comparable market evidence of the value of these in the Colchester area but the basic economics of providing them does not vary much anywhere outside of the major cities, so evidence from elsewhere is relevant.
- 6.34 For our analysis we focused on transactional evidence in relation to larger facilities rather than simple gymnasia - which are mostly provided in existing buildings. Our conclusion was that the value and cost of sports centres were finely balanced with a significant risk that a levy could deter the needed development. Therefore there was no basis to make an exception to the CIL levy charge in this respect.

Table 6.5 Leisure centre viability analysis with a £0/m² and £120/m² CIL charge

	Leisure Centre	Leisure Centre
VALUES	2,800	2,800
COSTS		
EUV + Purchase Costs	100	100
Basic Build Cost	1,700	1,700
External Works	170	170
Fees	187	187
CIL @ £0/m ² / £120m ²	0	120
Section 106/m ²	0	0
Marketing & Sales	0	0
Contingencies	103	103
Interest	216	228
Margin	248	249
Total Cost Benchmark	2,723	2,856
Values - Costs	77	-56

- 6.35 Table 6.5 shows the viability assessment for leisure centres. It shows that, even with a zero CIL level, values only just exceed costs. However, with a £120/m² charge, costs are higher than values. This demonstrates that any charge in this range would be marginal. We therefore conclude that the viability of the development of leisure facilities on a scale commensurate with the aspirations of the LDF might be prejudiced by a CIL charge.

Proposed level of charge for leisure development: £0/m²

Hotels

- 6.36 Hotel values are calculated on an equivalent rent, based on the number of rooms multiplied by an investment yield. The rapid expansion in the sector at the end of the last decade was in part fuelled by a preference for management contracts or franchise operations over traditional lease contracts. The recession has curtailed the appetite from investors in management contract operations who prefer the security of lease-related income even if this reduces the potential additional income from a performance-related counterpart.
- 6.37 Outside of London (which has shown remarkable resilience to the recession), hotel development is being strongly driven by the budget operators delivering new projects through traditional leasehold arrangements with institutional investors. Room demand for budget operators is also driven by business occupiers as opposed to tourists. Therefore high occupancy in this sector is more of a characteristic of major regional centres rather than smaller market towns. The market for higher standard hotels remains difficult outside of the capital with the lack of access to finance curtailing development opportunities.
- 6.38 Outside of London, hotel development is seen as primarily coming from budget operators who are in turn driven by business occupiers as opposed to tourists. Therefore our viability model is based on an out-of-town budget hotel scheme of circa 80-90 rooms Nevertheless

the evidence for this use would suggest the economics of development are intrinsically marginal and would be unlikely to sustain a CIL charge. This is shown in Table 6.6.

Table 6.6 Hotel viability analysis with a £0/m² CIL charge

	Hotel
VALUES	1,618
COSTS	
EUV + Purchase Costs	100
Basic Build Cost	1,200
External Works	120
Fees	158
CIL @ £0/m ²	0
Section 106/m ²	0
Marketing & Sales	81
Contingencies	74
Interest	79
Margin	362
Total Cost Benchmark	2,175
Values - Costs	-557

Proposed level of charge for hotel development: £0/m²

Residential care homes

- 6.39 Data on residential care homes was obtained from trade sources. It is difficult to analyse the ability of care home schemes to contribute to CIL as they are generally established as a trading proposition with investors and developers realising profit upon the sale of the asset once its trading performance has been established through operational improvement. The initial viability test would therefore suggest that viability within the sector is marginal. The appetite for investment in the sector has been reduced in recent weeks by the crisis within the Southern Cross Healthcare Group plc, one of the major operators within the sector. This will have a negative impact on values across the sector (by reducing confidence) and as a result the calculation is cautious, pending clarification of the effect of this crisis. At this present time we are of the opinion that development is not viable on this basis so no CIL charge can be justified. This is shown in Table 6.7.

Table 6.7 Residential care home viability analysis with a £0/m² CIL charge

	Care Home
VALUES	1,470
COSTS	
EUV + Purchase Costs	100
Basic Build Cost	1,291
External Works	129
Fees	170
CIL @ £0/m ²	0
Section 106/m ²	0
Marketing & Sales	74
Contingencies	80
Interest	85
Margin	386
Total Cost Benchmark	2,314
Values - Costs	-844

Proposed level of charge for residential care home development: £0/m²

Other uses

- 6.40 There are many other uses that will inevitably be delivered in the Borough over the plan period. This includes, amongst other things, medical facilities, schools and community facilities. The earlier analysis considered that the level of CIL charge should be zero. Given that these facilities are commonly not commercially-driven developments, it is considered that there can be no evidence to justify a change from the CIL charge for such uses. Indeed, there is simply no evidence to suggest that ‘value capture’ could be achieved from such uses which usually require public funding to be delivered.

