Broadland District Council, South Norfolk Council and Norwich City Council – Community Infrastructure Levy Examination

Note on proposed rate of residential CIL following Day 1 of the Examination

1. This note has been produced jointly by Broadland District Council, South Norfolk Council and Norwich City Council (the Councils). It addresses the Examiner's simplified approach to verifying a viable rate of CIL proposed at the CIL examination on 16 October 2012.

2. Based on discussions at the Examination, our understanding is that the Examiner has undertaken a calculation which allows for a 25% reduction in the benchmark land value, and attributes those monies to be translated into the pot from which CIL can be taken.

3. Using unchallenged assumptions, the Examiner cited an example of a one acre scheme in the central area of the city. His example used a benchmark land value of £500,000 per acre (£1,235,500 per hectare) consistent with document EV1 (Viability Advice on CIL/Tariff for Broadland, Norwich and South Norfolk, GVA 2010). He calculated that, taking a 25% allowance for reduction in land value, a total of £125,000 per acre (£925,000 per hectare) is available for CIL monies. Taking an average dwelling size of 90 square metres, this equates to a CIL charge of £10,350 assuming a CIL of £115 per square metre. Dividing the £125,000 per acre by £10,350 per dwelling then equates to a density of 12 dwellings per acre (30 dwellings per hectare).

4. The Councils consider that two additional points should be taken into account.

5. Firstly the benchmark land value would have included an allowance for S106 charged at that time. Based on the evidence of previous schemes put forward by Savills in the statement of common ground, the level of S106 provided by developments has averaged £5,000 per dwelling across the area as a whole, and in the city was around £2,000. The benchmark land value would have taken account of this cost and therefore it is reasonable to include this level of S106 as inherent in the benchmark land values. Because the Councils are looking to adopt a position whereby nearly all infrastructure will become funded through CIL, the S106 currently charged needs to be taken into account in the calculations. Consequently, between £2,000 and £5,000 should be added to any CIL rate derived from a 25% reduction in land value.

6. Secondly, the density calculation takes no account of the affordable housing on the notional development, which would pay no CIL. The site used as an example by the Examiner is reflective of a central city site (based on the benchmark value), and would therefore be expected to achieve at least 40 dwellings per hectare. The additional 10 dwellings per hectare would represent this affordable element (assuming 25%

affordable housing) to achieve the required density. We have used the 25% affordable housing rate to reflect recent delivery and therefore firmly link this analysis to current conditions. It is also noted that the methodology counter-intuitively provides a higher potential CIL if a higher percentage affordable housing is assumed.

7. The Councils have applied the same methodology to a one hectare greenfield 'fringe of Norwich' site at a benchmark land value at the lower end of GVA's suggested range of £520,000 to £620,000. The Councils have again assumed 25% affordable housing, a density of 30 dwellings per hectare and a S106 of £5,000 per market dwelling. This calculation shows that the 25% reduction in benchmark land value of £520,000 provides in theory for a £130,000 CIL pot which can be attributed to the 23 market dwellings. This equates to £5,650 per market dwelling. Once the £5,000 per market unit S106 assumption has been included, the CIL pot equates to £10,650 per market dwelling. Dividing £10,650 by the average assumed dwelling size of 90 square metres gives a CIL figure of £118 per square metre. Clearly if the upper end value of £620,000 per hectare had been used a higher rate of CIL could be supported.

8. Appendix 1 provides various alternative scenarios based on a notional 100 dwelling central site and a 1000 dwelling edge of Norwich greenfield site. These calculations assume that residual S106 of £750 per dwelling will be charged to cover those elements of S106 expenditure which are not infrastructure.

Conclusion

9. This methodology provides a reasonable "snapshot in time" and its strength is that it is tied to assumptions that reflect current experience. Being based firmly on current market evidence it compliments our own approach as set out in paragraphs 7.8 – 7.15 in document SD10 (CIL Background and Context, August 2012). However, a limitation is that it is not easily amenable to manipulation of assumptions. For example, the higher the level of affordable dwellings the higher the rate of CIL that the remaining market dwellings could afford.

10. This approach demonstrates clearly that a rate of residential CIL for the inner area of £115 per square metre falls comfortably within the range of viable outcomes.

Related Points

11. We have re run the model provided by Savills' clients Norfolk Homes (as included in document EV6, Supplementary Evidence on Residential Viability) to show the implications of increasing the contingency to 5% and changing the profit assumption to 20% of market GDV and 6% of affordable dwelling GDV. These were two key issues raised at the examination. This demonstrates that with a £115 CIL rate and 33% affordable housing the notional scheme achieves a land value of

£418,000 per hectare gross or £500,000 per hectare net, well within the benchmark levels (Appendix 2).

12. In response to the Examiner's questions we also attach the original email setting out the HCA's advice on assumptions (Appendix 3).

13. A further question arose about the ability to assemble a funding pot for major infrastructure projects. Currently charging authorities are not allowed to borrow against CIL income. One of the strengths of the partnership is the ability of the County Council as a third party to prudentially borrow to deliver projects upfront and enter into legal agreements with the District charging authorities to repay from their CIL income. The Leaders of the Councils are having regular discussions to implement these arrangements.

Monday 22 October 2012

Appendix 1

Appendix 1

Residential CIL Rate derived from Examiner's methodology

The Examiners approach to CIL as proposed at the Examination has been built into a spreadsheet. The spreadsheet analysis looks at 2 notional sites, one of 100 houses in the city and another of 1,000 houses on a greenfield fringe of Norwich site.

