The Planning Inspectorate

Report to Wokingham Borough Council

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an Examiner appointed by the Council

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PLANNING ACT 2008 (AS AMENDED)

SECTION 212(2)

REPORT ON THE EXAMINATION OF THE DRAFT WOKINGHAM BOROUGH COUNCIL COMMUNITY INFRASTRUCTURE LEVY (CIL) CHARGING SCHEDULE

Charging Schedule submitted for examination on 12 June 2014

Examination hearings held on 18 / 19 September 2014

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Non-Technical Summary

This report concludes that, subject to some modifications, the Wokingham Borough Council Community Infrastructure Levy Draft Charging Schedule provides an appropriate basis for the collection of the levy in the area.

The modifications can be summarised:

- That the CIL charge for 'Residential Institutions and Extra Care Housing' is reduced from £100 to £60 per square metre (psm) outside of the Strategic Development Locations (SDLs).
- That 'Sheltered Housing' is defined as a development type and subject to a £150 psm CIL charge in all locations outside of the four defined Strategic Development Locations.
- That there is no CIL charge for retail development in the Arborfield Strategic Development Location.

Subject to these modifications the Council is able to demonstrate that it has sufficient evidence to support the schedule and can show that the levy rates would be set at levels that will not put the overall development of the area, as set out in its Core Strategy, at risk. Furthermore, the CIL proposals will play a significant and positive role in securing funds for the delivery of strategic infrastructure required to support planned growth in the borough.

Introduction

1. This report contains my assessment of the Wokingham Borough Council Community Infrastructure Levy (CIL) Draft Charging Schedule in terms of Section 212 of the Planning Act 2008 (as amended). It considers whether the schedule is compliant in legal terms and whether it is economically viable as well as reasonable, realistic and consistent with national guidance. The national guidance was, at the time the Schedule was published, the Community Infrastructure Levy Guidance – DCLG – February 2014, which was subsequently added to the National Planning Practice Guidance (NPPG) in June 2014.

2. To comply with the relevant legislation and guidance the local charging authority has to submit a charging schedule that sets an appropriate balance between helping to fund necessary new infrastructure and the potential effect of the proposed rates on the economic viability of development across its area.

3. The basis for the examination, on which Hearing sessions were held on 18 and 19 September 2014, is the submitted Draft Charging Schedule (DCS), which was published for public consultation between 29 January 2014 and 14 March 2014.

4. The Council's CIL proposals relate to charges for residential development, residential institutions and Extra Care housing schemes and for retail developments.

5. The proposed residential development CIL charges relate to five geographical zones, four of which are defined as Strategic Development Locations (SDLs), the fifth being the 'rest of the borough'. The proposed charges are:

South of M4 SDL	£300 per square metre (psm)
South Wokingham SDL	£320 psm
North Wokingham SDL	£340 psm
Arborfield SDL	£365 psm
Rest of the borough	£365 psm

6. 'Residential institutions and Extra Care housing' developments would incur a proposed £100 psm charge in all zones i.e. borough wide.

7. 'Retail' development in defined 'existing town / small town / district centres' would be zero rated i.e. the rate would be £0 psm, but in the 'rest of the borough' would incur a proposed £50 psm CIL charge. 'All other development types' would be zero rated for CIL (£0 psm).

8. I have structured this report around the main issues I identified through the examination. The Hearing sessions raised a number of complicated, and well articulated, differences between the Council and Representors from the development industry. I have identified and provided my assessment on these matters, where appropriate, throughout the report. I have also included conclusions on specific issues where appropriate. For simplicity, I have dealt separately with the residential and commercial evidence.

Background evidence – the Development Plan, associated infrastructure requirements and infrastructure delivery.

Core Strategy, Managing Development Delivery Local Plan and Supplementary Planning Documents

9. Wokingham's Core Strategy (CS) was adopted in January 2010 and sets out the strategic vision for development and growth in the borough in the period up to 2026. The CS includes a housing delivery target of 13,232 new homes in the plan period (2006 – 2026) and this includes an element of shortfall against

the earlier Structure Plan requirement. The spatial approach to delivering these new homes is to concentrate most (about three quarters) in four identified Strategic Development Locations (SDLs): Arborfield Garrison (3500 homes); South of M4 (2500 homes); North Wokingham (1500 homes) and South Wokingham (2500 homes). The CS further provides for around a further 1000 homes in the borough's major, modest and smaller settlements, with the remainder being made up by smaller sites and windfalls.