What CIL is spent on – the ‘Section 123’ list

- 6.41 One issue that has arisen within the assessment is the appropriate use of CIL versus S106 as a means of securing appropriate contributions from a particular development without compromising deliverability. In Colchester, a significant proportion of development is expected to come forward in the Northern Growth Area and the question arises as to which mechanism will balance the need for early funding of significant infrastructure requirements to support growth with the ability of the developers to fund this, given cashflow constraints.
- 6.42 It is not considered likely that one approach should be solely taken forward in preference to another; the CIL Regulations enable a degree of flexibility in this regard. Section 123 of the CIL Regulations states that an authority must identify the list of infrastructure which it intends to charge CIL on. This can be as specific as the authority wishes and the list can be changed regularly if so desired.

- 6.43 One of the particular issues that should be raised in this context is the provision of education facilities to serve the Northern Growth Area. ECC has assessed that three new primary schools and a site for new secondary school provision to serve the wider north-west Colchester area are required. The primary schools could be said to be site-specific whereas the secondary school provides for more strategic education needs. One solution could therefore be to seek the primary school provision through a S106 agreement and the secondary school provision through CIL. This distinction would need to be made clear in the S123 list of items that CIL is to be spent on.
- 6.44 This is further complicated by the matter of land provision. For the purposes of the infrastructure assessment, the cost of land for new education provision was included, at D1 (education) land values. As stated in Section 4, it could equally be argued that this land should be valued at agricultural values or at residential values.
- 6.45 Whilst this issue is being flagged for when Colchester BC considers its infrastructure delivery plan in more detail, the important matter here is whether the cost of land should be included within CIL or charged as S106. Based on guidance from CLG, we believe that it is theoretically possible to charge separately for land and buildings, keeping one in a CIL and the other outside the CIL (and thereby subject to a S106 agreement). This is simply a case of the S123 list being explicit about what it contains.
- 6.46 As to what the preferred approach should be, this will require further consultation with the developers of the Northern Growth Area. One observation is that the current infrastructure funding gap assessed in this report is sizeable. Even if, within the context of CIL, certain elements of infrastructure need were excluded because they were considered to be 'site specific', the gap would still be larger than the potential receipts from CIL. As such, it would be difficult for a developer to argue that there was double charging of CIL for education and S106 for a primary school.
- 6.47 It should be stressed that it is not for this study to recommend one approach over another regarding what is included in the CIL S123 list. This will need further consultation with the developers and it is notable that such a list does not have to be finalised and submitted as part of the CIL examination. As such, an open dialogue can be maintained whilst continuing to bring the proposed CIL charging schedule forwards. This dialogue is recommended in order to formulate an agreed view.

7 RECOMMENDED LEVELS OF CHARGE

- 7.1 Our viability assessments have shown that, of the uses which are considered to be intrinsic to the delivery of Colchester's Core Strategy, the majority have no potential to realise any receipts from a CIL without compromising the viability of development. These are all B-class uses, hotels, leisure (sports centres) uses and residential care homes.
- 7.2 Whilst residential and retail development can support a CIL level above zero, it would not be appropriate to set a single CIL at such levels because it would compromise the delivery of the uses that will support such development, in particular the residential growth which is fundamental to the Core Strategy.
- 7.3 It is important to reiterate a point made throughout the analysis that these uses are unable to support a CIL because of the poor wider market conditions being experienced. In many respects, the CIL charge for these uses is irrelevant because it is highly unlikely that there will be any development (of any note) of these uses until market conditions improve. Once this stage is reached, it will be important to review whether CIL can be charged on such uses.
- 7.4 As such, the CIL charge must be zero. This is applicable to all new developments, unless an alternative level of charge is otherwise stated.
- 7.5 As demonstrated, the only uses which have the potential for value capture are residential and retail. Seeking to balance the need to maximise receipts with ensuring that the level of charge is not set overly close to the ceiling of affordability, gives the following charge levels:
- Charge for all uses unless stated - £0/m²
 - Residential - £120/m²
 - Retail in town centres or ≤430m² gross floorspace - £120/m²
 - Retail in out-of-centre or edge-of-centre locations - £240/m²
- 7.6 As a broad guide, these levels of charge would raise approximately £61m from CIL, as shown in Table 7.1:

