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Colchester Borough Council

Community Infrastructure Levy: evidence base

Final report

Final Report | October 2011

P2076

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APPENDICES

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 £203m, 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	114.10	7.95	4.60	101.55
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	21.43	0.00	0.00	21.43
Other	12.50	0.00	0.00	12.50
Total	**278.93**	**32.55**	**43.70**	**202.68**

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/m²
Residential	£120/m²
Convenience retail	£240/m²
Comparison retail	£90/m²

4. As a broad guide, these levels of charge would raise approximately £50m 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.

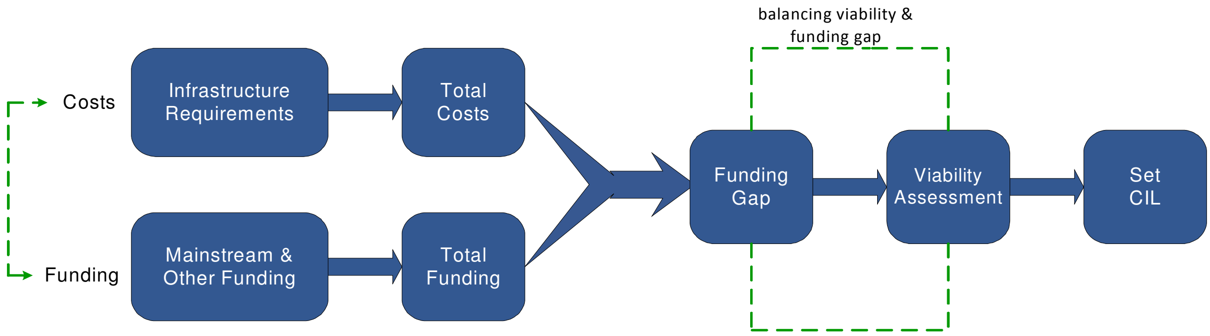
Our Approach

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

2.6 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

2.7 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].

2.8 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.

2.9 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

2.10 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.

2.11 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

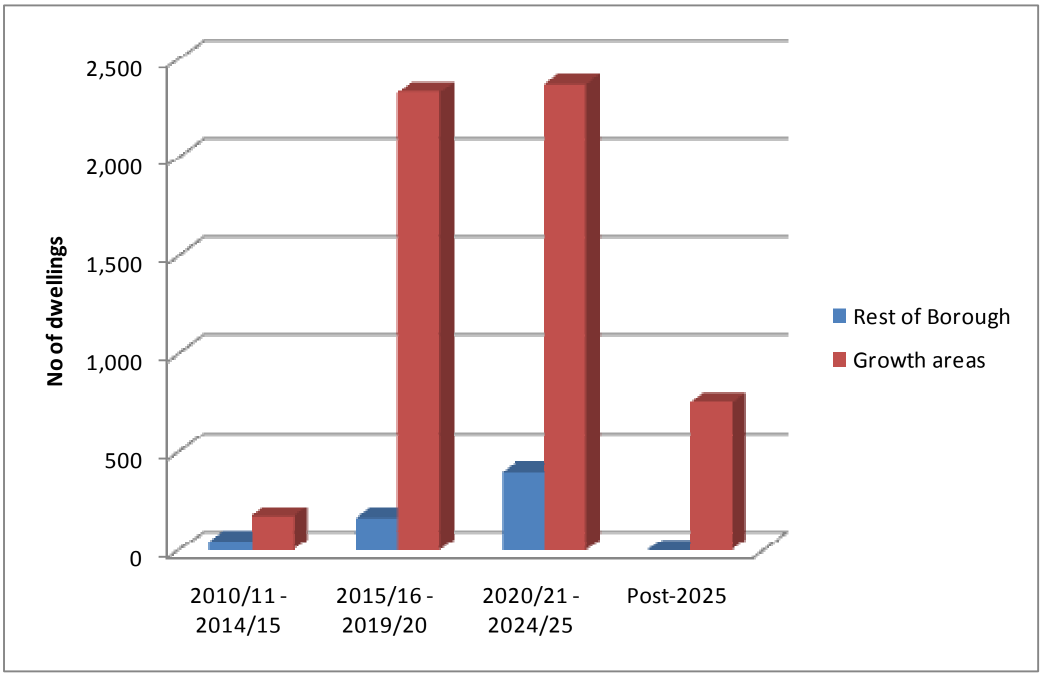
Core principle 3: Understanding the development context

2.12 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?

2.13 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.