10. It is worth noting here, as it is of some relevance later in this report, that the CS's four SDLs are at different life cycle stages, which will reflect their CIL liability and relationship to infrastructure provision under a CIL regime. The 'South of M4' SDL is the most advanced with 88% of that housing allocation (by dwelling numbers) covered by extant planning permissions. Arborfield Garrison SDL, the largest strategic allocation, sits at the other end of the spectrum, with no existing housing planning permissions, although major applications are anticipated very soon. The other two SDLs, at North Wokingham and South Wokingham, are partly covered by extant permission, amounting to 45% and 26% of allocated dwelling numbers respectively. Taken overall, the current position is that 38% of the SDL housing allocations (by dwelling numbers) are covered by existing planning permissions, but the greater part, 62% is not and will fall under the CIL regime (unless permissions are granted prior to CIL implementation).

11. The CS's approach to employment development provision is to focus on defined Core Employment Areas, which are all in sustainable locations. The approach to retail development in the plan period is very much a town centre first hierarchical policy regime, with a focus on supporting and improving Wokingham town centre and defined district centres. A new district centre is planned as part of the Arborfield Garrison SDL.

12. The spatial strategy set out in the CS is supported by more detailed policy provisions and allocation in the Managing Development Delivery (MDD) Local Plan which was adopted in February 2014. Further and yet more detailed support is set out in a suite of Supplementary Planning Documents (SPD) which were produced following the adoption of the CS. These include a document for each of the four SDLs, the Wokingham Town Centre master plan and one setting out affordable housing requirements. There is also a detailed SPD (adopted in October 2011) on Infrastructure Delivery and Contributions for the SDLs.

Infrastructure planning evidence and infrastructure delivery

13. An Infrastructure Delivery Plan (IDP) was prepared and published in June 2012 to support the MDD. This set out an overview assessment of the physical, social and green infrastructure that would be required to support planned growth in the borough. This was supplemented, in 2013, by a funding gap assessment to support the current CIL proposals. The Council assessed a total infrastructure funding bill of circa £324 million, of which circa £261

million was unfunded. This £261 million 'funding gap' was largely comprised of 'Transport' (circa £149 m), 'Education' (circa £64 million) and 'Sport and Leisure' (circa £32 m), with smaller gaps for 'Community', 'Green' and 'SANG'[1] infrastructure.

14. The Council has assessed its likely CIL receipts in the plan period based on its currently proposed rates and anticipated housing numbers. The Council has excluded 'hard' planning commitments (i.e. sites with extant permissions) and not included any commercial development CIL receipts, as these are not expected to be significant. It estimates that CIL receipts may generate circa £177 million in the plan period. This would represent over two thirds (about 68%) of the assessed funding gap, although an £84 million unfunded gap would remain.

15. The Council's assessed infrastructure requirements are reflected in its Draft Regulation 123 List (October 2013) which identifies the types of infrastructure that will be funded by CIL receipts. The draft list includes specified transport projects, SANG, education, green infrastructure, community and social infrastructure and health centre projects. The list also, helpfully, includes a column of exclusions which provides clarity on site specific infrastructure that will be secured through other means, principally through the residual role of S.106 planning agreements.

16. A fundamental issue concerning the Council's approach to CIL is that much of the funding gap, and the associated infrastructure projects on its Draft Regulation 123 List, relate to the strategic infrastructure required to support the SDLs. Most notably, it includes the construction of a series of major relief and distributor roads, other major transport schemes and the building of schools. For the SDLs, the Council seeks to use the residual role of S.106 planning agreements to, where appropriate, yield up the land for such projects, but the actual delivery, for example building a school or a relief road, would be undertaken by the Council and funded, in part at least, by CIL receipts.

17. A consortium representing most of the developers and landowners involved with the four SDLs expressed concerns at what it called this 'authority- led' approach, preferring a 'developer-led' model to deliver key infrastructure (outside of the confines of the CIL regime). A particular sensitivity expressed by the development sector was the fear of the use of Grampian[2] style planning conditions which might frustrate development if the Council had not delivered key infrastructure on time. However, the Council has made plain that as part

[1] SANG is Suitable Alternative Natural Green Space which is an agreed mitigation approach, either on or off site, in respect of development proposals in proximity to the Thames Basin Heath Special Protection Area (SPA). It provides alternatives to recreational and other impacts on the natural habitat of the SPA.

[2] A 'Grampian' condition is a restriction imposed on a planning permission that prevents the start of a development, or limits the amount of development than can take place, until off site works e.g. a relief road, have been completed on land not controlled by the applicant.

of its ambitious growth agenda, it is committed to delivering key infrastructure and its recent track record of building schools and securing major transport infrastructure funding defined the confidence in its abilities to perform.