Table 7.1 Indicative levels of funding raised by the proposed CIL charges

Use type	Floorspace (m ²)	CIL charge/m ²	Potential CIL revenue (£m)	Assumption / source
Residential (dwellings)	4,141 dwgs (351,985m ²)	£120	£42.2m	Excludes 35% of dwellings that will be affordable, so pay zero CIL. Average floorspace per dwelling = 85m ²
Retail in town centres or ≤430m ² gross floorspace	67,000m ²	£120	£8.0m	Based on North Essex Retail Study findings
Retail in out-of-centre or edge-of-centre locations	6,124m ²	£240	£10.7m	4 stores at 1,531m ² /store (which is average size of UK supermarket). There is no evidential basis for this level of provision; it is simply used as an illustrative guide.
Total			£60.9m	

- 7.7 Set against an infrastructure funding gap of £276m, it is therefore clear that the CIL will only contribute towards addressing some of the identified needs. However, there is no prospect of the CIL raising funds in excess of the levels needed and alternative/additional sources of funding should continue to be sought.
- 7.8 The New Homes Bonus could raise an additional £90m and there may be scope for prudential borrowing or Tax Increment Financing to be used as mechanisms to raise further funding. However, it is not clear as to the levels of funding that such mechanisms might raise, or the willingness of the Borough Council to consider such funding streams.

APPENDIX A

Full residential appraisal with £120/m² CIL charge

HOUSING APPRAISAL : VIABILITY MODEL

Site Assumptions

Gross Area	10	hectares
Area developable for housing	6	hectares
Dwellings per ha	40	of which
% of Houses	90%	
% of flats	10%	
% Market homes	65%	
% Shared ownership Homes	7%	
% Social Rented Homes	28%	

Note : Entries in **RED** should be made manually.
Entries in **BLACK** are derived from formulae.

Summary

Land Price	3,000,000
Section 106 per dwelling	7,000
CIL Per Sq M	120
Margin on Cost	18.2%
NPV	2,683,303

Construction costs & sale proceeds

	Nom, Units	Average Size	Net Sellable Area	Cost Sq M	Value Sq M	Total Cost	Total Value
Market Houses	140	100	14040	950	2300	13,338,000	32,292,000
Shared Ownership Houses	15	90	1361	950	1610	1,292,760	2,190,888
Social Rented Houses	60	90	5443	950	1450	5,171,040	7,892,640
Market Flats	16	60	936	1400	2600	1,310,400	2,433,600
Shared Ownership Flats	2	60	101	1400	1820	141,120	183,456
Social Rented Flats	7	60	403	1400	1450	564,480	584,640
TOTAL	240		22284			21,817,800	45,577,224

Land Cost

Purchase Price	3,000,000	
Purchase – Fees	60,000	2.00%
Stamp Duty	120,000	4.00%
TOTAL	3,180,000	

Basis of Calculation

On land cost
On land cost

Development Costs

Construction Cost	21,817,800		
Off site works	250,000		
S106 Costs	1,680,000	7,000	
CIL	1,797,120	120	sq m
On site secondary Infrastructure	4,000,000	400,000	per ha
Fees & Other	3,098,136	12.00%	
Cost of Sales	1,389,024	4.0%	
Post Completion Management	200,000		
TOTAL	34,232,080		

Basis of Calculation

As Above
Provision Only
Notional contribution per unit on GEA
Budget per gross hectare
% of construction & on site site works
% cost per unit of agents, marketing, legal Provision

Finance & Cash Flow

Interest payable	1,136,112		7.00%	Interest, as per cash flow below.
Sales per quarter	25	dwellings		
Total Sales Period (Quarters)	9.6			
Discount rate per quarter	4.5%			

Total Cost

38,548,192

	Receipts	Land	Cost	Cash Flow	Balance at Start	Interest	Balance at End
Q1		3,180,000		-3,180,000	-3,180,000	-55,650	-3,235,650
Q2			3,565,842	-3,565,842	-6,801,492	-119,026	-6,920,518
Q3			3,565,842	-3,565,842	-10,486,359	-183,511	-10,669,871
Q4	4,747,628		3,565,842	1,181,786	-9,488,085	-166,041	-9,654,126
Q5	4,747,628		3,565,842	1,181,786	-8,472,341	-148,266	-8,620,607
Q6	4,747,628		3,565,842	1,181,786	-7,438,821	-130,179	-7,569,000
Q7	4,747,628		3,565,842	1,181,786	-6,387,214	-111,776	-6,498,990
Q8	4,747,628		3,565,842	1,181,786	-5,317,205	-93,051	-5,410,256
Q9	4,747,628		3,565,842	1,181,786	-4,228,470	-73,998	-4,302,468
Q10	4,747,628		3,565,842	1,181,786	-3,120,682	-54,612	-3,175,294
Q11	4,747,628		2,139,505	2,608,123	-567,172		-567,172
Q12	4,747,628			4,747,628	4,180,456		4,180,456
Q13	2,848,577			2,848,577	7,029,033		7,029,033
Q14				0	7,029,033		7,029,033
Q15							
Q16							
Total	45,577,225	3,180,000	34,232,080			-1,136,112	