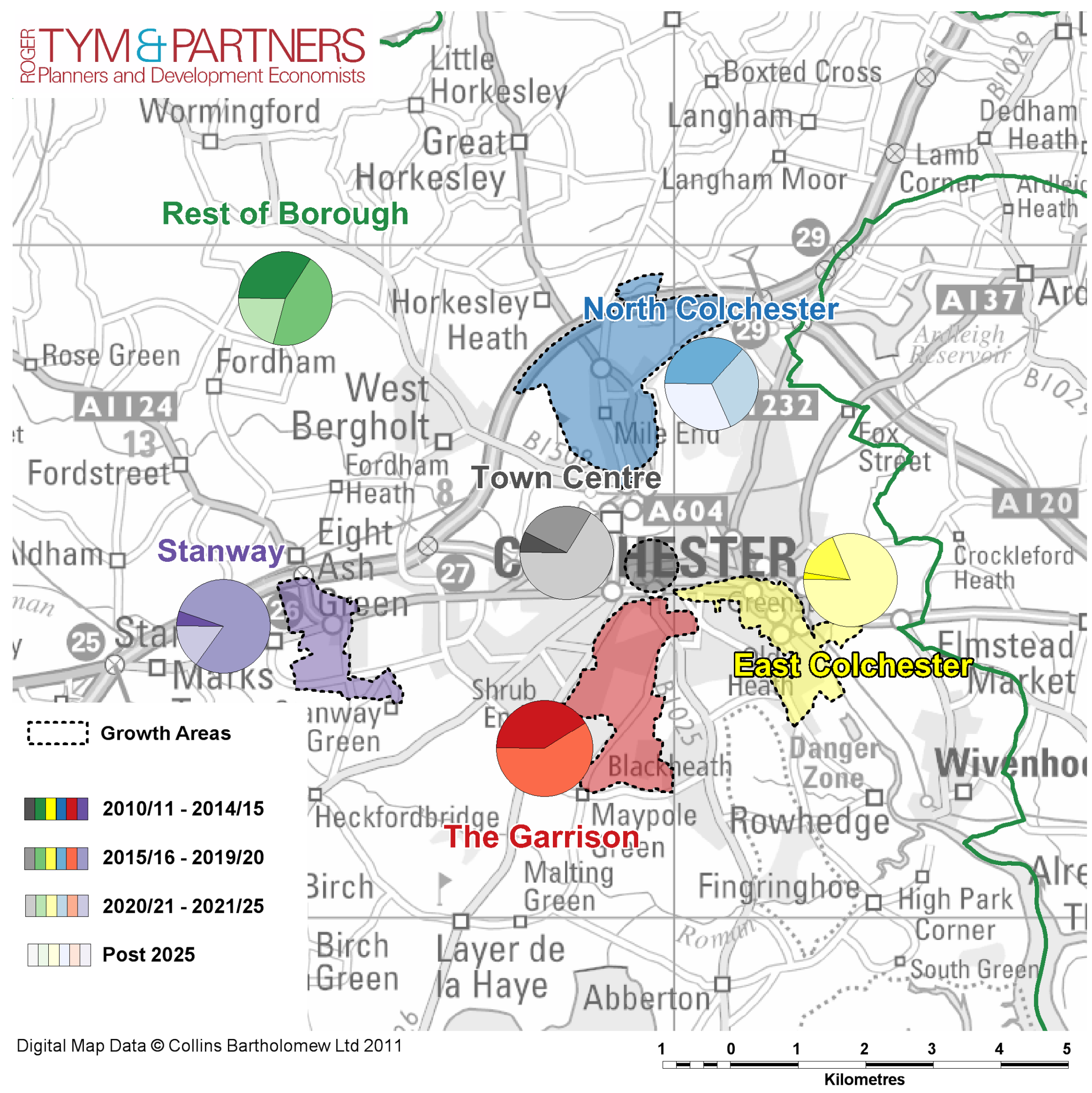
Figure 2.1 Remaining dwellings by time period



2.14 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.

2.15 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?

2.16 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

2.17 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

2.18 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 the middle of 2012 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.

2.19 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

2.20 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.

2.21 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

3.22 In determining the aggregate infrastructure funding gap, the CIL Guidance[2] 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)

3.23 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.

3.24 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

3.25 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.

3.26 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

3.27 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

3.28 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), the revision to 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.

3.29 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.

3.30 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.

3.31 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

3.32 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. There are numerous other smaller projects that have been funded through s106 that are not listed but details are included in the supporting documents.

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
Education	1 new primary school (Severalls) North Growth Area	10.90	Developer/ ECC	Funding secured (forward funding from ECC)
Transport	A12 Junction 28	10.00	Community Infrastructure Fund	Completed
Transport	North Transit Corridor	7.00	Developer	S106 funding secured (Severalls)
Transport	Northern Approaches Road Phase 3 (NAR3)	9.80	ECC	ECC, HCA and GAF funding secured
Transport	Stanway Western Bypass (final phase)	7.00	Developer	Funding secured
Transport	Cycling Improvements	4.5	Cycle Town	Completed
Leisure	Firstsite New site (Community Arts Facility)	30.00	CBC/others	Completed September 2011
Leisure	Community stadium - north Colchester	15.00	CBC	Completed
Transport	Hythe Rail Station improvements - East Colchester	1.70	Network Rail/ ECC	Completed
Transport	Colchester-Clacton branch line re-signalling	100.00	Network Rail	Secured
Leisure	Gym Facilities Garrison - South Growth Area	n/k	Developer/ CBC	Completed
Leisure	New clubhouse at athletics track - South Growth Area	0.70	CBC/Army/RMP	S106 secured through Garrison
Leisure	Castle Park Play Area	0.27	CBC	Completed
Leisure	Bergholt Road allotments	0.12	CBC	Completed
Public Realm	St Botolphs public realm improvements	0.25	Developer/CBC	Completed
Other	Magistrates' court - Town Centre	30.00	Dept for Constitutional Affairs	Under construction
Other	Cemetery expansion - Berechurch	0.00	CBC/MOD	Secured
Health	Wivenhoe Health Centre	3.50	PCT/LIFT Strategic Partnership Board	Secured

Size threshold

3.33 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.

3.34 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

3.35 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.

3.36 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	1.95	0.00	N/a	18.05	ECC
North Park and Ride	5.60	0.00	4.00 *	ECC	1.60	ECC * (funding provisional only)
East Transit Corridor (phases 1 & 2)	7.00	0.05	0.00	N/a	6.95	ECC, CBC and developer
Town Centre Improvements (incl. bus interchange and St Bots roundabout)	7.00	1.00	0.60	Growth Area Funding	5.40	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)	13.50 *	0.00	0.00	N/a	13.50	ECC * reflects some improvements delivered through park and ride work
A12 Junction Improvements (Junctions 25, 26, 28, 29)	30.00	0.00	0.00	N/a	30.00	Developer / Highways Agency
Cycling and walking improvements	10.00	0.95	0.00	N/a	9.05	ECC/Developer
Quality Bus Partnerships and Public Transport Improvements	10.00	4.00	0.00	N/a	6.00	ECC/Developer
Colchester North Rail Station Improvements	6.00	0.00	0.00	N/a	6.00	Network Rail/ ECC/CBC/ Developer
A120 Braintree to A12	Not known	0.00	Not known	Not known	Not known	Highways Agency
Total	**114.10**	**7.95**	**4.60**		**101.55**	

3.37 The total cost of the transport infrastructure schemes (excluding the A120 from Braintree to the A12) is £114m. A small amount of non-developer funding has been secured for cycling and walking improvements, leaving a funding gap of £102m.

3.38 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

3.39 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.

3.40 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

3.41 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.

3.42 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.

3.43 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.