<u>City site</u>

The City site is assumed to be 3.8 hectares delivering an average density of 40 dwellings per hectare, with a non developable area of 35%. The calculation has been run for land values of £500,000 and £400,000 per acre. Historical S106 income of £2,000 per free market dwelling are assumed to be embedded in the past land values. A residual S106 of £750 pre free market dwelling is assumed to still be collected alongside CIL.

Affordable housing rates of 33%, 30% and 20% have been tested. Although this approach is not suited to testing the impacts of affordable housing provision it is presented to show the effects.

The calculation shows that, assuming 33% affordable housing with a land price of £1,235,000/hectare, a CIL of £142/square metre could be afforded from an assumed 25% reduction in land value allowing for release of £1,250 per dwelling of S106 embedded in current land values. See highlighted City column in the spreadsheet.

<u>Broadland/ South Norfolk Norwich fringe site</u>

The fringe site is assumed to be 67 hectares delivering an average density of 30 dwellings per hectare (one test of 40 is presented), with a non developable area of 50%. The calculation has been run for land values of £250,000 and £210,000 per acre. Historical S106 income of £5,000 per free market dwelling are assumed to be embedded in the past land values. A residual S106 of £750 pre free market dwelling is assumed to still be collected alongside CIL.

Again, affordable housing rates of 33%, 30% 25% and 20% have been tested. Although this approach is not suited to testing the impacts of affordable housing provision it is presented to show the effects.

The calculation shows that, assuming 33% affordable housing with a land price of £617,750/hectare, a CIL of £123/sqaure metre (assuming larger housing in the fringe) could be afforded from an assumed 25% reduction in land value allowing for release of £4,250 per dwelling of S106 embedded in current land values. See highlighted Broadland/South Norfolk Norwich fringe site column in the spreadsheet

GNDP CIL CHARGING SCHEDULE
SUPPLEMENTARY EVIDENCE
16 OCTOBER 2012

Residential CIL Rate derived from Examiner's methodology

	City						**South Norfolk/Broadland fringe of Norwich**							
No of dwellings	100	100	100	100	100	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Affordable housing	33%	30%	20%	33%	30%	20%	33%	30%	25%	20%	33%	30%	25%	20%
Private dwellings	67	70	80	67	70	80	670	700	750	800	670	700	750	800
Ave density dph	40	40	40	40	40	40	30	30	30	30	30	30	30	40
Net developable area Ha	2.5	2.5	2.5	2.5	2.5	2.5	33.3	33.3	33.3	33.3	33.3	33.3	33.3	25.0
Non developable area	35%	35%	35%	35%	35%	35%	50%	50%	50%	50%	50%	50%	50%	50%
Gross Area Ha	3.8	3.8	3.8	3.8	3.8	3.8	66.7	66.7	66.7	66.7	66.7	66.7	66.7	50.0
Land price per net acre	£500,000	£500,000	£500,000	£400,000	£400,000	£400,000	£250,000	£250,000	£250,000	£250,000	£210,000	£210,000	£210,000	£210,000
Land price per net ha	£1,235,500	£1,235,500	£1,235,500	£988,400	£988,400	£988,400	£617,750	£617,750	£617,750	£617,750	£518,910	£518,910	£518,910	£518,910
@ 25%	£308,875	£308,875	£308,875	£247,100	£247,100	£247,100	£154,438	£154,438	£154,438	£154,438	£129,728	£129,728	£129,728	£129,728
Max available for CIL	£772,188	£772,188	£772,188	£617,750	£617,750	£617,750	£5,147,917	£5,147,917	£5,147,917	£5,147,917	£4,324,250	£4,324,250	£4,324,250	£3,243,188
Plus														
Assumed S106 sum incorporated within the land price														
Per private dwelling	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000
Less Residual S106 payment per GNDP policy post introduction of CIL	£750	£750	£750	£750	£750	£750	£750	£750	£750	£750	£750	£750	£750	£750
Balance available for CIL per private dwelling	£1,250	£1,250	£1,250	£1,250	£1,250	£1,250	£4,250	£4,250	£4,250	£4,250	£4,250	£4,250	£4,250	£4,250
Private dwellings	67	70	80	67	70	80	670	700	750	800	670	700	750	800
	£83,750	£87,500	£100,000	£83,750	£87,500	£100,000	£2,847,500	£2,975,000	£3,187,500	£3,400,000	£2,847,500	£2,975,000	£3,187,500	£3,400,000
Plus available per land	£772,188	£772,188	£772,188	£617,750	£617,750	£617,750	£5,147,917	£5,147,917	£5,147,917	£5,147,917	£4,324,250	£4,324,250	£4,324,250	£3,243,188
CIL Sum	£855,938	£859,688	£872,188	£701,500	£705,250	£717,750	£7,995,417	£8,122,917	£8,335,417	£8,547,917	£7,171,750	£7,299,250	£7,511,750	£6,643,188
CIL per private dwelling	£12,775	£12,281	£10,902	£10,470	£10,075	£8,972	£11,933	£11,604	£11,114	£10,685	£10,704	£10,428	£10,016	£8,304
CIL per sq m														
Ave dwelling @ 90 sq m	**£142**	**£136**	**£121**	**£116**	**£112**	**£100**	**£133**	**£129**	**£123**	**£119**	**£119**	**£116**	**£111**	**£92**
Ave dwelling @ 97 sq m	**£132**	**£127**	**£112**	**£108**	**£104**	**£92**	**£123**	**£120**	**£115**	**£110**	**£110**	**£108**	**£103**	**£86**

