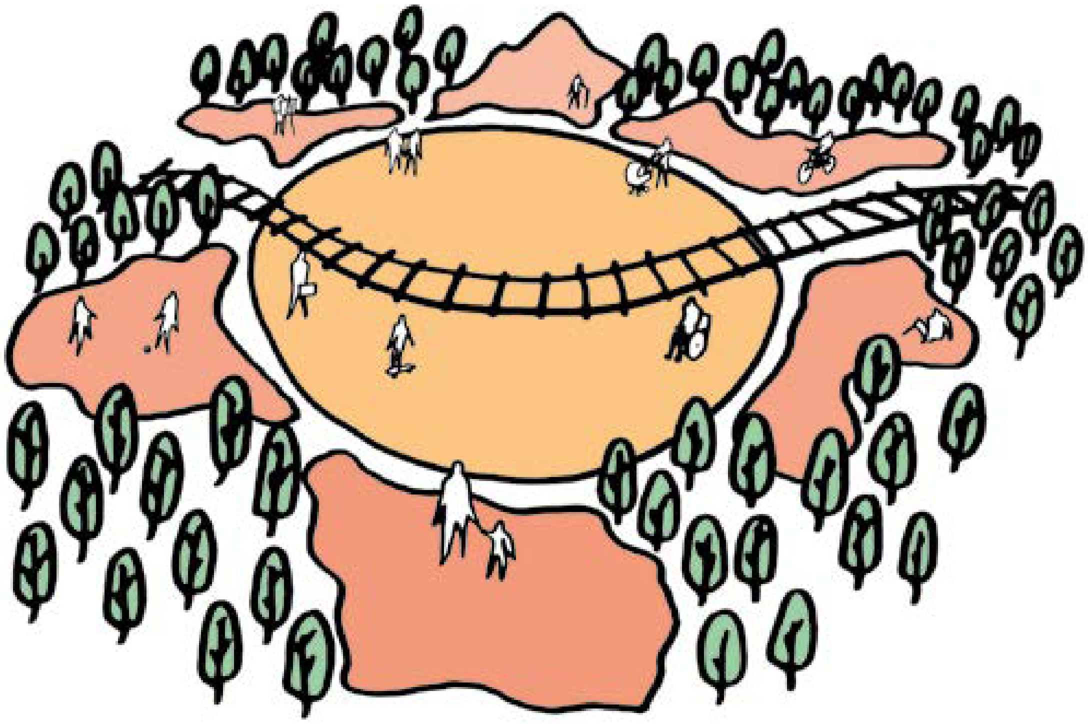
Harrogate District LOCAL PLAN

New Settlement (Maltkiln) Development Plan Document (DPD)