3.44 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.

3.45 For the purposes of the CIL however, this assessment represents a sufficient understanding of core education requirements.

Other needs

Utilities

3.46 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.

3.47 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

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

Health

3.49 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.

3.50 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

3.51 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 £21m, with the majority of this relating to needs in the growth areas. This is based solely on the number of dwellings expected to be built in each area without planning permission as at 1st April 2010.

3.52 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	7.202	0.00	0.00	N/a	7.202	Developer/ CBC
Community Hall improvements North Growth Area	1.00	0.00	0.00	N/a	1.00	Developer/ CBC
POS/Sports and Recreation facilities in Wivenhoe and Rowhedge	1.495	0.00	0.00	N/a	1.495	Developer/ CBC
POS/Sports and Recreation facilities in urban Colchester	4.664	0.00	0.00	N/a	4.664	Developer/ CBC
POS/Sports and Recreation facilities in East Colchester	3.076	0.00	0.00	N/a	3.076	Developer/ CBC
POS/Sports and Recreation facilities in Stanway	3.994	0.00	0.00	N/a	3.994	Developer/ CBC
Total	**21.431**	**0.00**	**0.00**		**21.431**	

Source: CBC

3.53 At present there are no known sources of funding so this leaves a total infrastructure funding gap of over £21m. It may be more appropriate for some of these projects to be delivered as land in kind.

Other infrastructure needs

3.54 The Core Strategy identified a number of other, specific infrastructure needs which do no 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, in East Colchester, 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
River Wall repairs from Colne Causeway bridge to Fieldgate site	10.00	0.00	0.00	N/a	10.00	Environment Agency
Drainage	2.50	0.00	0.00	N/a	2.50	ECC/CBC/Developer
Total	**12.50**	**0.00**	**0.00**		**12.50**	

Source: CBC

3.55 In total, these other items costs £34.5m, with potentially over £34m to be funded by development.

4 THE INFRASTRUCTURE FUNDING GAP

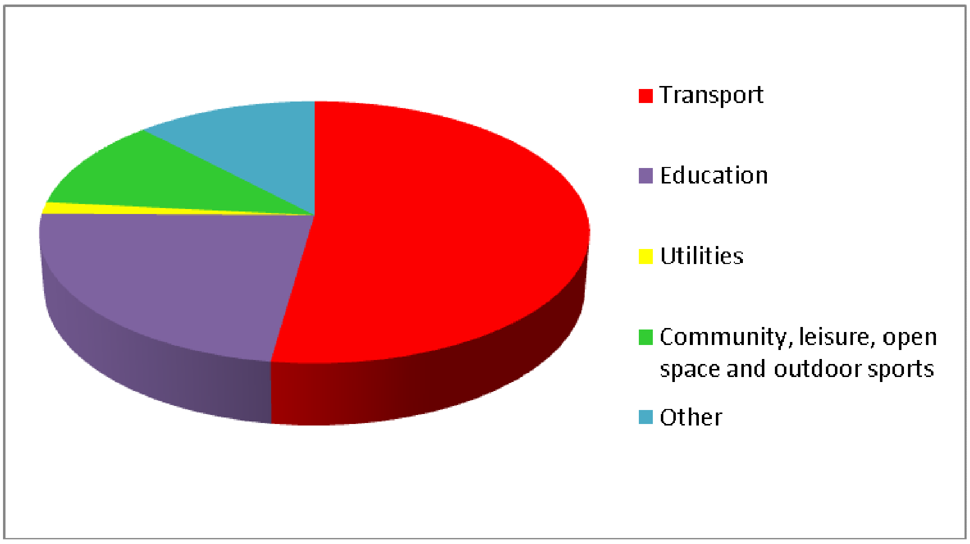
4.56 The overall funding gap of all the infrastructure requirements is shown in Table 4.1 below.

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	114.10	7.95	4.60	101.55
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	21.43	0.00	0.00	21.43
Other	12.50	0.00	0.00	12.50
Total	**278.93**	**32.55**	**43.70**	**202.68**

4.57 This shows that these projects have a total cost of £279m, with £33m already secured through developer funding and a further £44m funded through non-developer sources. This leaves a total gap potentially to be funded by development of just over £203m. 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



4.58 This £203m 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.

4.59 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 £89.9m[3]. 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.

4.60 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.

4.61 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

5.62 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.

5.63 As we have shown earlier, the development that is vital to achieving the aims of the Core Strategy over the first 5-10 years of the plan period is predominantly in the Growth Areas, mainly the Northern and Stanway Growth Areas. This is on greenfield sites so at this point in time the priority is to ensure that the overall viability in these areas is not prejudiced by the proposed CIL. It is anticipated that development in the town centre will prove more challenging, irrespective of any CIL charge, and therefore is unlikely to take place for several years by which time the level of charge will have been reviewed. So it is important for the viability assessment to largely consider greenfield locations and this is the appropriate high level approach taken.

5.64 The starting point therefore must be to understand what overall level of charge would not compromise viability for the majority of developments in the growth areas. To do this, it is necessary to understand what forms of development can be expected, based on past experience and what is anticipated in the Core Strategy. It is not therefore necessary to test forms of development that are unlikely to be proposed on any significant scale in Colchester.

5.65 Following this, it is then necessary to test whether on viability grounds alone it is appropriate to vary the charge rate for CIL for certain types or locations of development. . 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.

5.66 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.

5.67 For any variation by land use type it is necessary to consider whether there is evidence to support a higher charge or conversely, that the proposed charge at the standard rate is likely to make the development for that use and on the scale implied by the Core Strategy unviable. We outline the steps to assessing the CIL charge and options considered for charge variation.

Step 1: What and where are the ‘core’ uses?

5.68 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.