Appendix 2

HYPOTHETICAL SCHEME - Number one 250 dwellings (Zone A)			Scenario 1 GNDP cost asumptions	
Gross Area of Site		9.40 ha		
Net Area of Site		7.85 ha	83.51%	
Total No of Units	250	24328	(Av size 97.31 sq m)	
Density	26.6	gross	31.8	net
Affordable Housing:	18	1-Bed Flat	39	711
	13	2-Bed Flat	60	785
	30	2-Bed Hse	67	2,021
	15	3-Bed Hse	84	1,254
	7	4-Bed Hse	107	748
	83		**358 sq m**	**5,518**
Total Scheme less Affordable Housing	24,328	less	5,518	**18,809**
GROSS DEVELOPMENT VALUE				
GDV of Open Market Units	18,809	@	£1,991	**£37,449,237**
GDV of Affordable Housing Units from a RSL:				
AH units for Affordable/Social Rent	18		£ 55,000	£990,000
	13		£ 64,000	£832,000
	25		£ 73,000	£1,825,000
	10		£ 82,000	£820,000
	4		£ 91,000	£364,000
Total Affordable/Social Rent	**70**		**£ 365,000**	**£4,831,000**
AH Units for Intermediate	5		£105,000	£525,000
	5		£125,000	£625,000
	3		£135,000	£405,000
Total	**13**		**£365,000**	**£1,555,000**
Affordable Provision	**33%**		**£730,000**	**£6,386,000**
Total Scheme GDV				**£43,835,237**
CONSTRUCTION COSTS				
Site Servicing & Infrastructure (Basic - no major abnormals)				
Electricity HV works & sub-station, say				£75,000
SW attenuation system/lagoon, etc, say				£150,000
Highways works, ie site access, etc, say				£250,000
Site Roads & Sewers, say: (at £75,000 per net ha)				£1,454,801
Total				**£1,929,801**
Build Costs, Overheads				
AH Build CfSH3:	5,518	@	£971.39	£5,360,363
OM Small Build:	11,286	@	£945.13	£10,666,318
OM Large Build:	7,524	@	£813.86	£6,123,242
Total Build Cost				**£22,149,922**
Contingency		@	5% of Build Cost	£1,107,496
Overheads (inc fees, marketing/sales and planning costs)		@	11% of build costs	£2,436,491
Total Construction, Build and overhead costs				**£27,623,711**
Finance			7.00% of Build Cost	£1,550,495
Profit Margin		@	20% of market GDV and 6% affordable GDV	£7,873,007
Total for all development costs and profit				**£37,047,213**
Acquisition Costs				
Stamp Duty	(added manually)		4.00% of Purchase Costs	£176,000
Solicitors, Agents, Professional Etc	(added manually)		1.50% of Purchase Costs	£66,000
Total				**£242,000**
Total All Costs				**£37,289,213**
LAND VALUE PRE S106 COSTS				**£6,546,024**
S.106 Contributions				
Assumed £750 per unit	250	@	£750	£187,500
Total				**£187,500**
LAND VALUE PRE CIL				**£6,358,524**
CIL				
Dwellings	18,809	@	£115	£2,163,065
Garages (111 single and 26 double)	2,315	@	£115	£266,225
Total CIL				**£2,429,290**
RESIDUAL LAND VALUE				**£3,929,234**
Rate per gross hectare	9.40			**£418,004**
Rate per net hectare	7.85			£500,539
Rate per plot	250			£15,717

Appendix 3

Charles, Ruth

From:	Akin Durowoju [akin.durowoju@hca.gsx.gov.uk]
Sent:	03 November 2011 23:55
To:	Eastaugh, Sandra
Cc:	Morris, Phil; Charles, Ruth; Scott Bailey; Nick Enge
Subject:	CIL Viability
Importance:	High
Follow Up Flag:	Follow up
Due By:	15 November 2011 10:00
Flag Status:	Flagged
Attachments:	Copy of NH model with blanks filled in V1.xls; Copy of NH model with blanks filled in.xls

Hi Sandra

Following your recent exchange of emails with Terry Fuller and your request, I will comment as set out below using numbered paragraphs. Apologies for the delayed response, which is brief and to the point as I am away from the office for a fortnight. In my absence please contact Scott Bailey who will be able to assist with any query that you might have.

I have reviewed the viability model submitted by the developer as a 'critical friend'. Any advice is given without prejudice and you will need independent professional advice to protect your positioning in the likely event of a challenge from the developer. Using our experience and local knowledge we will set out our opinion on the assumptions made and the reasonableness, which will enable you effectively challenge the developer.