18. Whilst I recognise some of the development industry's sensitivities, the 'sovereignty' of strategic infrastructure delivery is of limited relevance to my examination of the Council's CIL proposals. Indeed, the Council's approach of using CIL as a tool to secure funds to help deliver infrastructure to support planned growth (primarily at the SDLs) is in full accord with the legislative purpose and the associated guidance related to CIL. That said, I do appreciate that moving to the proposed CIL regime in Wokingham will bring with it some new questions, anxieties and issues that will need to be worked through. I was most encouraged to learn that the Council and the SDL consortium had engaged in a series of 'delivery workshops' to assist this transition and that had led to a Statement of Common Ground being submitted to the examination. These workshops have clearly begun a positive process of information sharing and confidence building, and issues such as the limited circumstances where Grampian conditions would be used are receiving proper consideration. Although this is not strictly a substantive examination matter, I do commend the parties for engaging in this process and would encourage a continuing positive dialogue.

19. Overall, I found the Council's high level infrastructure assessment to be sound and reasonable. The evidence demonstrates a compelling case for introducing a CIL regime. CIL will play a significant role in bridging a large part of an evidenced infrastructure gap. Furthermore, it is clear that CIL receipts will be critically important in funding delivery of key infrastructure necessary to support the SDLs which, in turn, are critical to the CS.

Conclusion on background Development Plan and infrastructure evidence

20. The CS, along with its supporting plans and policy documents, provides a robust development plan framework for sustainable growth in the borough. That strategic approach is heavily focused on delivering growth at four SDLs. The IDP identifies the social, physical and environmental infrastructure required to support the CS planned growth in population and jobs. Much of the identified infrastructure is necessary to support growth at the four SDLs. The evidence demonstrates a sizeable infrastructure funding gap that justifies the introduction of a CIL regime. CIL receipts are anticipated to make a significant contribution to reduce that funding gap, and to the delivery of infrastructure, notably at, and in the vicinity of, the SDLs.

Residential development CIL - economic viability evidence and the CIL charges and zones.

21. The Council commissioned consultants to produce the Wokingham CIL Viability Report (February 2013), which was supplemented by a Viability Update (August 2013) and some further clarification submissions (September 2014) produced in response to some detailed questions I had posed prior to the Hearing. Hereafter, I shall refer to this collective of viability study evidence as the VS.

22. However, before exploring the assumptions and findings of the VS, it is useful to record that the Council appears to have a good body of earlier background viability study work, which helps to explain the broad nature of development economics in the borough. These include an Affordable Housing Viability Study (2008) and associated Update (2009), an Assessment of Economic Viability of Strategic Locations in Wokingham (2010) and a Viability Study to support the MDD (2012). This earlier evidence suggested that SDLs could accommodate required affordable housing along with infrastructure contributions in the range of £27k – £33k per plot, whilst maintaining viability.

23. The VS undertaken to inform and support the CIL proposals employed a residual valuation approach. In simple terms, this involves deducting the total costs of the development from its end value to calculate a residual land value. That residual land value (RLV) is then compared to assumed 'benchmark land values' (BLV) to test viability. If the RLV is significantly above the BLV, the scheme would be judged viable and *vice versa.* The Council's consultants used an industry standard software package to conduct these appraisals.

24. The residual valuation approach, whilst straightforward in principle, can be complex and a source of contention in practice. When used for high level CIL viability testing, it relies on making assumptions about a range of factors such as typical development types, land costs, sales rates, build costs, fees, contingencies, S.106 costs, profit levels etc. Although a good number of these variables can be assumed from industry standards, some of the key variables such as land costs, sales rates and profit levels need to be assessed using 'appropriate available' evidence. Such evidence is never likely to be 100% complete, up to date, or otherwise perfect. However, that does not in any way undermine the ability to undertake robust area based viability studies for CIL setting purposes. What it does mean is that it can create fertile ground for differences of view, with developers often arguing for higher cost and profit assumptions, and hence lower CIL rates. Wokingham's CIL proposals and examination have, indeed, led to such different positions. My role is to weigh this complex evidence carefully and reach a judgement 'in the round'. Given the holistic nature of the judgment I must make, I do not feel the need to act as referee on every single area of dispute but, where appropriate, I have provided my assessments below.

Viability Study- residential development scenarios and modelling assumptions.

25. The first round of viability testing (February 2013) included a good range of development 'scenarios' ranging from a single unit through to medium sized schemes of 10 and 40 units and up to larger schemes of 100 and 500 units. At that time the larger notional schemes were effectively seen as a proxy for the SDLs. Later testing (August 2013) included modelling tailored specifically to the four SDLs (effectively superseding the earlier 500 unit scenario testing). Affordable housing was factored in to the housing mix at the full CS required levels throughout. The later testing also included some appraisals in respect of schemes for older person's residential accommodation.

26. I now turn to the modelling assumptions applied in the scenario testing. As I noted above, these have been the focus of different views and I intend to confine attention to the most critical in terms of their consequential impact on the appraisal results (and indeed the alternative appraisals that were submitted by the development industry). These relate to land costs, scheme densities, build costs and enabling works, S.106 costs, finance, profit levels and, on the revenue side, expected sales values of the new homes.