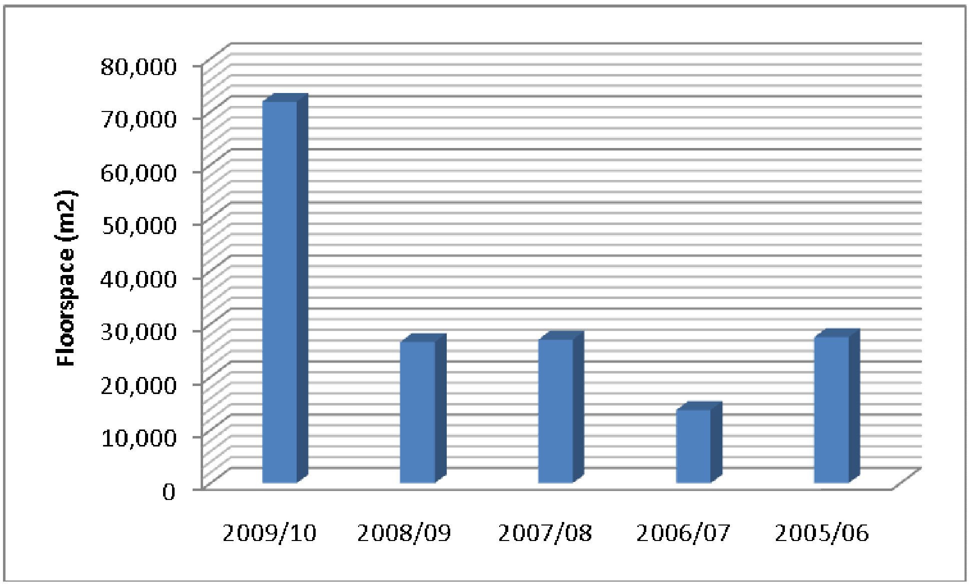
Residential

5.69 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

5.70 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



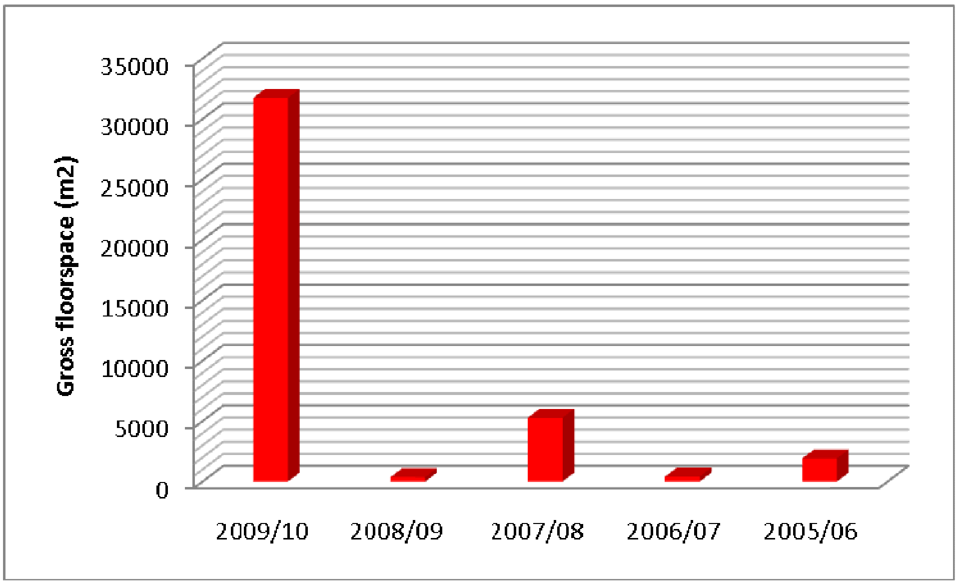
Source: Colchester Borough Council Annual Monitoring Reports

5.71 This totalled nearly 167,000m², at an average of just over 33,000m² of floorspace per annum. Nearly half of this was in the year 2009/10 and was accounted for by the completion of projects within the Garrison Regeneration Area.

Retail

5.72 Figure 5.2 shows that over the period 2005/6 to 2009/10, the following gross gains in 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

5.73 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

5.74 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 provided by the private sector.

5.75 There has also been significant local investment in new social facilities such as education, health and community infrastructure. .

5.76 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

5.77 As stated earlier in this section the aim is to ensure that the overall development of the area will not be frustrated by a CIL charge and the uses listed above are seen by Colchester BC as being strategically critical in this regard and the viability analysis focuses on them It needs to be emphasised that the CIL 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. It will be unusual for the CIL charge alone to make the difference between a development going ahead or not.

Step 2: Simple viability modelling to identify development value

5.78 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 land purchase, finance and the usual level of return on the developer's investment etc.

5.79 The criterion is that there should be a positive balance.

5.80 It is important to understand that a calculation of this sort is not the only determinant of viability because it doesn't explicitly deal with issues of risk or limitations on the amount of funding available to both purchasers and developers. For this reason it is necessary to augment the analysis of the contextual evidence on whether or not there is an appetite by developers to undertake various types of scheme. For example, an office developer might not go ahead with a scheme even if historic evidence suggests that receipts should substantially exceed costs. The reason might be that the market is showing occupier demand to be limited and therefore he considers there to be a significant risk that he could fail to let the building.

Assumption inputs to modelling are critical to determining accuracy

5.81 The accuracy of an appraisal model, when used to inform strategy rather than to analyse a specific development proposal, 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, we have used a simple calculation. This has been extended in the study of residential development where the impact on values of other policies such as affordable housing and open space requirements in particular need to be considered.

5.82 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.