1. Unit mix and size – while this is a hypothetical scheme the unit sizes are small, although I note the comment about this being average sizes. In the scheme of things this is not an issue at this stage given the implications on build costs etc. If this was however a real scheme I will be asking that the developer revisits the unit sizes.
2. Gross Development Value Open Market (OM) – the suggested rate of £1,991/m^2 (£185/ft^2) for OM units appear low. Your suggested rate of £2,250/m^2 (£209/ft^2) would appear reasonable, but I must add that I have not searched the area for any comparable evidence given the hypothetic nature of the proposal.
3. Gross Development Value Affordable Housing Units (AH) – I have used the assumed values set out in the template but these would appear to reflect a social rent tenure. With the affordable rent tenure I would expect the GDV on AH to increase. I have suggested some values (highlighted in yellow and adjacent to the developer's assumptions) which need to be verified and I will ask that my colleagues check these in more detail. If the highlighted values were used the RLV would be a lot higher!
4. Construction Costs – As a hypothetical site it's difficult to challenge the assumptions here but given the suggested rates and the size of the proposed units as mentioned above I will not challenge these at the present time as it offers good value for money and evidence of their competitive procurement process. It might be worth looking through their annual accounts to gauge their average build costs and profit levels as suggested below.
5. Contingency – I have never known of a house builder or developer that has a project contingency and as such this should be omitted and stated as nil. I suppose a subtle way of challenging this is to ask why given that they would have carried out their risk assessment and that risk can be passed onto design consultants and sub contractors, which is the industry practice.
6. On Costs – the allowance for overheads, finance, fees sales & marketing and profit margin at 13.46% is deemed high. This should be nearer 11% (see comment box in spreadsheet) as they probably have standard house types etc they work with plus finance costs at 7%.
7. Profit margin – their proposal suggests a blended rate of 20% across all tenure which is not acceptable. With the affordable housing developers have a partner Registered Provider (RP - Housing Association), lined up to deliver the affordable homes. The implication of this is that there is little or no risk to the developer. Furthermore with a simplistic RLV model as we have here there is no indication of the cashflow. RP's in general pay a deposit on exchange of purchase contracts and monthly instalments/valuations up to completion which impacts on the risk profile of the developer coupled with reduced borrowing and peak debt over the development period. I have therefore assumed a profit margin on 5% on the AH. With regards to the OM units a rate of 17% is acceptable in the current market and the reasoning around expectation of banks that developers secure 20% is not a rule of thumb.

8. Acquisition costs – I have left this as assumed and the impact on the RLV is minimal in the context of the above.
9. Section 106 contributions – I presume the suggested rate is acceptable to the authority when assessed in context with CIL? Otherwise this needs to be reviewed and changed as appropriate.
10. CIL – this has been left at £170/m^2 and £5/m^2 and the alternative rate. You will note that with the upper limits of CIL and my suggested amendments the RLV returns at circa £495k per acre at the top end of CIL or £578k per acre at the lower end. Both in excess of £1m per hectare.

The V1 model is based on my assumption which returns a land value pre and post CIL of circa £12.8m and £9.6m respectively. The other is as submitted by the developer. The assessment above only confirms that there is scope to secure the desired outcome for the authority, with a degree of negotiation and movement by the developers.

As discussed with Ruth earlier today it might be worth considering CIL as a percentage of GDV per unit, although I understand this might have limitations in statute? This will however reflect fluctuations in the market place and will mean the authority takes on some of the risk especially in a downturn.

I hope this helps and my colleagues will be able to follow through in my absence.

With kind regards.