27. The costs of acquiring land for residential development are clearly one of the most significant inputs in this type of viability modelling. If assumed land costs are too low it will have the effect of overstating (perhaps quite substantially) the surplus available to fund CIL and/or local land supply may be constrained, as owners are not prepared to sell at a price they deem to be too low. Similarly, overstating the land costs will artificially reduce the surplus that could be available for CIL (and infrastructure provision). The Council chose to adopt three land costs (the BLVs) for testing purposes. BLV3 was the highest at £1.5 million / hectare and relates to prime existing developed land. BLV2 was £0.5 million / hectare and relates to secondary developed land (typically in employment use). BLV 1 was the lowest at £300k / hectare and relates to green field land. BLV 1 is most relevant to the bulk of new housing planned (essentially the SDLs), whereas BLV2 and BLV3 are more relevant to other, typically smaller schemes, which will make up the lesser, but nonetheless important, balance of CS new homes across the borough.

28. The BLV1 value was the subject of some dispute. The Council made plain that its attempts to secure comparable transactional evidence had been strenuous but, other than one major house builder suggesting a figure of circa £370k / hectare would be a 'useful starting point', no evidence was forthcoming. The SDL consortium offered some evidence of much higher 'minimum' land values, sourced from land option agreements (five in total) in 'southern England' and 'south east England' but these were anonymised and there was no indication that any related to the borough, or that they were in any way directly comparable.

29. The consortium submitted that BLV1 ought to be set at a <u>minimum</u> of £370k / hectare although it could not substantiate this with firm evidence from actual

SDL land dealings (as clearly they have occurred, but are commercially sensitive). Other developers thought that BLV1 should be higher still – one suggesting circa £600k / hectare. There were also suggestions that higher BLVs for agricultural land used by other Charging Authorities in their CIL modelling should be considered.

30. This is an inordinately difficult matter to arbitrate, as it relates to one of the most dramatic, and yet least scientific, changes in land value that occurs in the economics of land development. Unlike existing developed land, where a premium (perhaps 20%) might be added to existing use value to incentivise a sale to occur, the transition from agricultural to residential land typically triggers a substantial multiplication (or 'uplift') on the base (agricultural) value. It was suggested at the Hearing that local agricultural land values may sit in the £20-30k / hectare range. This indicates that, even using the Council's BLV1 figure, the uplift would be of the order of 10 -15 times the existing (agricultural) use value. Based on some of the figures suggested by developers, the multiplier might be more than 30 times existing value. However, such a major uplift only happens once, and for the landowner, as the point was well made at the examination, the receipt must often meet the 'life changing' criteria to trigger a sale.

31. Given the absence of any appropriate transactional Wokingham evidence on this matter, I must make a judgment as this is a critical determinant of the modelling results. My judgment is that, on balance, the Council's use of the £300k / hectare BLV1 is sound for the high level testing needed to support CIL proposals. There are a number of reasons that lead me to this view. First, such a value represents very substantial value uplift on the base agricultural value, and provides a significant incentive to sell. Second, the value would sit in the mid-range of minimum threshold values indicated in the DCLG research published in 2011[3]. Third, the particular circumstances in Wokingham, with four strategic sites coming forward, suggest to me that bulk buying and market forces will keep prices at conservative levels. Fourth, there is an established pattern of infrastructure payment requirements in the area which will have had a moderating effect on base land values (which has perhaps not been the case in some of the quoted examples from other places).

32. With regard to BLV3 and BLV2 I consider these to be reasonable comparators for CIL testing purposes. I have noted some views that on occasions smaller sites may transact at higher prices but that will always be the case. The purpose of adopting a BLV is not to provide a set value for specific sites but to model a land value tone i.e. in the case of BLV3 and BLV2 a reasonable average for primary and secondary development land that may come forward to deliver housing in the borough, outside of the SDLs.

33. Scheme density was the next area of contention and it has a close connection

[3] *Cumulative Impacts of Regulations on House Builders and Landowners* - Research Paper. Published by DCLG in 2011 (although commissioned by the previous Government in 2008).

with the BLVs, especially on the SDLs. The initial testing included three density scenarios – 35 dwelling per hectare (dph), 40 dph and 45 dph. In response to questions and representations the Council later tested lower density scenarios of 30 dph for smaller schemes (with the one exception being a wholly flatted scheme) and 20 dph for the SDLs. For the smaller sites I take the view that the 'base' testing position should be 35 dph, as that accords with the adopted MDD and would be the 'policy compliant' position, although the 30 dph testing is, nonetheless, useful sensitivity analysis. The situation with the SDLs is more complex – here there needs to be a reflection of the fact that such sites will include large areas that are not developed, or at least not developed for profit. These would include areas for strategic open spaces, SANG, school sites etc. The SPD documents for the SDLs seem to me to suggest that housing densities are assumed to be in the mid-twenties dph. For example, the Arborfield SDL SPD[4] envisages 3500 units on 140 hectares = 25 dph, although such calculations do not include potential green spaces and SANG.