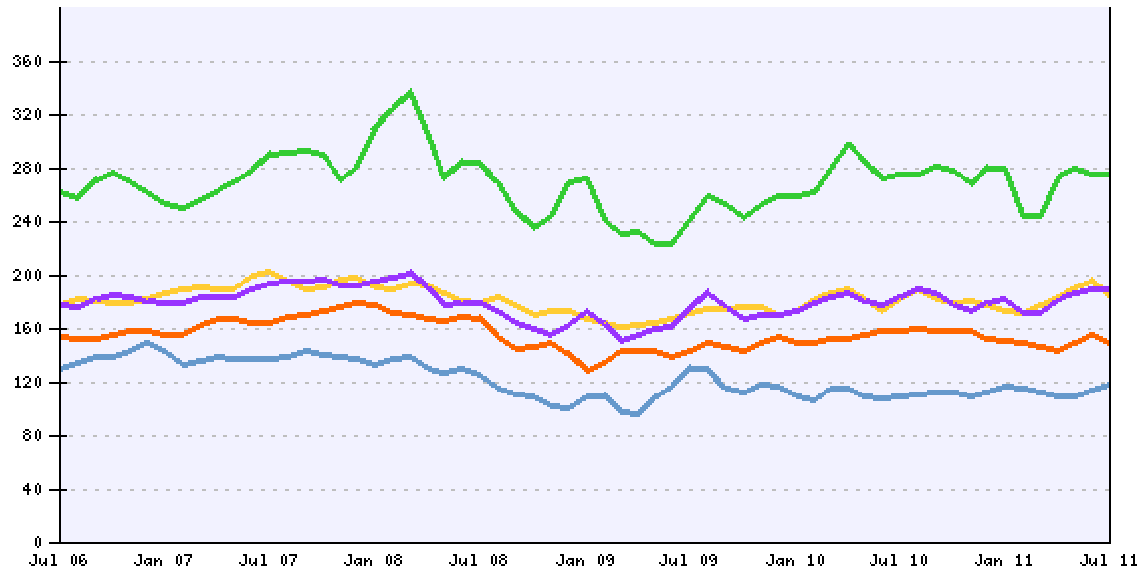
5.83 Few specific sites for development have been identified for the purposes of this study. Largely this is due to the fact that, where specific sites can be identified, there is inadequate design and engineering data to ensure that a more detailed appraisal model would produce a more accurate result. However, it is important to understand that, because they are not focused on specific sites, calculations of this type are inherently imprecise and involve a high degree of generalisation.

Values

5.84 Values for residential property were obtained by checking sales from existing and recent developments. For the reasons stated earlier, the primary focus was on standard two-storey, 3-bedroom houses and 2-bedroom flats to make it easier to align value and cost estimates and avoid error. It is understood that different types of houses have different value and cost characteristics. For instance, three-storey houses will often cost less and be worth less on a pro-rata basis measured by gross internal floor space. But the approach adopted has provided a reliable way of averaging these effects in the past. Affordable housing has been assessed in accordance with current guidance and practice and with input from the HCA.

5.85 It is accepted that our core assumption - that a standard two storey 3-bedroom house would fetch £2,250 per m² in the current market - is at the higher end of the range of possibilities. Our reasoning is that historically the Colchester residential market has shown significant resilience to the recent economic downturn and average house prices have shown a marginal increase over the past 5 years (www.home.co.uk and www.mouseprice.com). The graph below illustrates performance over that time period up until July 2011.

Average Property Selling Prices in Colchester (£000's)



House type	July 2006	July 2011	Change
Detached	£262,032	£275,011	+5%
Semi	£178,071	£183,182	+3%
Terraced	£154,391	£150,371	-3%
Flat	£130,864	£119,496	-9%
All	£177,625	£189,731	+7%

Source Home.co.uk 3-month moving averages by property type in Colchester. Due to the small amount of data available for this graph it may appear to be erratic.

5.86 Secondly, no attempt has been made to anticipate the positive effect of a housebuilders' skill in gauging the mix of buildings on a site to maximise returns. Perhaps more critically, no allowance has been made for any increase in values relative to costs over time. Nevertheless, recent research by residential housing market experts at consultants Savills[4] suggests that a significant increase (27%) in house prices across the region is likely in the period to 2015. This is significant insofar as most development will probably not commence until the latter part of this period and to that extent, our appraisals are cautious.

5.87 Values for commercial and retail property have been sourced using data from specialist agent's reports, the trade press, the Propertylink database of property on the market at present and the EGi databases of historic transactions. Conclusions were reinforced with local information and checked against the visible evidence (or lack of evidence) of progress on developments on the ground.

5.88 Again, no allowance has been made at this juncture for any increase in values or cost over time.

Cost and S106 estimates

5.89 Where possible we have based our cost estimates on cost studies produced by Cost Consultant's Davis Langdon[5], 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 to meet the cost of achieving Level 3 under the Code for Sustainable Homes as sought by Core Strategy policy ER1; and
- helps to avoid the common error of failing to match the types of building implied by the cost estimates with the types identified as comparators when assessing values.

5.90 We have used high level approximations of the costs involved such as external works, fees, finance and developer's profit margins. Different types of developer account for these costs in different ways (for instance many volume housebuilders undertake design work in-house and don't use bank loans to fund individual schemes). So, for comparative purposes, the cost estimates have to be considered as a whole rather than analysed individually.

5.91 We have also made separate provision for Section 106 and other site-specific planning contributions where appropriate. These represent the average over a range of scheme

[4] Savills, Residential Property Focus, Q3 2011

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

types. In practice there is wide variation depending on the specific site and proposal. In practice we would expect that each developer would regard some of our estimates as being too optimistic and some to be rather generous depending on their approach and circumstances.

5.92 It is assumed that commercial, retail and residential developments of market housing will need to achieve a margin on cost for the developer of 20%. In the latter case it is also assumed that they will achieve an internal rate of return on investment of 16%+. This is a measure of the acceptability of the cash flow. A lower profit margin has been applied to affordable housing for rent, with the effect that the overall blended target for the residential schemes at the level of affordable housing required is 16.5%.

5.93 A particular issue is identifying the cost of the land to be developed and we have made an estimate in most cases that assumes that the land has low value in its existing use (reflecting the greenfield nature of the bulk of development over the short to medium term) but that the landowner will want a very substantial premium over, say, agricultural or industrial use to bring a site to the market on a timescale that meets the needs of the Core Strategy.

5.94 For residential schemes we have assumed that the residual land value, after CIL charges and other policy requirements have been met, must exceed £500,000 per developable hectare if a satisfactory supply of land to the market is to be achieved. This can be compared with Valuation Office data suggesting that agricultural land in the region is worth £20,000 per hectare but it is also higher than the 'base price' that is usually adequate to allow developers to trigger land purchase under option agreements for the development of large scale, greenfield sites. It is self-evident and accepted that the imposition of a CIL charge at any rate means that, at the margin, sites with a very high 'hope value' or value in current use are less likely to come forward for development. This has particular implications for the economics of residential development in the town centre which will be dealt with later in this analysis.