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HYPOTHETICAL SCHEME	NORFOLK HOMES CURRENT APPRAISAL				GVA "NORMAL" SCHEME 4 (20% AFFORDABLE)				GVA "NORMAL" SCHEME 4 (30% AFFORDABLE)				GVA "NORMAL" SCHEME 4 (40% AFFORDABLE)			
Gross Area of Site		9.40 ha			9.40 ha				? ha				? ha			
Net Area of Site		7.85 ha	83.51%		7.85 ha	0.835			? ha				? ha			
Total No of Units	250	24,328 sq m	(Av size 97.31 sq m)	(31.85 units per ha)	250	24,328 sq m	(Av size 97.31 sq m)	(? Units per ha)	250	?		(? Units per ha)	250	?		(? Units per ha)
Affordable Housing:	18	1-Bed Flat	39	711	11	1-Bed Flat	39	434	?	?	#VALUE!		?	?	#VALUE!	
	13	2-Bed Flat	60	785	8	2-Bed Flat	60	483	?	?	#VALUE!		?	?	#VALUE!	
	30	2-Bed Hse	67	2,021	18	2-Bed Hse	67	1,212	?	?	#VALUE!		?	?	#VALUE!	
	15	3-Bed Hse	84	1,254	9	3-Bed Hse	84	752	?	?	#VALUE!		?	?	#VALUE!	
	7	4-Bed Hse	107	748	4	4-Bed Hse	107	427	?	?	#VALUE!		?	?	#VALUE!	
	83		**358 sq m**	**5,519 sq m**	**50**		**358**	**3,310**	**?**	**? sq m**	**? sq m**		**?**	**? sq m**	**? sq m**	
Total Scheme less Affordable Housing	24,328	less	5,519	**18,809 sq m**	24,328	less	3,310	21,018	? sq m	less	? sq m	**? sq m**	? sq m	less	? sq m	**? sq m**
GROSS DEVELOPMENT VALUE																
GDV of Open Market Units	18,809 sq m	@	£1,991	**£37,448,719**	21,018	@	£ 2,250	**£47,290,500**	15,750	@	£ 2,250	**£35,437,500**	? sq m	@	£ 2,368	**#VALUE!**
GDV of Affordable Housing Units from a RSL:																
AH units for Affordable/Social Rent	18		£ 55,000	£990,000	11	1-Bed Flat	£ 55,000	£605,000	?	1-Bed Flat	£?	#VALUE!	?	1-Bed Flat	£?	#VALUE!
	13		£ 64,000	£832,000	8	2-Bed Flat	£ 64,000	£512,000	?	2-Bed Flat	£?	#VALUE!	?	2-Bed Flat	£?	#VALUE!
	25		£ 73,000	£1,825,000	15	2-Bed Hse	£ 73,000	£1,095,000	?	2-Bed Hse	£?	#VALUE!	?	2-Bed Hse	£?	#VALUE!
	10		£ 82,000	£820,000	6	3-Bed Hse	£ 82,000	£492,000	?	3-Bed Hse	£?	#VALUE!	?	3-Bed Hse	£?	#VALUE!
	4		£ 91,000	£364,000	2	4-Bed Hse	£ 91,000	£182,000	?	4-Bed Hse	£?	#VALUE!	?	4-Bed Hse	£?	#VALUE!
Total Affordable/Social Rent	**70**		**£ 365,000**	**£4,831,000**	**42**			**£2,886,000**	**?**		**£?**	**#VALUE!**	**?**		**£?**	**#VALUE!**
AH Units for Intermediate	5		£105,000	£525,000	3	2-Bed Hse	£105,000	£315,000	?	2-Bed Hse	£?	#VALUE!	?	2-Bed Hse	£?	#VALUE!
	5		£125,000	£625,000	3	3-Bed Hse	£125,000	£375,000	?	3-Bed Hse	£?	#VALUE!	?	3-Bed Hse	£?	#VALUE!
	3		£135,000	£405,000	2	4-Bed Hse	£135,000	£270,000	?	4-Bed Hse	?£	#VALUE!	?	4-Bed Hse	?£	#VALUE!
Total	**13**		**£365,000**	**£1,555,000**	**8**			**£ 960,000**	**?**		**£?**	**#VALUE!**	**?**		**£?**	**#VALUE!**
Affordable Provision	**33%**		**£730,000**	**£6,386,000**	**20%**			**£ 3,846,000**	**30%**			**#VALUE!**	**40%**			**#VALUE!**
Total Scheme GDV				**£43,834,719**				**£ 47,290,500**				**£ 35,437,500**				**#VALUE!**
CONSTRUCTION COSTS																
Site Servicing & Infrastructure (Basic - no major abnormals)																
Electricity HV works & sub-station, say				£75,000				£75,000				?				?
SW attenuation system/lagoon, etc, say				£150,000				£150,000				?				?
Highways works, ie site access, etc, say				£250,000				£250,000				?				?
Site Roads & Sewers, say: (at £75,000 per net ha)				£1,454,801				£1,454,801				?				?
Enabling Costs								£0				?				?
Total				**£1,929,801**				**£1,929,801**				**£1,929,801**				**£?**
Build Costs, Overheads + Land																
AH Build CfSH3:	5,519	@	£971.39	£5,361,101	AH Build CfSH3:	3,310	900	2979000								
OM Small Build:	11,285	@	£945.13	£10,665,792	OM Small Build:	12610	860	10844600								
OM Large Build:	7,524	@	£813.86	£6,123,483	OM Large Build:	8407	860	7230020								
Average Build CfSH6:	0	@	£0.00	£0	21,018	@	£860.00	£18,075,480	15,750	@	£860.00	£13,545,000	?	@	£860.00	#VALUE!
Total Build Cost				**£22,150,376**				**£21,054,480**				£15,474,801				
Contingency		@	2.50% of Build Cost	£553,759		@	0% of Build Cost	£0		@	5% of Build Cost	£677,250		@	5% of Build Cost	#VALUE!
Overheads (inc fees, marketing/sales and planning costs)		@	13.46%% of GDV	£5,900,153												
Finance			7.00% of Build Cost	£1,550,526			6.75% of Build Cost	£1,421,177			6.75% of Build Cost	£914,288			6.75% of Build Cost	#VALUE!
Fees							5% of Build Cost	£1,052,724			10% of Build Cost	£1,354,500			10% of Build Cost	#VALUE!
Marketing/Sales							3.5% of GDV	£1,655,168			3.5% of GDV	£1,240,313			3.5% of GDV	#VALUE!
Profit Margin		@	20% of GDV	£8,766,944			20% of GDV	£9,458,100			20% of GDV	£7,087,500			20% of GDV	#VALUE!
Planning								£0				£0				£0
Total				**£38,921,759**				**£34,641,649**				**£26,748,651**				**#VALUE!**
								£0				£0				£0
Acquisition Costs								**£0**				**£0**				**£0**
Stamp Duty			4.00% of Purchase Costs	£84,800												
Solicitors, Agents, Professional Etc			1.50% of Purchase Costs	£31,801				**£36,571,450**				**£28,678,452**				**#VALUE!**
Total				**£116,601**												
								£10,719,050				**£6,759,048**				**#VALUE!**
Total Construction Costs				**£40,968,161**												
LAND VALUE PRE S106 COSTS				**£2,866,558**												
S.106 Contributions																
Assumed £750 per unit	250	@	£750	£187,500	250	@	£0	£0	250	@	£0	£0	250	@	£750	£187,500
Total				**£187,500**				**£0**				**£0**				**£187,500**
LAND VALUE PRE CIL				**£2,679,058**												
CIL																
Dwellings	18,809	@	£170	£3,197,530	21,018	@	£135	£2,837,430	15,750	@	£135	£2,126,250	?	@	£170	#VALUE!
Garages (111 single and 26 double)	1,630	@	£5	£8,150	2,400	@	£5	£12,000	2,100	@	£5	£10,500	?	@	£5	#VALUE!
Total CIL				**£3,205,680**				**£2,849,430**				**£2,136,750**				**#VALUE!**
RESIDUAL LAND VALUE				**-£526,622**				**£9,799,421**				**£6,552,099**				**#VALUE!**
Rate per gross hectare	9.40			-£56,024				£1,042,492				£697,032				#VALUE!
Rate per net hectare	7.85			-£67,086				£1,272,652				£850,922				#VALUE!
Rate per plot	250			-£2,106				£39,198				£26,208				#VALUE!
CIL																
Dwellings	18,809	@	£85	£1,598,765	21,018	@	£85	**£1,786,530**	15,750	@	£85	**£1,338,750**	?	@	£85	**#VALUE!**
Garages (111 single and 26 double)	1,630	@	£5	£8,150	2,400	@	£5	£12,000	2,100	@	£5	£10,500	?	@	£5	#VALUE!
Total CIL				**£1,606,915**				**£1,798,530**				**£1,349,250**				**#VALUE!**
RESIDUAL LAND VALUE				**£1,072,143**				**-£1,786,530**				**-£1,338,750**				**#VALUE!**
Rate per gross hectare	9.40			£114,058				-£190,056				-£142,420				#VALUE!
Rate per net hectare	7.85			£136,579				-£232,017				-£173,864				#VALUE!
Rate per plot	250			£4,289				-£7,146				-£5,355				#VALUE!