34. I have noted the evidence of the SDL consortium on gross: net ratios at the SDLs (which it says range from 36 – 53%) but this links back to the BLV issue. In my view, I do not consider that the land 'balance' beyond the developable areas can be treated as attracting full BLV1 value. I have no doubt that some uplift on agricultural base value would occur and, indeed, the Council suggested that SANG land may transact at £50k / hectare but it is not development land *per se.* On balance, I do regard the Council density reduction on the SDLs (to 20 dph) to be a reasonable adjustment for these factors. It will not, and cannot, be precise, but it does recognise that SDLs, unlike smaller sites, have to deliver up land which reduces overall gross density.

35. I turn now to build costs and enabling works. Build costs were drawn from the Building Cost Information Service (BCIS) using the upper quartile rate. This was inflated to allow for achieving Code for Sustainable Homes Level 4. The main area of contention at the Hearing related to the appropriate level to be applied for 'enabling costs'. The term 'enabling costs' is generally regarded to include the wider range of costs incurred to deliver serviced plots, such as site preparation and new utility infrastructure. The Council's approach was simply to apply a 15% on top of base build costs to cover these items (increased to 20% on the later SDL modelling). The development industry challenged this, arguing that this would equate to about £16k/plot which would be below the £17k – £23k range suggested in the Harman Report[5] for 'strategic infrastructure and utility costs', and that a 'mid- Harman' figure of £20k / plot should be employed. I am not able to define a 'right' answer because this cost category is not precisely defined and it will of course vary from site to site. Furthermore, the evidence behind the Harman Report's suggested range is

[4] *Arborfield Garrison Strategic Development Location* – Supplementary Planning Document – Wokingham Borough Council (2010) – page 20.
[5] *Viability Testing Local Plans* – Local Housing Delivery Group (Chaired by Sir John Harman) June 2012.

almost certainly grounded in the pre-CIL era and it is quite possible that it included some 'strategic infrastructure' cost items that may fall under Wokingham's proposed CIL regime. Nonetheless, I have noted and considered the different views in reaching my conclusion later in this report.

36. With regard to costs associated with residual S.106 planning agreements (and S.278 highways agreements) the original modelling included a notional £1k / plot allowance suggesting that, whilst limited, there may be some such costs. However, the later modelling revisited the on-site (S.106) infrastructure for each of the SDL and produced higher allowances which ranged from about £4k / plot (North Wokingham SDL) up to £6k / plot (Arborfield SDL). I considered this to be a helpful refinement of the modelling.

37. Finance costs were also contested but, in my view, given that both the Council and Developer total financing costs were not dissimilar (the Council's figure was actually the higher) this matter is of limited relevance to my overall findings.

38. In terms of profit levels, the Council's modelling had allowed for a blended profit rate of 17.5% of Gross Development Value (GDV) derived by combining a 20% rate on market housing with a lower rate for affordable homes, which are assumed to have been pre-sold to a Registered Provider (and hence low risk). The development industry argued for a 20% profit rate. Whilst I acknowledge the desire of developers to apply, and indeed achieve, a higher profit rate, I do not regard the Council's assumption as being unduly low for CIL testing purposes. The borough is prosperous and a desirable place to live and development viability is generally strong. Whilst I do accept that, for the SDLs, there are some significant up-front costs (which are arguably eased by the Council's comprehensive CIL approach), there are also significant long term rewards from the pipeline of sales in a relatively strong local housing market. In these circumstances, the Council's profit rate assumption is not unreasonable in my view.

39. Turning to the revenue side of the modelling, the key input here is sales rates i.e. the anticipated value of the new homes. The Council had undertaken research of the (limited) new and wider second hand housing market to identify the range of values in the borough. The northern part of the borough tended to have higher values, with the lower values being in the areas of the borough close to Reading. However, the Council found a full spectrum of values in most locations; that is to say, the value differences did not fall readily into neat zones. That led to the establishment of four Value Points (VP), which were considered to represent the spread of values being achieved across the borough. Outside of the SDLs, VP1, VP2 and VP3 are the relevant values, drawn from the empirical data set (of new build and used sales); the actual values used were £4,338 psm, £3,735 psm and £3,326 psm respectively.