5.95 We have rejected the approach of taking, as a starting point for estimating the cost of land for development, the prices paid for sites in the past as witnessed either by anecdotal evidence or Valuation Office Agency data. These reflect past circumstances rather than present or future planning and market realities. Also, when bidding for sites, developers will tend to make more optimistic assumptions about values, costs and planning requirements than the 'normative' or average levels that we have used and this is reflected and magnified in the reported prices paid for sites. (In the case of the Valuation Office Agency their data set is limited and in a particular area and timeframe can be skewed by specific transactions. In any event records of transactions are not fully informed by the terms of the contracts).

Step 3: Incorporating Market Interpretation to Assumption Inputs

5.96 The modelling assumption inputs were 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 prima facie evidence that development is not viable on a scale commensurate with the aspirations of the Core Strategy.

6 POTENTIAL CIL CHARGING LEVELS

6.97 This section considers the potential level of CIL charge that could appropriately be set.

Residential development

6.98 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. Most of the new homes will be provided on larger strategic sites and for the immediate future these should adequately meet local needs.

6.99 The viability of development on these larger sites is affected by affordable housing and open space requirements as already stated, but also - and particularly in the present economic climate - by the extent of the need for investment at the outset of a scheme. This is important because it determines the cash flow and CIL, which can be charged at the outset of a scheme, will impact upon it. For this reason, when analysing the viability of development in the growth areas, we have used a variant of the appraisal model that specifically identifies these variables, and imposed a cash flow performance target for residential viability. 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 of a 10ha strategic scheme with a £145/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	**41,763,780**	
Net land value per developable ha		500,000
Development Costs		31,515,263
Finance		1,129,882
Total Cost		**35,855,145**
CIL/m²		**145**
Margin on Cost		**16.5%**
Net Present Value		**2,525,990**

6.100 This assumes that on the notional 10ha strategic development site, 40% of the land will be used for open space or otherwise not available for development but will still need to be prepared and serviced. It also factors in the established Core Strategy policy for 35% affordable housing, with an 80:20 split of social rented to intermediate (shared ownership) dwellings and assumes that there is no grant available to offset these costs. Both of these assumptions have a significant impact on the conclusions and are major reasons why land values projected here cannot be expected to reach the levels expected in the past. It shows that a CIL of £145 per m² is achievable while meeting the land price, margin on cost and cash flow targets.

6.101 As stated, the majority of schemes that are expected to come forward and which are critical to the development of the area are on large scale strategic sites where significant costs will be incurred in providing on site infrastructure. On smaller sites these costs are limited. The appraisal in Table 6.2 is based on a scheme to build houses only (no flats) on a notional 1 ha plot with no need for investment in a major distributor road and reinforcement of utilities etc, but where the economics of development are the same in all other respects. The projected land value on the same basis (i.e. a CIL of £145 per m²) is £1m per hectare. A summary of the core appraisal is shown in Table 6.2 with the full core appraisal shown in Appendix B.

Table 6.2 Summary of residential appraisal of a 1ha scheme with a £145/m² CIL charge

Site Assumptions		
Gross Area	1	hectares
Area developable for housing	1	hectares
Dwellings per ha	40	of which
% of Houses	100%	
% of flats	0%	
% Market homes	65%	
% Shared ownership Homes	7%	
% Social Rented Homes	28%	
Sale proceeds	**7,232,500**	
Net land value per developable ha		1,000,000
Development Costs		4,907,698
Finance		231,123
Total Cost		**6,208,821**
CIL/m²		**145**
Margin on Cost		**16.5%**
Net Present Value		**413,221**

6.102 This suggests that a charge of £145 per m² could be levied without compromising viability. However, we are aware that there is an intrinsic margin of error in high level calculations of this sort and thus propose a charge of £120 per m². This represents 5.3% of the price of the average market house.

Other levels of charge were considered

6.103 The residential viability assessment was tested by varying assumptions about the level of the CIL, the cost of land and the sales price of houses. The results are set out in Tables 6.3 and 6.4 below:

Table 6.3 Sensitivity analysis of a 10ha strategic scheme – level of CIL that returns a margin on cost of 17.5%+

House Price		£2,000	£2,250	£2,500
Land Value Per Net Ha				
	£300,000	£0	£220	£430
	£500,000	£0	£120	£340
	£700,000	£0	£30	£240

NB. The developers' profit is set at 16.5%

Table 6.4 Sensitivity analysis of a 10ha strategic scheme – variation in the land value returned by varying the level of CIL

Level of CIL	£80	£120	£160
Land Value Per Net Ha	£3,800,000	£3,300,000	£2,800,000

NB. The developers' profit is set at 16.5%

6.104 As can be seen, both the assumed cost of the land and the level of house prices has a significant effect on the sums that can be raised through a CIL. In contrast, the level of the CIL itself has a smaller impact. This informs the decision that has been made on the balance of risk between the impact of the charge at the level proposed and the need to use the CIL to invest in the infrastructure that is necessary to support the planned growth and the development of the area as a whole. Quite simply, varying the CIL downwards does not have a significant effect on land values but has a major impact on the funding available to meet infrastructure costs. Increasing the level of CIL beyond £120 per m² would increase the level of funding available for infrastructure but would approach or exceed the ceiling at which the viability of the critical development in the growth areas is compromised.

6.105 We conclude therefore that a levy of £120/m² is appropriate. It gives 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. It also provides funding for the infrastructure necessary to secure the overall development of the area and in particular to support the development of 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 is unlikely to be compromised by a CIL charge at this level unless market expectations of future house prices decline, in which case the charges will be reviewed.