HCA v1

HYPOTHETICAL SCHEME	NORFOLK HOMES CURRENT APPRAISAL				GVA "NORMAL" SCHEME 4 (20% AFFORDABLE)				GVA "NORMAL" SCHEME 4 (30% AFFORDABLE)				GVA "NORMAL" SCHEME 4 (40% AFFORDABLE)			
Gross Area of Site		9.40 ha			? ha				? ha				? ha			
Net Area of Site		7.85 ha	83.51%		? ha				? ha				? ha			
Total No of Units	250	24,328 sq m	(Av size 97.31 sq m)	(31.85 units per ha)	250	?		(? Units per ha)	250	?		(? Units per ha)	250	?		(? Units per ha)
Affordable Housing:	18	1-Bed Flat	39	711	?	?	#VALUE!		?	?	#VALUE!		?	?	#VALUE!	
	13	2-Bed Flat	60	785	?	?	#VALUE!		?	?	#VALUE!		?	?	#VALUE!	
	30	2-Bed Hse	67	2,021	?	?	#VALUE!		?	?	#VALUE!		?	?	#VALUE!	
	15	3-Bed Hse	84	1,254	?	?	#VALUE!		?	?	#VALUE!		?	?	#VALUE!	
	7	4-Bed Hse	107	748	?	?	#VALUE!		?	?	#VALUE!		?	?	#VALUE!	
	83		**358 sq m**	**5,519 sq m**	**?**	**? sq m**	**? sq m**		**?**	**? sq m**	**? sq m**		**?**	**? sq m**	**? sq m**	
Total Scheme less Affordable Housing	24,328 sq m	less	5,519 sq m	**18,809 sq m**	? sq m	less	? sq m	? sq m	? sq m	less	? sq m	**? sq m**	? sq m	less	? sq m	**? sq m**
GROSS DEVELOPMENT VALUE																
GDV of Open Market Units	18,809 sq m	@	£2,250	**£42,320,250**	18,000	@	£ 2,250	**£40,500,000**	15,750	@	£ 2,250	**£35,437,500**	? sq m	@	£ 2,368	**#VALUE!**
GDV of Affordable Housing Units from a RSL:																
AH units for Affordable/Social Rent	18	£ 65,000	£ 55,000	£990,000	?	1-Bed Flat	£?	#VALUE!	?	1-Bed Flat	£?	#VALUE!	?	1-Bed Flat	£?	#VALUE!
	13	£ 74,000	£ 64,000	£832,000	?	2-Bed Flat	£?	#VALUE!	?	2-Bed Flat	£?	#VALUE!	?	2-Bed Flat	£?	#VALUE!
	25	£ 83,000	£ 73,000	£1,825,000	?	2-Bed Hse	£?	#VALUE!	?	2-Bed Hse	£?	#VALUE!	?	2-Bed Hse	£?	#VALUE!
	10	£ 92,000	£ 82,000	£820,000	?	3-Bed Hse	£?	#VALUE!	?	3-Bed Hse	£?	#VALUE!	?	3-Bed Hse	£?	#VALUE!
	4	£ 101,000	£ 91,000	£364,000	?	4-Bed Hse	£?	#VALUE!	?	4-Bed Hse	£?	#VALUE!	?	4-Bed Hse	£?	#VALUE!
Total Affordable/Social Rent	**70**	**£ 415,000**	**£ 365,000**	**£4,831,000**	**?**		**£?**	**#VALUE!**	**?**		**£?**	**#VALUE!**	**?**		**£?**	**#VALUE!**
AH Units for Intermediate	5	£115,000	£105,000	£525,000	?	2-Bed Hse	£?	#VALUE!	?	2-Bed Hse	£?	#VALUE!	?	2-Bed Hse	£?	#VALUE!
	5	£133,000	£125,000	£625,000	?	3-Bed Hse	£?	#VALUE!	?	3-Bed Hse	£?	#VALUE!	?	3-Bed Hse	£?	#VALUE!
	3	£142,000	£135,000	£405,000	?	4-Bed Hse	?£	#VALUE!	?	4-Bed Hse	?£	#VALUE!	?	4-Bed Hse	?£	#VALUE!
Total	**13**		**£365,000**	**£1,555,000**	**?**		**£?**	**#VALUE!**	**?**		**£?**	**#VALUE!**	**?**		**£?**	**#VALUE!**
Affordable Provision	**33%**		**£730,000**	**£6,386,000**	**20%**			**#VALUE!**	**30%**			**#VALUE!**	**40%**			**#VALUE!**
Total Scheme GDV				**£48,706,250**				**£ 40,500,000**				**£ 35,437,500**				**#VALUE!**
CONSTRUCTION COSTS																
Site Servicing & Infrastructure (Basic - no major abnormals)																
Electricity HV works & sub-station, say				£75,000				?				?				?
SW attenuation system/lagoon, etc, say				£150,000				?				?				?
Highways works, ie site access, etc, say				£250,000				?				?				?
Site Roads & Sewers, say: (at £75,000 per net ha)				£1,454,801				?				?				?
Enabling Costs								?				?				?
Total				**£1,929,801**				**£1,929,801**				**£1,929,801**				**£?**
Build Costs, Overheads + Land																
AH Build CfSH3:	5,519	@	£971.39	£5,361,101												
OM Small Build:	11,285	@	£945.13	£10,665,792												
OM Large Build:	7,524	@	£813.86	£6,123,483												
Average Build CfSH6:	0	@	£0.00	£0	18,000	@	£860.00	£15,480,000	15,750	@	£860.00	£13,545,000	?	@	£860.00	#VALUE!
Total Build Cost				**£22,150,376**				£17,409,801				£15,474,801				