40. The Council, mindful of the fact that its CS is heavily dependent on the four

SDLs, defined a further, lower value point, VP4 at a sales rate of £2,960 psm. The logic of applying a lower value on the SDLs (it would be about 89% of the VP3 rate) relates to the assumption of 'bulk pricing' on large sites. There was some refinement to the SDL sales rates in the later modelling with the Council adopting the Consortium's suggested sales rates for each site which ranged from £3,014psm (south of M4) to £3,229 (Aborfield). Although slightly higher, the range still sits notably below VP3. However, early indications from the first phases of the SDLs suggest that actual sales rates are, in fact, way above these levels and I was quoted actual sales rates (converted back to metric) of £3,552 psm up to £4,090 psm. Whilst there was some dispute over these figures and it would be dangerous to extrapolate first phase sales rates, there are certainly indications that the assumed lower sales values on the SDLs may have been somewhat cautious.

The residential development appraisals and proposed CIL rates (£300 - £365 psm).

41. The rather complex and contested nature of some of the key modelling assumptions set out above is a necessary precursor to examining the appraisals results themselves and the CIL proposals that flow from them. For clarity, I will explore separately the SDLs, the 'rest of the borough' and 'residential institutions and Extra Care housing'.

<u>The SDLs</u>

42. Notwithstanding all of the differences and complications aired above the headline outputs from Council's modelling are maximum CIL rates for each SDL. These are set out below alongside the CIL rates proposed and a column giving the CIL rate as a percentage of the maximum to give an indication of headroom (or viability buffer):

SDL	**Max CIL (£psm)**	**Proposed CIL**	**% of Max**
North Wokingham	£468	£340	72.6%
South of M4	£391	£300	76.7%
South Wokingham	£411	£320	77.8%
Arborfield	£534	£365	68.3%

43. What is immediately clear is that development viability across all SDLs is strong. In some senses this is a product not only of the local market but also of the Council's CIL approach, which includes significant strategic infrastructure necessary for the SDLs (such as schools and relief roads) in its R.123 list to be funded by CIL. In other places, charging authorities have used viability evidence to support £0psm CIL zones around strategic locations

where the key infrastructure is to be secured by S.106 planning agreements, particularly if they have already granted permissions, or are in advanced negotiations with developers. Indeed, Representors drew particular attention to the zero rate approach of other authorities and suggested that Wokingham's approach was 'out of step' as it resulted in some of the highest CIL rates outside London. I do not share those views, as I consider that either approach can be appropriate in the light of the specific circumstances and the evidence.

44. Turning now in more detail to the proposed SDL CIL charges, the development consortium submitted alternative appraisals and maximum CIL calculations for the South Wokingham SDL. This involved adjusting some of the key assumptions to its preferred values (notably finance costs, higher profit levels and higher enabling works costs) to give a maximum CIL rate of £317 psm (compared the Council's £411). It then added in its preferred higher BLV of £370k/hectare which reduced the maximum CIL further to £253 psm. It also advocated applying 30% buffers to produce recommended CIL rates of £222 (based on BLV4) and £177 psm (at a BLV of £370k) respectively.

45. However, for reasons I rehearsed earlier, I do not accept all of these assumptions. I am satisfied with the Council's assumed profit level and land values and remain unconvinced on the matter of 'enabling works', albeit that I do recognise there is some ambiguity around that cost item. Perhaps more significantly, there are three further factors that support the Council's position. First, there is an evidence trail predating CIL which demonstrates, quite consistently, the healthy viability of the SDLs and their ability to sustain infrastructure costs (i.e. S.106 and / or CIL) at levels similar to, and indeed higher than, the now proposed CIL charges. Second, this appears to be supported by real world developments where it was reported contributions are 'routinely' of the order of £28k/plot (comparable with the proposed CIL rates). Third, the early evidence on sales rates indicates that the Council may have underestimated (perhaps quite significantly) the revenue side of the modelling on the SDLs. None of these factors are decisive in themselves but, taken 'in the round', my conclusion is that, based on the evidence before me, the SDL rates are sound. I am also satisfied with the differentiated rates for each SDLs which reflect, although do not precisely mirror, the variation in viability profiles of the different sites. Given that site specific and quite detailed modelling has been undertaken for each SDL, I consider the viability buffers at each SDL to be reasonable.

Rest of the Borough (£365 psm)

46. Notwithstanding the clear importance of the SDLs, the delivery of the CS and indeed the wider objectives of the National Planning Policy Framework ('the Framework') will require the 'rest of the borough' to yield up the remaining quarter of the planned homes. It is very important that the CIL proposals on this wider and more diverse range of sites are fully considered. My examination was assisted by contributions and insights from smaller and 'non

SDL' developers.

47. Although the initial modelling provided a full set of maximum CIL results, many of the outputs are of limited relevance (and indeed could be misleading). For example, the smaller scheme results that were produced included a column applying VP4 (the lower 'bulk pricing' value used for the SDLs) which is clearly not relevant. Care also needs to be taken in selecting the most relevant BLV as, with the possible exception of the 100 unit scenario, BLV1 is likely to feature less than the higher land values of BLV2 and BLV3. I have applied weight and assessed the results accordingly.