Submission Draft
Viability Assessment

February 2024

NORTH YORKSHIRE COUNCIL

Harrogate Borough Council

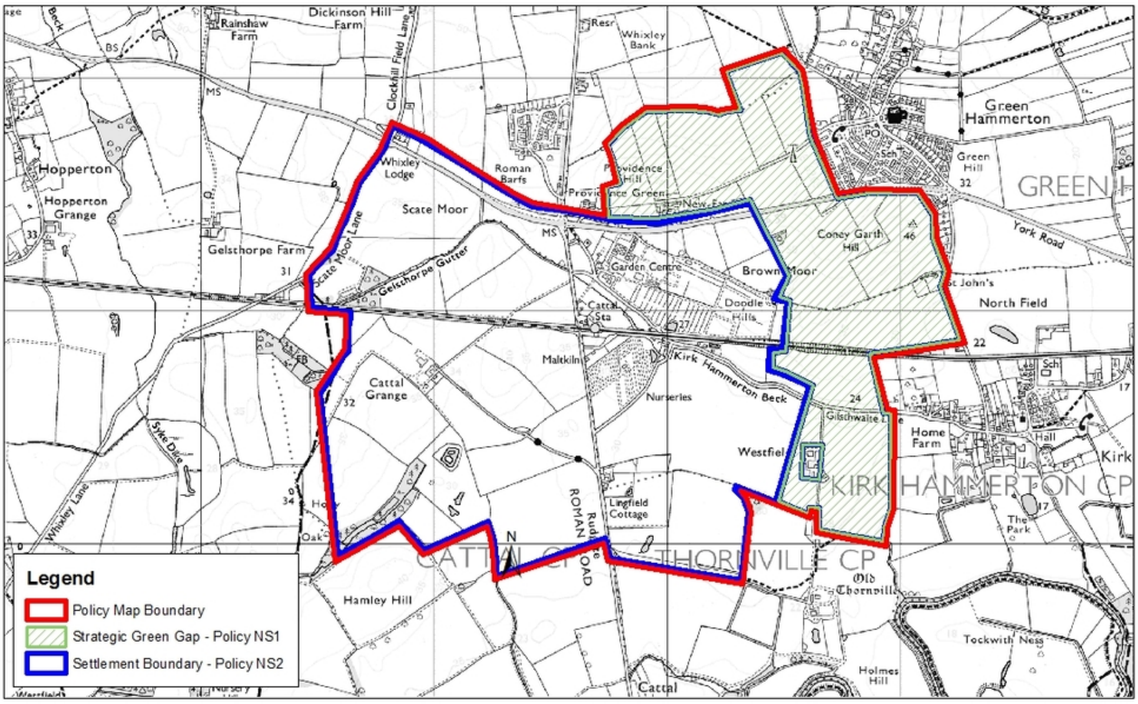
New Settlement Viability Note

Introduction

Harrogate Borough Council is preparing a Development Plan Document (DPD) for the development of a new settlement in the Green Hammerton / Cattal area of Harrogate District. The broad location for the new settlement was established in the Harrogate District Local Plan (HDLP) 2014-35. The DPD, once adopted, will form part of the Development Plan and will be used in the determination of planning applications in the area.

The HDLP was the subject of whole-plan viability testing, in order to demonstrate that the scale of obligations and policy burdens would not render development unviable. This work included a high-level assessment of potential costs and values of Strategic Sites, including the new settlement. It was recommended that the Council continue to engage with the new settlement site promoters, to further assess strategic infrastructure and mitigation requirements and produce updated viability information. Further viability work was undertaken following this to inform the development of the Council's Community Infrastructure Levy (the Green Hammerton / Cattal site is zero rated for CIL).

DPD Area



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Maltkiln Policy Map

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Source: HBC

To support the development of the new settlement DPD, the Council has prepared an Infrastructure Delivery Plan (IDP) which sets out the key strategic infrastructure requirements for the development. In preparing the DPD and the accompanying IDP, the Council has continued working with the promoter of the new settlement site, who has shared information regarding masterplan preparation and development costs.

This brief note has been prepared by HDH Planning & Development Ltd to provide an updated position statement in relation to the deliverability of the new settlement.

Background

1.1 In 2018 HDH prepared the *Local Plan Viability Update and CIL Viability Assessment*. The 2018 viability assessment was an update to the *HBC Whole Plan Viability Assessment* (HDH, September 2016). The assumptions were based in April 2018. The 2018 Viability Update considered the development of the new settlement, referred to within that document as the Green Hammerton / Cattal site, with a capacity of 3,000 units and a site area of 80.78ha. At that time, the strategic infrastructure and mitigation measures (i.e. the s106 costs) were estimated to be approximately £36,300,000. The 2018 Viability Assessment was examined through the CIL Examination process and, as a result, the proposed rate of £0/m^2 was confirmed for the new settlement.

1.2 This brief note considers how changes in costs and values, and changes in national policy, may impact on viability and the delivery of this site in the context of the emerging DPD.

Changes in Residential Value

2.1 Since 2018 there has been a considerable change in the housing market. There are a range of data sources that can be referenced; however the Land Registry is the most complete.

Table 2.1 Change in Average House Prices

	Harrogate BC	North Yorkshire	England & Wales
2018-04	£287,109	£216,478	£237,169
2022-08	£356,879	£284,531	£310,716
	£69,770	£68,053	£73,547
	24.3%	31.4%	31.0%

Source: Land Registry (October 2022). Contains HM Land Registry data © Crown copyright. This data is licensed under the Open Government Licence v3.0

2.2 This data shows that average prices have increased by about 24% in Harrogate, which is somewhat less than in the wider North Yorkshire County. This data can be disaggregated and newbuild sales separated out.