Three other residential charging options were considered

6.106 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 case of residential development in the villages, 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 case of residential development in the larger towns outside the Colchester urban area, 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, whilst 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 option of residential development within the Colchester urban area, the Council is keen to see redevelopment and in particular in the East Colchester Regeneration Area. At present there is limited developer appetite for the type of high density residential scheme that is appropriate to the location. This partly reflects historic over-supply, the limited supply of mortgages that are priced to suit first time buyers and current constraints on capital investment within the housebuilding sector. Affordable housing requirements can also affect schemes of this type to a greater degree. These problems are not expected to be resolved in the immediate future but should be reduced over time. There are also specific problems involved with site assembly and rationalisation in the East Colchester Regeneration Area which will need to be addressed before a critical mass of development can be expected. An appraisal which reflected all these factors would show that development was not generally viable now, even if no CIL was charged in this area.

6.107 In time it is anticipated that market conditions will revert to historic patterns in which the higher density of development on sites of this type will be reflected in higher land values and thus an ability to meet the CIL charge. But for the immediate future, the level of the CIL is not the critical obstacle to development of these sites and their development in the short term is not critical to the development of the area as a whole. As such, there is no reason at this time to vary the £120/m² level of charge proposed for residential development as a whole.

Conclusions

6.108 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;
- 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.

- The comprehensive redevelopment of the East Colchester Regeneration Area is unlikely to take place in the immediate future or before sales values improve for reasons unrelated to the level of the CIL; 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

6.109 As shown in Section 5, the 'core' uses which are fundamental to the delivery of the Core Strategy are residential, B-class commercial and retail uses together with the necessary supporting social infrastructure. 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. We also consider the development of schools, health and other community facilities.

6.110 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 a £0/m² charge, is shown in Appendix C.

B-class commercial

6.111 The commercial property markets are subdued at present. This is a nationwide pattern outside of London. 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 the recovery of the market is some way off and there is no evidence that Colchester will be an exception in this respect.

6.112 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.

6.113 It is clear that in Colchester borough, there is little new B-class commercial development on the market or 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. This is a significant when market appetite for development is limited and risks are perceived to be high, schemes on secondary sites will be hardest to achieve. Therefore, as it stands, imposing a CIL charge on employment development would pose a significant risk to the volume 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 6.5 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/m²	0	0	0	0
Section 106/m²	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**

6.114 The analysis for town centre offices, business park offices, distribution centres and small industrial uses is shown in Table 6.5. 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

6.115 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

6.116 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 being 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.

6.117 We estimate that Colchester town centre accommodates just over 92,900m² (1 million ft²) of retail accommodation. A significant proportion of this is managed and within the ownership of four institutions. Culver Street owned by Prudential, Lion Walk by LaSalle Investment Management, Priory Walk by Scarborough Property Holdings and St John's Walk by Threadneedle Pensions. The prime pitch of Colchester is centred on Culver Walk which contains significant anchor occupiers such as Marks and Spencer, BHS and Top Shop. Headline Zone A rents are estimated at between £1,650-1,830 per m² based on transactions in the prime area in 2010. Nevertheless, rents do vary widely across the town centre with Culver Street Zone A rents at circa £1,360 per m² down to circa £370-700 per m². This is evidence that the value of new retail development in the town centre is heavily influenced by location and footfall generation and it is therefore difficult to generalise. Our response has been to assess a CIL charge at well below the 'prime' affordable ceiling to enable new development to proceed.

6.118 We are also mindful that vacancy rates for comparison retail across the town centre are estimated to be high with several reports indicating figures of between 8 and 15%. The high vacancy rates are likely to depress the value of smaller secondary space but not necessarily higher value well located new build units.

6.119 We are of the opinion that well designed, prime comparison retail accommodation in Colchester, which is free of substantial abnormal development and site assembly 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 a fresh appetite among developers to invest in regional shopping centres anchored by comparison goods operators.

6.120 In contrast, the convenience retail sector continues to perform with operators seeking to continually expand market share by the development of new store formats and the securing of prime locations both in town and out of town. It is worth noting that convenience retailing in Colchester is relatively limited with the main offers being from Sainsbury's on Priory Walk and a Marks and Spencer Food Hall on the High Street. It is therefore perhaps likely that any new retail development in the town centre will feature a food-based convenience operator as one of the anchor occupiers and that the scale of a retail store will not necessarily involve complex land assembly and will therefore incur a lower land cost.

6.121 The rate at which it is proposed that the CIL 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.

6.122 For retail space in town centres and local neighbourhood centres, the CIL is recommended to be charged at £90/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. As will be shown below, to split comparison retailing between town centre and local neighbourhood centres is considered to be difficult to justify, so a single CIL charge of £90/m² is appropriate, reflecting the relative importance of town centre retailing within the wider comparison retail offer planned for the borough. This is shown in Table 6.6.

Table 6.6 Town centre comparison analysis with a £90/m² CIL charge

	Town Centre Retail
VALUES	5,000
COSTS	
EUV + Purchase Costs	2,000
Basic Build Cost	925
External Works	200
Fees	169
CIL @ £90/m²	90
Section 106/m²	30
Marketing & Sales	250
Contingencies	43
Interest	348
Margin	801
Total Cost Benchmark	4,855
Values - Costs	**145**

New build convenience retail

6.123 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.

6.124 We would therefore suggest the evidence base for convenience retail can be approached on a wider regional or even national basis when justifying CIL charging. 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 6.7 demonstrates that such a charge level is viable.

6.125 What this also shows is that a higher charge for retail warehousing would also be possible. However, as with local convenience retailing, the level of evidence to justify further subdivision from the proposed split of comparison and convenience retailing is not available. In addition, retail warehousing is not considered to be a priority for the Borough Council. Therefore retail warehousing, being comparison retail floorspace, would pay the proposed £90/m² CIL charge.

Table 6.7 Viability analysis for convenience retail and retail warehousing with a £240/m² CIL charge

	Convenience retail	Retail warehouse
VALUES	3,475	3,075
COSTS		
EUV + Purchase Costs	400	100
Basic Build Cost	1,200	750
External Works	120	75
Fees	132	83
CIL @ £240/m²	240	240
Section 106/m²	100	100
Marketing & Sales	160	154
Contingencies	73	45
Interest	179	125
Margin	393	266
Total Cost Benchmark	2,997	1,938
Values - Costs	**478**	**1,137**

Differentiating retail development for CIL charging

6.126 It would be simplest to base the two CIL levels proposed for retail on a floorspace threshold. However, there is insufficient evidence for this 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.