APPENDIX B

Full residential appraisal with £150/m² CIL charge

HOUSING APPRAISAL : VIABILITY MODEL

Site Assumptions

Gross Area	10	hectares
Area developable for housing	6	hectares
Dwellings per ha	40	of which
% of Houses	90%	
% of flats	10%	
% Market homes	65%	
% Shared ownership Homes	7%	
% Social Rented Homes	28%	

Note : Entries in **RED** should be made manually.
Entries in **BLACK** are derived from formulae.

Summary

Land Price	3,000,000
Section 106 per dwelling	7,000
CIL Per Sq M	150
Margin on Cost	16.8%
NPV	2,340,470

Construction costs & sale proceeds

	Nom, Units	Average Size	Net Sellable Area	Cost Sq M	Value Sq M	Total Cost	Total Value
Market Houses	140	100	14040	950	2300	13,338,000	32,292,000
Shared Ownership Houses	15	90	1361	950	1610	1,292,760	2,190,888
Social Rented Houses	60	90	5443	950	1450	5,171,040	7,892,640
Market Flats	16	60	936	1400	2600	1,310,400	2,433,600
Shared Ownership Flats	2	60	101	1400	1820	141,120	183,456
Social Rented Flats	7	60	403	1400	1450	564,480	584,640
TOTAL	240		22284			21,817,800	45,577,224

Land Cost

Purchase Price	3,000,000	
Purchase – Fees	60,000	2.00%
Stamp Duty	120,000	4.00%
TOTAL	3,180,000	

Basis of Calculation

On land cost
On land cost

Development Costs

Construction Cost	21,817,800		
Off site works	250,000		
S106 Costs	1,680,000	7,000	
CIL	2,246,400	150	sq m
On site secondary Infrastructure	4,000,000	400,000	per ha
Fees & Other	3,098,136	12.00%	
Cost of Sales	1,389,024	4.0%	
Post Completion Management	200,000		
TOTAL	34,681,360		

Basis of Calculation

As Above
Provision Only
Notional contribution per unit on GEA
Budget per gross hectare
% of construction & on site site works
% cost per unit of agents, marketing, legal
Provision

Finance & Cash Flow

Interest payable	1,174,740		7.00%	Interest, as per cash flow below.
Sales per quarter	25	dwellings		
Total Sales Period (Quarters)	9.6			
Discount rate per quarter	4.5%			

Total Cost

39,036,100

	Receipts	Land	Cost	Cash Flow	Balance at Start	Interest	Balance at End
Q1		3,180,000		-3,180,000	-3,180,000	-55,650	-3,235,650
Q2			3,612,642	-3,612,642	-6,848,292	-119,845	-6,968,137
Q3			3,612,642	-3,612,642	-10,580,778	-185,164	-10,765,942
Q4	4,747,628		3,612,642	1,134,986	-9,630,956	-168,542	-9,799,498
Q5	4,747,628		3,612,642	1,134,986	-8,664,512	-151,629	-8,816,141
Q6	4,747,628		3,612,642	1,134,986	-7,681,155	-134,420	-7,815,575
Q7	4,747,628		3,612,642	1,134,986	-6,680,590	-116,910	-6,797,500
Q8	4,747,628		3,612,642	1,134,986	-5,662,514	-99,094	-5,761,608
Q9	4,747,628		3,612,642	1,134,986	-4,626,622	-80,966	-4,707,588
Q10	4,747,628		3,612,642	1,134,986	-3,572,602	-62,521	-3,635,123
Q11	4,747,628		2,167,585	2,580,043	-1,055,080		-1,055,080
Q12	4,747,628			4,747,628	3,692,547		3,692,547
Q13	2,848,577			2,848,577	6,541,124		6,541,124
Q14				0	6,541,124		6,541,124
Q15							
Q16							
Total	45,577,225	3,180,000	34,681,360			-1,174,740	