Table 2.2 Change in Average Newbuild House Prices – Harrogate BC		
	Newbuild	Existing
2018-04	£354,037	£285,706
2022-06	£458,779	£328,739
	£104,742	£43,033
	29.6%	15.1%

Source: Land Registry (October 2022) Contains HM Land Registry data © Crown copyright. This data is licensed under the Open Government Licence v3.0

2.3 According to the Land Registry, the average newbuild sale price has increased by just under 30% over the last 4 or so years in the Council area. This is more than the average increase of existing homes.

2.4 The 2018 Viability Update was completed before the COVID-19 pandemic. A range of views as to the impact on house prices of the pandemic and Brexit were expressed which covered nearly the whole spectrum of possibilities, but the general consensus was that there would be a fall in house prices. As can be seen from the above, prices actually increased substantially. The pandemic, Brexit and more recently Russia's invasion of Ukraine, as well as the impact on house prices (through increased mortgage rates) following the September 2022 mini-Budget, all add uncertainty. It is not possible for us to predict the impact of these; however HM Treasury brings together some of the forecasts in its regular *Forecasts for the UK economy: a comparison of independent forecasts* report.

Table 2.3 Consolidated House Price Forecasts

Table 2 - 2022: Growth in prices and monetary indicators (% change)

Forecasters and dates of forecasts			CPI (Q4 on Q4 year ago, %)		RPI (Q4 on Q4 year ago, %)	Average earnings	Sterling index (Jan 2005=100)	Official Bank rate (level in Q4, %)	Oil price (Brent, $/bbl)	Nominal GDP	House price inflation (Q4 on Q4 year ago, %)	
City forecasters												
Bank of America - Merrill Lynch	Oct		3.1		3.9	-	-	0.25	-	-	-	
Barclays Capital	Sep	*	9.4		12.7	-	-	2.50	103.0	-	-	
Bloomberg Economics	Feb		5.0		-	-	-	1.00	-	-	-	
Capital Economics	Jun		10.4		11.9	7.4	81.2	2.25	100.0	-	8.0	
Citigroup	Feb		5.0		5.8	4.4	-	1.00	-	-	5.6	
Credit Suisse	Jul		9.5		-	-	-	2.25	-	-	-	
Daiwa Capital Markets	Feb		4.6		-	4.0	85.0	1.25	85.0	-	5.0	
Deutsche Bank	Aug		12.4		15.4	-	-	2.50	-	-	-	
Goldman Sachs	Mar		8.3		-	-	-	1.75	125.7	6.9	-	
HSBC	Jun		9.3		11.5	4.5	-	1.50	-	-	-	
JP Morgan	Jul		8.6		-	-	-	2.25	-	-	-	
Morgan Stanley	Dec		2.7		3.9	-	-	0.75	-	-	-	
Natwest Markets	Sep	*	10.4		13.1	6.3	-	3.25	99.0	8.6	-	
Nomura	Aug		12.4		-	-	-	2.50	-	-	-	
Pantheon	Aug		12.6		15.3	5.0	-	2.25	-	-	4.2	
Schroders Investment Management	Dec		1.6		3.5	3.5	-	0.50	-	9.2	2.2	x
Societe Generale	Aug		10.8		13.8	6.0	-	2.50	-	11.8	-	
UBS	Jun		8.6		10.5	6.0	-	1.50	-	6.9	-	
Non-City forecasters												
British Chambers of Commerce	Sep	*	14.0		-	5.2	-	2.00	-	-	-	
Beacon Economic Forecasting	Sep	*	10.2		11.5	6.1	78.2	2.75	102.0	10.8	12.0	
CBI	Aug		8.3		8.7	5.5	83.6	1.75	100.8	9.1	9.2	
CEBR	Sep	*	11.0		11.3	5.2	78.0	2.67	-	-	0.8	
Economic Perspectives	Aug		10.5		11.5	6.5	78.0	2.25	106.0	8.5	5.3	x
Experian Economics	May		9.0		11.0	5.0	87.8	1.25	108.0	3.1	2.2	
EIU	Jul		7.8		-	-	-	2.00	-	-	-	
Heteronomics	Sep	*	10.2		13.0	7.5	79.9	2.75	108.0	-	7.2	
ICAEW	Jul		10.5		-	-	-	2.25	-	-	-	
ITEM Club	Aug		10.1		13.1	4.1	-	1.92	-	-	5.5	z
Kern Consulting	Sep	*	10.5		-	6.0	-	2.75	94.0	-	-	
Liverpool Macro Research	Sep	*	8.6		-	7.3	78.6	2.00	-	-	-	k
NIESR	Aug		10.8		17.7	6.1	-	2.36	-	-	6.2	
Oxford Economics	Sep	*	10.3		13.1	5.7	78.4	3.00	103.8	9.0	6.6	k
OECD	Aug		8.8	h	-	-	-	-	-	-	-	
IMF	Aug		7.4	h	-	-	-	-	-	-	-	
Average of forecasts made in the last 3 months (excludes OBR forecasts)												
Independent			10.2		13.1	5.9	79.2	2.4	102.1	9.6	6.3	
New (marked *)			10.5		12.4	6.2	78.6	2.6	101.6	9.5	6.6	
City			10.8		14.1	5.8		2.5	101.0	10.2	4.2	
Range of forecasts made in the last 3 months (excludes OBR forecasts)												
Highest			14.0		17.7	7.5	83.6	3.3	108.0	11.8	12.0	
Lowest			7.4		8.7	4.1	78.0	1.8	94.0	8.5	0.8	
Median			10.3		13.1	6.0	78.4	2.4	102.5	9.1	6.2	
OBR	Mar		8.7		11.0	5.3	82.5	1.1	94.0	6.7	4.3	