6.127 Rather, a simple differentiation between convenience and comparison retail is most appropriate, based on the evidence. For all applications for new retail floorspace, it is necessary to identify the type of goods sold and, where a mix of convenience and comparison goods is proposed (as is common in supermarkets), the proportionate split of each declared. Therefore, it is proposed that whichever type of retail goods (comparison or convenience) represent the predominant amount of the total sales floorspace (i.e. more than 50%), the development will be liable for that CIL rate. In the unlikely event that there was a 50/50 split of floorspace, the development would be liable for the higher rate.

Suggested level of charge for convenience retail floorspace: £240/m²

Suggested level of charge for comparison retail floorspace: £90/m²

Other non-residential uses

Leisure development

6.128 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.

6.129 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.

6.130 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).

6.131 None of these uses has been identified as central to the development of the area as a whole.

6.132 There is however an identified strategic 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 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 6.8 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/m² / £120m²	0	120
Section 106/m²	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**

6.133 Table 6.8 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. Both results are well within the margin of error for calculations of this kind so there is a significant risk 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

6.134 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.

6.135 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.

6.136 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 6.9.

Table 6.9 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/m²	0
Section 106/m²	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

6.137 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 by restrictions in Local Authority funding for places and more recently 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 6.10.

Table 6.10 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/m²	0
Section 106/m²	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

6.138 There are many other uses that will inevitably be delivered in the Borough over the plan period and would potentially occupy a significant amount of net additional floorspace (thereby having a significant amount of new development which is liable for CIL). This includes, but is not limited to:

- schools;
- community facilities, including community halls, scout huts, libraries, religious meeting places;
- Medical facilities.

6.139 There is no evidence of a commercial market for new build educational and community facilities, either on a local, regional or national basis. Clearly they have a value to the local authority which is purchasing them but this is normally equivalent to the aggregate of the cost of construction together with the cost of a site. (This lies at the basis of the 'depreciated replacement cost' approach to valuation that is referred to in the RICS Valuation Standards manual usually referred to as the 'Red Book'). In practice sites are usually sourced from:

- (a) within existing public sector land holdings at notional cost;
- (b) from a housebuilder on terms dictated by a Section 106 Agreement; or
- (c) by purchasing a site in an alternative but very low value use.

6.140 In short, there is no profit margin involved and usually no significant enhancement in the site value windfall for a landowner. Therefore there is no viability evidence that can be used to support a CIL charge.

6.141 The major exception is primary care facilities that are predominantly occupied by GPs. There is a commercial market for properties of this sort. We have analysed the price paid for completed investments across the country by specialist investments in the field and concluded that, again, the sites used are usually sourced on a preferential basis and the land values generated are not significant in most cases.

6.142 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.

Proposed level of charge for public infrastructure development: £0/m²

What CIL is spent on – the 'Section 123' list

6.143 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.

6.144 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.

6.145 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.

6.146 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.

6.147 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.

6.148 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.

6.149 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

7.150 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 on a scale commensurate with the aspirations of the Core Strategy. The uses assessed were all B-class uses, hotels, leisure (sports centres) uses, residential care homes, education, medical and social and community facilities. The appropriate level of CIL in these cases, and across all other development unless otherwise stated, must be zero. This is applicable to all new developments, unless an alternative level of charge is stated.

7.151 In many respects, the CIL charge for these uses is, in any event, irrelevant because it is highly unlikely that there will be development (of any note) of these uses until market conditions improve and thus no contribution to meeting infrastructure costs could be expected.

7.152 If market conditions improve, it will be important to review whether CIL can be charged on such uses.

7.153 The exceptions to this are residential and retail development. The viability analysis has demonstrated that the types of development which need to come forward to support the overall development of the area can support a CIL level above zero, and that if they did not contribute at the levels proposed, it would compromise both the overall development of the area and the sustainability of the schemes themselves through lack of support for the necessary supporting infrastructure. Seeking to balance the need to maximise receipts from residential and retail development 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
- Comparison retail - £90/m²
- Convenience retail - £240/m²

7.154 As a broad guide, these levels of charge would raise approximately £50m 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
Comparison retail	67,000m^2	£90	£6.0m	Based on North Essex Retail Study findings
Convenience retail	6,124m^2	£240	£1.5m	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			**£49.7m**	

Note: These figures reflect housing numbers shown in the Housing Trajectory produced December 2010 and maybe subject to change. It also assumes all outstanding sites will pay CIL, whereas in reality some developments may come forward before CIL is adopted and will therefore contribute to infrastructure provision through S106 Agreements.

7.155 Set against an infrastructure funding gap of £203m, 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.

7.156 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.

Instalments policy

7.157 It will be important that the Borough Council carefully considers an appropriate instalments policy. Given the focus of growth in the short term on some of the sites in the Growth Areas, it will be important that this policy is discussed with the developers. Cashflow is an issue for any developer, not least those involved in major developments with significant costs, so it is important that instalments are staggered appropriately so as not to unduly front-load contributions. The level of CIL proposed makes an assumption that the Borough Council does not seek an instalments policy which unreasonably front-loads CIL payments.

7.158 It is important to recognise that the instalments policy can be revised at any stage, subject to the appropriate notice period.

Review of the CIL

7.159 The nature of the Core Strategy very much envisages the greenfield Growth Areas representing the bulk of development in the short to medium term. Development in other locations, such as the East Colchester Regeneration Area and Colchester town centre, will be on brownfield sites and is expected to come forward over a longer time period. This is largely due to market viability considerations, rather than any level of CIL charge.

7.160 However, it will be important to review the charge and determine a point at which a review is necessary. Certainly if it was demonstrated that the current proposed charge was the primary factor holding back development of the brownfield sites, then this would trigger the need for a review.

7.161 Based on market forecasts at the present time, it will likely be necessary for the Borough Council to review the CIL charge within three years.

APPENDIX A

Full residential appraisal of a 10ha scheme with £145/m² CIL charge

APPENDIX B

Full residential appraisal of a 1ha scheme with £145/m² CIL charge

APPENDIX C

Non-residential viability appraisal