48. The general picture of the appraisal results was of strong viability across most development types and permutations of BLV and VP. Indeed the overall picture was notably stronger than for the SDLs, with many maximum CIL results comfortably exceeding £1000 psm. The smallest (single unit) scheme tested generated 24 relevant results and only one fell just below the £365 psm proposed charge. This was an unlikely scenario involving the highest land cost and lowest value point at a density below that set out in the adopted MDD. All other results were above the proposed rate with a good (often considerable) margin. This pattern was much the same with 10, 40 and 100 unit schemes, with only the unlikely combination of high land costs and low sales values creating a few results below the £365 psm rate proposed but, again, in the vast majority of cases the results are substantially above the rate proposed.

49. Representations were made that the £365 psm would 'kill off' small builders and that the unintended consequence would be that small schemes would now be packaged as 'self-build' to avoid the charge. However, the evidence does not support the view that the proposed charge would render small schemes unviable. Indeed, it points to strong viability and substantial developer profit, as the buffer above the CIL rate is, in many cases, considerable. There may well be cases where small sites are promoted for self-build, but that is not a matter that has any significant relevance to my examination conclusions.

Older Persons Accommodation

50. In response to representations, the Council commissioned District Valuer Services to examine the viability of three specialist development types, primarily aimed at older people. These were a 60 bed residential care home, a 60 unit Extra Care Housing scheme (tested with and without affordable housing content) and a 30 unit Enhanced Sheltered Housing scheme (with 30% affordable housing). It should be noted that the term 'sheltered housing' can include many variants that will be CIL exempt. However, the development type that the Council tested related to a commercial, privately funded, model, often referred to as 'retirement housing' (typically for residents over the age of 55). The modelling assumptions used were reasonable and sound in my view.

51. The results demonstrated that all of these development types had a generally lower viability profile than conventional market housing and there were further

viability differences depending on the specific type and BLV. At BLV1 and BLV2 the three types all showed positive viability ranging from the lowest of £119 psm maximum CIL up to the highest at £421. However, at the higher land value BLV3, care homes were not viable and Extra Care could only achieve £78 psm (assuming no affordable housing content). Sheltered housing schemes generated results of £450 psm at BLV1 (effectively the SDLs), £421 psm at BLV2 but just £188 psm at BLV3. A complication here is that, under the Council's DCS, some of these development types are differentiated, whereas others are not. I will deal with 'sheltered housing' followed by 'residential institutions and Extra Care housing.'

52. 'Sheltered housing', despite its evidenced lower viability, is not differentiated as a development type in the DCS and would fall under the proposed 'residential development' charges (ranging from £300 - £365 psm depending on location). The effect of this is that, at the higher land value locations, sheltered accommodation would become unviable, as it would not be able to support the CIL charge. Whilst the Council explained that most of its planned older persons accommodation would be within the SDLs (where viability is strongest, primarily due to the lower BLV), I do have some concerns about the wider approach. The guidance makes clear that there is no need to exactly mirror the evidence, but it also advises against setting rates which could have a disproportionate impact on specialist forms of development. Whilst the SDLs may be the principal locations for such developments, I am concerned that other schemes, perhaps in high value town centre locations, might be rendered unviable.

53. Representors from this sector explained how such schemes require sites with good access to services and public transport and that such sites would be more valuable and could include BLV3 sites. I am swayed by those arguments and the Representors' suggestions that differentiating 'sheltered housing' (essentially privately funded 'retirement housing') and setting a rate of £150 psm outside the SDLs is justified. This would provide a modest buffer to the modelled maximum of £188 psm on the highest value development land (BLV3).

54. 'Residential institutions and Extra Care housing' are differentiated in the DCS and their weaker viability characteristics would be recognised by a lower borough wide £100 psm charge. Although residential care homes showed the weakest viability (and were not viable at BLV3), the Council advised that there was an oversupply of such facilities and that its policy approach for older people was today more focused on Extra Care and 'enhanced' models. However, the modelling for the (preferred) Extra Care schemes, whilst showing good headroom above the £100 charge at BLV1 (ranging from £172 – £276psm), fell markedly at the highest land value (BLV3) with results of £78 psm with no affordable housing content and a negative result (-£12) with affordable content added. Again, although I do fully acknowledge the planned role of SDLs in delivering Extra Care schemes, I do not think that other schemes in higher land value locations should be unduly precluded. The

suggestion made at the Hearing, and through submissions, that the rate should be reduced to £60 psm outside the SDLs does seem reasonable and in line with the evidence. It would then allow three out of the four tested Extra Care schemes at BLV2 and BLV3 to remain viable. Only the scheme on the highest land value, with a 30% affordable housing content would be unviable (even with no CIL applied).