Source: Forecasts for the UK economy: a comparison of independent forecasts No 422 (HM Treasury, September 2022.

2.5 The uncertainty in the housing market is reported by the RICS. The August 2022 RICS UK Residential Market Survey said:

Buyer enquiries and sales continue to fall but prices remain underpinned at this stage

- *Downward trend in new buyer enquires and sales appears to gather momentum*
- *New instructions still falling, with supply on the market remaining restricted*
- *House prices continue to edge higher for now although the pace of growth is easing noticeably across the country*

The August 2022 RICS UK Residential Survey results point to the recent downward trend in market activity becoming further entrenched, with enquires, sales and new instructions all falling at a faster pace (in net balance terms) than last month. Respondents continue to attribute this to the deteriorating macro-economic backdrop, amid the cost-of-living crisis, alongside higher borrowing costs.

Starting with demand, the aggregate net balance for new buyer enquiries slipped to a reading of -39% in August. This is down relatively sharply from a figure of -26% beforehand and represents the weakest return for the survey's demand metric since April 2020. Moreover, most regions/countries of the UK are seeing buyer demand fall back to some extent. That said, enquiries were somewhat more resilient in London over the month, holding broadly steady.

Meanwhile, the flow of new instructions to sell remains very much in decline, evidenced by a net balance of -15% respondents nationally citing a decline in fresh listings during August (compared to -6% previously). As a result, average inventory levels on estate agent's books sunk to a fresh all-time low of just 34 homes over the latest survey period. Looking ahead, contributors continue to note that the current level of market appraisals being undertaken is similar to that seen twelve months ago, suggesting the tight supply backdrop is unlikely to change dramatically in the near future.

With respect to agreed sales, a net balance reading of -22% was posted in August, representing a further softening from a figure of -13% seen in each of the previous two reports. As such, sales have now fallen for five consecutive months, with the latest feedback implying this downward trend is gathering pace. Going forward, near-term sales expectations remain stuck in negative territory, at -26%. Over the next twelve-months, a national net balance of -45% of respondents foresee sales slipping, marking the poorest return for this series since its formation in 2012.