APPENDIX C

Non-residential viability appraisal

VIABILITY WITH CIL @ £120/M²

	Notes	Town Centre Office	Business Park Office	Distribution Centre	Small Industrial	Major Food Retail	Retail warehouse	Town Centre Retail	Local Retail	Leisure Centre	Hotel	Care Home
VALUES	1	2,570	2,350	890	1,000	3,200	3,075	5,000	1,425	2,800	1,618	1,470
COSTS	1											
EUV + Purchase Costs	2	500	100	100	100	100	100	2,500	200	100	100	100
Basic Build Cost		1,600	1,300	450	600	1,200	750	750	600	1,700	1,200	1,291
External Works	3	160	130	45	60	120	75	0	0	170	120	129
Fees	4	264	172	50	79	132	83	113	72	187	158	170
CIL @ £120/m ²		120	120	120	120	120	120	120	120	120	120	120
Section 106/m ²	5	0	50	50	0	100	100	0	0	0	0	0
Marketing & Sales		129	118	45	50	160	154	250	71	0	81	74
Contingencies		101	80	27	37	73	45	43	34	103	74	80
Interest	6	264	182	76	96	167	113	348	99	228	79	85
Margin	7	604	416	159	204	390	264	801	215	249	362	386
Total Cost Benchmark		3,742	2,668	1,121	1,346	2,562	1,803	4,925	1,411	2,856	2,295	2,434
Values - Costs		-1,172	-318	-231	-346	638	1,272	75	14	-56	-677	-964

Notes

- 1 All values and costs per m² unless stated
- 2 EUV is the value of the land for development in its existing use. It is assumed that this will be higher in urban areas.
- 3 Works outside built structure. High for business parks where extensive site servicing and landscaping can be required. Usually negligible in town centres.
- 4 Fees are higher for smaller and/or more complex structures.
- 5 This covers site-specific infrastructure being mainly social infrastructure on site and access and other works outside the site boundary.
- 6 Interest costs vary with the nature and length of a typical project.
- 7 Profit normally allowed at 20% on all costs and effectively assumed development is speculative.
The exception is leisure centres which are usually built to order so the lower profit reflects lower development risk.

	Costs exceed values
	Values exceed costs by less than 15%
	Values exceed costs by more than 15%

Not viable
At the margins, but viable
Viable

VIABILITY WITH CIL @ £0/M²

	Notes	Town Centre Office	Business Park Office	Distribution Centre	Small Industrial	Major Food Retail	Retail warehouse	Town Centre Retail	Local Retail	Leisure Centre	Hotel	Care Home
VALUES	1	2,570	2,350	890	1,000	3,200	3,075	5,000	1,425	2,800	1,618	1,470
COSTS	1											
EUV + Purchase Costs	2	500	100	100	100	100	100	2,500	200	100	100	100
Basic Build Cost		1,600	1,300	450	600	1,200	750	750	600	1,700	1,200	1,291
External Works	3	160	130	45	60	120	75	0	0	170	120	129
Fees	4	264	172	50	79	132	83	113	72	187	158	170
CIL @ £0/m ²		0	0	0	0	0	0	0	0	0	0	0
Section 106/m ²	5	0	50	50	0	100	100	0	0	0	0	0
Marketing & Sales		129	118	45	50	160	154	250	71	0	81	74
Contingencies		101	80	27	37	73	45	43	34	103	74	80
Interest	6	252	170	64	84	155	101	336	87	216	79	85
Margin	7	601	414	156	202	388	261	798	213	248	362	386
Total Cost Benchmark		3,607	2,533	987	1,212	2,428	1,669	4,790	1,277	2,723	2,175	2,314
Values - Costs		-1,037	-183	-97	-212	772	1,406	210	148	77	-557	-844

Notes

- 1 All values and costs per m² unless stated
- 2 EUV is the value of the land for development in its existing use. It is assumed that this will be higher in urban areas.
- 3 Works outside built structure. High for business parks where extensive site servicing and landscaping can be required. Usually negligible in town centres.
- 4 Fees are higher for smaller and/or more complex structures.
- 5 This covers site-specific infrastructure being mainly social infrastructure on site and access and other works outside the site boundary.
- 6 Interest costs vary with the nature and length of a typical project.
- 7 Profit normally allowed at 20% on all costs and effectively assumed development is speculative.
The exception is leisure centres which are usually built to order so the lower profit reflects lower development risk.

	Costs exceed values
	Values exceed costs by less than 15%
	Values exceed costs by more than 15%

Not viable
At the margins, but viable
Viable