55. Accordingly, I have included appropriate modifications in my recommendations. I would add that, in the wider scheme of things, these changes are unlikely to result in any significant effects to CIL receipts, nor do they relate to schemes which are critical to the CS, but they would at least avoid any unnecessary frustration of developments that may come forward to serve an acknowledged ageing population.

Commercial CIL – viability appraisal evidence and proposed CIL charges.

56. The viability testing of commercial development types followed a similar (residual valuation) methodology to the residential testing. However, the key difference was a focus on commercial rents and yields (rather than residential sales values) which were sourced from a number of published industry sources along with the use of more site / scheme specific BLVs. My examination of the modelling assumptions found them all to be reasonable and well founded.

57. The Council tested notional developments in respect of offices (town centre and business park locations), industrial, hotel, town centre retail, retail warehousing and supermarket retail.

58. The evidence pointed to just one commercial development type, retail, that demonstrated sufficient positive viability to support a CIL charge. However, there were very different results depending on the nature and location of the retail scheme. 'Town centre retail' was only just viable and generated a maximum CIL of £26.53. On sites assumed to be out of defined town and district centres, the retail warehouse scheme generated a stronger £59.90 psm result and the supermarket scheme a healthy £322.62 psm maximum CIL. This evidence does support the differentiated approach, as it demonstrates that town centre viability is notably lower than other retail variants that would, if they happen at all, be on sites outside defined town and district centres. Whilst the £50 psm CIL charge proposed does not give much headroom on retail warehouse schemes, the CS does not plan for any specific schemes coming forward.

59. However, there is one area where I consider a modification is necessary. This relates to the Arborfield SDL, where a new District Centre is planned. The issue here is that the range of shops that might be anticipated to create a new District Centre has not been subject to any viability testing. The only small shops testing related to town centre (and associated land value, rent and yield assumptions). Whilst development here would benefit from lower land costs, the SDL consortium did suggest that it could be challenging to get retailers

interested in such schemes and, accordingly, rents and yields would be likely to be less favourable than town centre counterparts. In the absence of any evidence, I cannot be convinced that the CIL charge would not be an impediment to bringing forward what is clearly a very important local facility within that SDL. Accordingly, I must conclude that the Arborfield SDL should be excluded from the retail charge by an appropriate modification. This would also bring the Council's CIL approach in line with its other zero rated retail CIL zones (i.e. 'existing town/small town/district centres').

Overall Conclusions

60. The evidence demonstrates that, subject to some modifications in respect of the charges for older persons' accommodation and retail development, the overall development of the area, as set out in the CS, will not be put at risk if the proposed CIL charges are applied. In setting the CIL charges, the Council has used appropriate and available evidence which has informed assumptions about land and development values and likely costs. The CIL proposals will achieve a significant level of income to help address a well evidenced infrastructure funding gap. Furthermore, the CIL receipts will be critical to the funding and delivery of the strategic infrastructure required to support growth at its four Strategic Development Locations and at other locations throughout the borough.

61. I conclude that, subject to the modifications set out in Appendix A, the Wokingham Borough Council Community Infrastructure Levy Charging Schedule satisfies the requirements of Section 212 of the 2008 Act and meets the criteria for viability in the 2010 Regulations (as amended). I therefore recommend that, subject to my modifications, the Charging Schedule be approved.

LEGAL REQUIREMENTS	
National Policy/Guidance	The Charging Schedule complies with national policy/guidance.
2008 Planning Act and 2010 Regulations (as amended)	The Charging Schedule complies with the Act and the Regulations, including in respect of the statutory processes and public consultation, consistency with the adopted Wokingham Borough Core Strategy and is supported by an adequate financial appraisal.

P.J. Staddon Examiner

Appendix A (attached) – Examiner's Modifications.

Appendix A

Modifications that the Examiner specifies so that the Charging Schedule may be approved.

NOTE – these modifications should be read in conjunction with the Draft Charging Schedule (January 2014) submitted for examination (Examination Document ED 1.1)

<table>
<tr><td>Modification No.</td><td>Modification</td></tr>
<tr><td>EM1</td><td>Page 4

For 'Residential Institutions and Extra Care Housing' delete "borough wide" and "£100" and replace with:

<u>Charging Zone</u>   <u>£ per square metre</u>

SDLs   £100

Outside SDLs   £60</td></tr>
<tr><td>EM2</td><td>Page 4

Insert new development type 'Sheltered Housing' and new charging zone 'outside of SDLs' and charge of "£150"

Note – the Council may wish to use the alternative term 'retirement housing' and may choose to add an explanatory description of the development type (as it has in paragraph 3.2 for Extra Care Housing).</td></tr>
<tr><td>EM3</td><td>Page 4

Retail – insert new charging zone "Arborfield SDL" and associated charge of £0 psm.</td></tr>
</table>