Contingency		@	2.50% of Build Cost	£0		@	5% of Build Cost	£870,490		@	5% of Build Cost	£677,250		@	5% of Build Cost	#VALUE!
Overheads (inc fees, marketing/sales and planning costs)		@	11%% of GDV	£2,436,541												
Finance			7.00% of Build Cost	£1,550,526			6.75% of Build Cost	£1,175,162			6.75% of Build Cost	£914,288			6.75% of Build Cost	#VALUE!
Fees							10% of Build Cost	£1,740,980			10% of Build Cost	£1,354,500			10% of Build Cost	#VALUE!
Marketing/Sales							3.5% of GDV	£1,417,500			3.5% of GDV	£1,240,313			3.5% of GDV	#VALUE!
Profit Margin		@	17% of GDV PH	£7,194,443			20% of GDV	£8,100,000			20% of GDV	£7,087,500			20% of GDV	#VALUE!
Planning			5% of GDV AH	£319,300				£0				£0				£0
Total				**£33,651,186**				**£30,713,933**				**£26,748,651**				**#VALUE!**
								£0				£0				£0
Acquisition Costs								**£0**				**£0**				**£0**
Stamp Duty			4.00% of Purchase Costs	£84,800												
Solicitors, Agents, Professional Etc			1.50% of Purchase Costs	£31,801				**£32,643,734**				**£28,678,452**				**#VALUE!**
Total				**£116,601**												
								£7,856,266				**£6,759,048**				**#VALUE!**
Total Construction Costs				**£35,697,588**												
LAND VALUE PRE S106 COSTS				**£13,008,662**												
S.106 Contributions																
Assumed £750 per unit	250	@	£750	£187,500	250	@	£0	£0	250	@	£0	£0	250	@	£750	£187,500
Total				**£187,500**				**£0**				**£0**				**£187,500**
LAND VALUE PRE CIL				**£12,821,162**												
CIL																
Dwellings	18,809	@	£170	£3,197,530	18,000	@	£135	£2,430,000	15,750	@	£135	£2,126,250	?	@	£170	#VALUE!
Garages (111 single and 26 double)	1,630	@	£5	£8,150	2,400	@	£5	£12,000	2,100	@	£5	£10,500	?	@	£5	#VALUE!
Total CIL				**£3,205,680**				**£2,442,000**				**£2,136,750**				**#VALUE!**
RESIDUAL LAND VALUE				**£9,615,482**				**£7,344,067**				**£6,552,099**				**#VALUE!**
Rate per gross hectare	9.40	23.22	£414,139	£1,022,924				£781,284				£697,032				#VALUE!
Rate per net hectare	7.85	19.39	£495,912	£1,224,902				£953,775				£850,922				#VALUE!
Rate per plot	250			£38,462				£29,376				£26,208				#VALUE!
CIL																
Dwellings	18,809	@	£85	£1,598,765	18,000	@	£85	**£1,530,000**	15,750	@	£85	**£1,338,750**	?	@	£85	**#VALUE!**
Garages (111 single and 26 double)	1,630	@	£5	£8,150	2,400	@	£5	£12,000	2,100	@	£5	£10,500	?	@	£5	#VALUE!
Total CIL				**£1,606,915**				**£1,542,000**				**£1,349,250**				**#VALUE!**
RESIDUAL LAND VALUE				**£11,214,247**				**-£1,530,000**				**-£1,338,750**				**#VALUE!**
Rate per gross hectare	9.40	23.22	£482,998	£1,193,005				-£162,766				-£142,420				#VALUE!
Rate per net hectare	7.85	19.39	£578,367	£1,428,566				-£198,701				-£173,864				#VALUE!
Rate per plot	250			£44,857				-£6,120				-£5,355				#VALUE!

Charles, Ruth

From: Akin Durowoju [akin.durowoju@hca.gsx.gov.uk]
Sent: 16 November 2011 16:38
To: Morris, Phil; Eastaugh, Sandra; Nick Enge; Scott Bailey
Cc: Charles, Ruth
Subject: RE: CIL Viability

Hi Phil

Apologies for the mix up. The cell in question should be based on build costs. You could also base it on GDV but it all depends on where the developer loads costs an/or revenue.
In this case the build rate does appear reasonable and as such the 11% should be based on build costs. You need to watch the term total construction costs as this can included costs that are over and beyond pure build costs. Arguably you could question how much sales and marketing is required on the affordable homes, given the existing working relationship they have with RP's etc.