Despite the weakening sales backdrop, a headline net balance of +53% of survey participants continued to report an increase in house prices over August. Even so, price growth (in net balance terms) has now moderated to some degree in four successive months, following a recent high of +78% recorded back in April this year. Nevertheless, the latest feedback remains consistent with a still reasonably solid degree of upward movement in house prices for the time being. When disaggregated, respondents across Northern Ireland, the North West, London and East Anglia in particular all continue to highlight relatively firm house price growth at this stage.

As to the future, price expectations for the next twelve months returned a net balance of just +3% in August, down from a reading of +30% last time. Consequently, this is now indicative of a more or less flat projection for national house prices over the twelve-month time horizon. Indeed, this corroborates with members' point estimate twelve-month forecast, which suggests house prices will rise by just a 0.2% over the year to come.

2.6 Property agents Savills are forecasting the following changes in house prices.

Table 2.4 Savills Residential Price Forecasts

	2022	2023	2024	2025	2026	5 Year
Mainstream UK	7.5%	-1.0%	3.0%	3.5%	3.5%	17.4%
Yorkshire & The Humber	10.0%	-0.5%	4.0%	4.5%	4.5%	24.3%
Midlands / North	5.05%	4.0%	3.5%	4.0%	4.0%	21.76%

Source: Savills Mainstream House Price Forecasts (July 2022)[1] and Savills Spotlight: Prime Residential Property Forecasts[2]

[1] UK-Mainstream-House-Price-Forecasts.pdf (savills.com)

[2] Savills UK | Spotlight: Prime Residential Property Forecasts – August 2022

2.7 In this context it is relevant to note that the Nationwide Building Society reported in September 2022:

Annual house price growth slows to single digits in September

- *Modest slowing in annual UK house price growth to 9.5% in September, from 10% in August*
- *10 of the UK's 13 regions recorded slower annual price growth in the third quarter of the year*
- *South West was the strongest performing region once again, while London remained weakest*

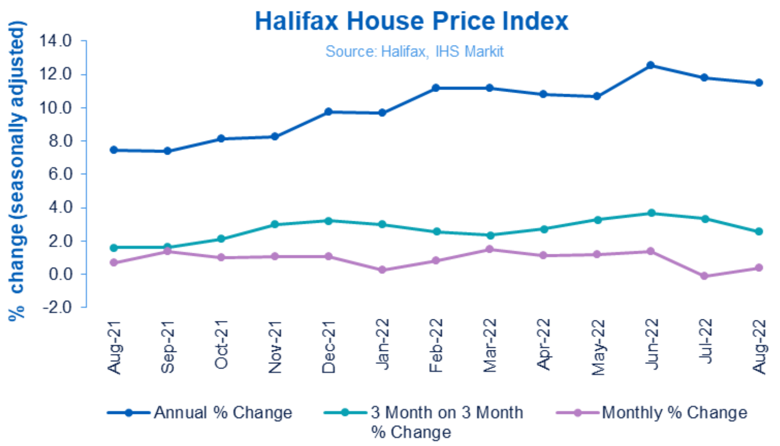
Headlines	Sept-22	Aug-22
Monthly Index*	542.7	542.7
Monthly Change*	0.0%	0.7%
Annual Change	9.5%	10.0%
Average Price (not seasonally adjusted)	£272,259	£273,751

** Seasonally adjusted figure (note that monthly % changes are revised when seasonal adjustment factors are re-estimated)*

2.8 Similarly, the Halifax Building Society reported in August 2022:

Average house price edges higher – but rate of annual growth slows again

- *House prices increased by +0.4% in August (vs -0.1% in July)*
- *Annual rate of growth eased to +11.5% (from +11.8%)*
- *A typical UK property now costs a record £294,260*
- *Wales still showing the strongest annual growth in the UK • London records highest annual house price inflation in six years*



2.9 There is clearly uncertainty in the market, and the substantial growth reported over the last few years seems unlikely to continue. The delivery of this site is likely to take place across several economic cycles, during which there will be falls as well as rises in property values. The assumptions used in this note are cautious in nature.

Changes in Development Costs

3.1 In the 2018 Viability Update, the build costs were derived from the BCIS data. The cost figure for Harrogate for 'Estate Housing – Generally' is now £1,344/m² (8th October 2022). This is an increase of 21.4%, from the equivalent, April 2028, figure of £1,107/m².