You will also note that while the cell refers to a percentage of GDV the calculation actually picks up on the build cost.

Apologies for the omission. It came from me typing over and testing various scenarios.

With kind regards.

Akin

From: Morris, Phil [mailto:phil.morris@norfolk.gov.uk]
Sent: 15 November 2011 12:38
To: Akin Durowoju; Eastaugh, Sandra; Nick Enge; Scott Bailey
Cc: Charles, Ruth
Subject: RE: CIL Viability

Akin/Scott/Nick (I am not sure if Akin is still on holiday)

thanks for the response. It is very useful.

I have one particular question on point 6 relating to on-costs. Akin argues they should be 11% which seems reasonable. In the spreadsheet that Akin modified (line 52) they are described as 11% of GDV but the revised calculation is actually 11% of build costs. So should the 11% be applied to GDV, Building costs, or even total construction costs?

An urgent response would be appreciated as we have a meeting tomorrow afternoon to discuss this.

thanks

Phil

From: Akin Durowoju [mailto:akin.durowoju@hca.gsx.gov.uk]
Sent: 03 November 2011 23:55
To: Eastaugh, Sandra
Cc: Morris, Phil; Charles, Ruth; Scott Bailey; Nick Enge
Subject: CIL Viability
Importance: High

Hi Sandra

Following your recent exchange of emails with Terry Fuller and your request, I will comment as set out below using numbered paragraphs. Apologies for the delayed response, which is brief and to the point as I am away from the office for a fortnight. In my absence please contact Scott Bailey who will be able to assist with any query that you might have.

I have reviewed the viability model submitted by the developer as a ‘critical friend’. Any advice is given without prejudice and you will need independent professional advice to protect your positioning in the likely event of a challenge from the developer. Using our experience and local knowledge we will set out our opinion on the assumptions made and the reasonableness, which will enable you effectively challenge the developer.

1. Unit mix and size – while this is a hypothetical scheme the unit sizes are small, although I note the comment about this being average sizes. In the scheme of things this is not an issue at this stage given the implications on build costs etc. If this was however a real scheme I will be asking that the developer revisits the unit sizes.
2. Gross Development Value Open Market (OM) – the suggested rate of £1,991/m^2 (£185/ft^2) for OM units appear low. Your suggested rate of £2,250/m^2 (£209/ft^2) would appear reasonable, but I must add that I have not searched the area for any comparable evidence given the hypothetic nature of the proposal.
3. Gross Development Value Affordable Housing Units (AH) – I have used the assumed values set out in the template but these would appear to reflect a social rent tenure. With the affordable rent tenure I would expect the GDV on AH to increase. I have suggested some values (highlighted in yellow and adjacent to the developer’s assumptions) which need to be verified and I will ask that my colleagues check these in more detail. If the highlighted values were used the RLV would be a lot higher!
4. Construction Costs – As a hypothetical site it’s difficult to challenge the assumptions here but given the suggested rates and the size of the proposed units as mentioned above I will not challenge these at the present time as it offers good value for money and evidence of their competitive procurement process. It might be worth looking through their annual accounts to gauge their average build costs and profit levels as suggested below.
5. Contingency – I have never known of a house builder or developer that has a project contingency and as such this should be omitted and stated as nil. I suppose a subtle way of challenging this is to ask why given that they would have carried out their risk assessment and that risk can be passed onto design consultants and sub contractors, which is the industry practice.
6. On Costs – the allowance for overheads, finance, fees sales & marketing and profit margin at 13.46% is deemed high. This should be nearer 11% (see comment box in spreadsheet) as they probably have standard house types etc they work with plus finance costs at 7%.
7. Profit margin – their proposal suggests a blended rate of 20% across all tenure which is not acceptable. With the affordable housing developers have a partner Registered Provider (RP - Housing Association), lined up to deliver the affordable homes. The implication of this is that there is little or no risk to the developer. Furthermore with a simplistic RLV model as we have here there is no indication of the cashflow. RP’s in general pay a deposit on exchange of purchase contracts and monthly instalments/valuations up to completion which impacts on the risk profile of the developer coupled with reduced borrowing and peak debt over the development period. I have therefore assumed a profit margin on 5% on the AH. With regards to the OM units a rate of 17% is acceptable in the current market and the reasoning around expectation of banks that developers secure 20% is not a rule of thumb.
8. Acquisition costs – I have left this as assumed and the impact on the RLV is minimal in the context of the above.
9. Section 106 contributions – I presume the suggested rate is acceptable to the authority when assessed in context with CIL? Otherwise this needs to be reviewed and changed as appropriate.
10. CIL – this has been left at £170/m^2 and £5/m^2 and the alternative rate. You will note that with the upper limits of CIL and my suggested amendments the RLV returns at circa £495k per acre at the top end of CIL or £578k per acre at the lower end. Both in excess of £1m per hectare.

The V1 model is based on my assumption which returns a land value pre and post CIL of circa £12.8m and £9.6m respectively. The other is as submitted by the developer. The assessment above only confirms that there is scope to secure the desired outcome for the authority, with a degree of negotiation and movement by the developers.

As discussed with Ruth earlier today it might be worth considering CIL as a percentage of GDV per unit, although I understand this might have limitations in statute? This will however reflect fluctuations in the market place and will mean the authority takes on some of the risk especially in a downturn.

I hope this helps and my colleagues will be able to follow through in my absence.

With kind regards.

Akin Durowoju MCMI MRICS | Head of Area
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