Table 3.1 BCIS Costs

Rebased to Harrogate (97; sample 21)
£/m² study. **Description:** Rate per m² gross internal floor area for the building Cost including prelims. **Last updated:** 08-Oct-2022 5:36. **£/m² gross internal floor area**

New build	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest
810.1 Estate housing						
Generally (15)	1,398	673	1,191	1,344	1,532	4,858
2-storey (15)	1,580	948	1,349	1,527	1,754	4,858
3-storey (15)	1,348	673	1,168	1,310	1,474	2,925
4-storey or above (15)	1,462	869	1,202	1,391	1,667	2,866
810.11 Estate housing detached (15)	2,944	1,425	2,358	2,633	3,919	4,385
810.12 Estate housing semi detached						
Generally (15)	1,398	822	1,194	1,372	1,533	2,559
2-storey (15)	1,554	1,017	1,340	1,524	1,714	2,559
3-storey (15)	1,356	822	1,191	1,323	1,479	2,413
810.13 Estate housing terraced						
Generally (15)	1,438	837	1,169	1,345	1,580	4,385
2-storey (15)	1,646	1,054	1,365	1,687	1,906	2,324
3-storey (15)	1,376	837	1,156	1,313	1,512	2,925
816. Flats (apartments)						
Generally (15)	1,643	809	1,364	1,553	1,857	5,638
1-2 storey (15)	1,559	962	1,319	1,475	1,760	2,838
3-5 storey (15)	1,619	809	1,360	1,543	1,840	3,435
6 storey or above (15)	1,953	1,199	1,596	1,839	2,099	5,638

Source: BCIS (October 2022)

3.2 There has been much coverage in the national press around increased inflation. The BCIS is predicting that the General Build Cost Index will increase by about 4% over the next year (October 2022: 444.9 – October 2023: 462.4) and by about 11% over the next three years. (October 2022: 444.9 – October 2025: 492.0).

Changes in National Policy

4.1 There have been a number of changes at a national level since the 2018 Viability Update Note was undertaken.

First Homes

4.2 In February 2020, the Government launched a consultation on First Homes. The outcome of this was announced in May 2021.

> *<u>What is a First Home?</u>*
>
> *First Homes are a specific kind of discounted market sale housing and should be considered to meet the definition of 'affordable housing' for planning purposes. Specifically, First Homes are discounted market sale units which:*
>
> *a. must be discounted by a minimum of 30% against the market value;*
>
> *b. are sold to a person or persons meeting the First Homes eligibility criteria (see below);*
>
> *c. on their first sale, will have a restriction registered on the title at HM Land Registry to ensure this discount (as a percentage of current market value) and certain other restrictions are passed on at each subsequent title transfer; and,*
>
> *d. after the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London).*
>
> *First Homes are the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers through planning obligations.*
>
> *PPG: 70-001-21210524*

4.3 Assuming the Council does not seek a First Homes discount of greater than 30%, First Homes are likely to have a value that is similar to Shared Ownership housing..

Environmental Standards

4.4 At the time of the 2018 Viability Update, the Council was not specifically seeking standards that were over and above those set out in National Building Regulations. It was assumed that development was carried out to the then extant Building Regulation standards.

4.5 Early in October 2019, the Government launched a consultation on 'The Future Homes Standard'[3]. This is linked to achieving 'net zero' greenhouse gas emissions by 2050. The outcome of the consultation was announced during January[4] 2021.

4.6 The Department of Levelling up, Communities and Housing has now published the latest revision to Conservation of Fuel and Power, Approved Document L of the Building Regulations as a 'stepping stone' on the pathway to Zero Carbon homes. Part L of Building Regulations have been updated to align with Option 2 of the Future Homes Standard Option 2. It sets the target of an interim 31% reduction in CO_2 emissions over 2013 standards for dwellings. The changes apply to new homes that submit plans after June 2022 or have not begun construction before June 2023.

[3] https://www.gov.uk/government/consultations/the-future-homes-standard-changes-to-part-l-and-part-f-of-the-building-regulations-for-new-dwellings?utm_source=7711646e-e9bf-4b38-ab4f-9ef9a8133f14&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

[4] [The Future Buildings Standard - GOV.UK (www.gov.uk)](https://www.gov.uk)

4.7 The costs will depend on the specific changes made and are considered in Chapter 3 of the 2019 Government Consultation[5]. This suggests that the costs, having been indexed, would add about 3%[6] to the base cost of construction. The revisions to Part L are a step towards the introduction of the Future Homes Standard in 2025. While precise details of the Future Homes Standard are yet to be published, the 2019 Government Consultation anticipated that it would achieve a 75% to 80% improvement reduction in CO_2 emissions over 2013 standards for dwellings, and will be introduced in 2025.

4.8 *A report for the Committee on Climate Change The costs and benefits of tighter standards for new buildings, Final report 2019* (Currie & Brown, February 2019) did set out the costs of a range of standards, but these are not comparable on a like-for-like basis. Additionally, the Government consultation was informed by the *Centre for Sustainable Energy Cost of carbon reduction in new buildings* (Currie & Brown, December 2018). This report suggested:

4.9 The costs of reducing emissions by 10% on-site, with no requirement for energy efficiency beyond the Part L 2013 (assuming gas heating), to be less than 1% of the build costs with a 20% reduction, to add about 2% to the costs of construction[7].

a. The cumulative costs over Part L 2013 for certified Passivhaus is about:

   i. £12,000 per detached house (based on 117m², £103/m² or an additional 7.6% in costs).

   ii. £7,100 per terraced house (based on 84m², £85/m² or an additional 5.8% in costs).

   iii. £2,750 per low rise flat (based on 70m², £39/m² or an additional 2.9% in costs).

b. The cost of Zero Regulated Carbon[8] and Zero Regulated and Un-Regulated Carbon[9] is set out as follows:

[5] The Future Homes Standard 2019 Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings (MHCLG, October 2019).

[6] BCIS March 2022 409.0 from BCIS Oct 2018 354.2 = 15.5%. £3,134x15.5%+£3,620. £3,620/85m² = £42.60/m². £42.60/m² / BCIS Estate Housing £1,324 = 3.2%

[7] Figure 4.10.

[8] Regulated energy use is regulated by Part L of Building Regulations. This includes energy used for space heating, hot water and lighting together with directly associated pumps (for circulating water) and fans (eg for ventilation).

[9] Unregulated energy use is not controlled by Part L of Building Regulations. In homes this includes energy use for cooking, white goods and small power (eg, TVs, kettles, toasters, IT, etc). The quantity of unregulated energy in a home is estimated in SAP2012 using information on the building area. In non-domestic buildings unregulated energy also includes that used for vertical transportation (lifts and escalators) and process loads such as industrial activities or server rooms.

Table 4.1 Cost of On-Site Carbon Reduction

	Carbon Saving	Zero Regulated Carbon			Zero Regulated and Un-Regulated Carbon		
		% Uplift	£/m²	£/home	% Uplift	£/m²	£/home
Gas Heated							
Detached	79%	6.2%	£84	£9,900	9.2%	£124	£14,500
Semi Detached	56%	5.6%	£84	£6,800	8.7%	£126	£10,600
Terraced	59%	6.0%	£82	£6,900	9.4%	£126	£10,600
Low Rise Flat	34%	6.7%	£91	£6,400	10.2%	£137	£9,600
Medium Rise Flat	24%	3.5%	£87	£4,400	5.4%	£136	£6,800
Air Sourced Heat Pump Heated							
Detached	95%	6.4%	£86	£10,100	9.3%	£126	£14,700
Semi Detached	69%	6.8%	£99	£8,300	9.9%	£144	£12,100
Terraced	72%	7.4%	£100	£8,400	10.7%	£144	£12,100
Low Rise Flat	48%	6.9%	£93	£6,500	10.3%	£139	£9,800
Medium Rise Flat	32%	3.8%	£96	£4,800	5.8%	£144	£7,200

Source: Table 4.1 Centre for Sustainable Energy Cost of carbon reduction in new buildings (Currie & Brown, December 2018)

4.10 The above data is a little dated. The more recent *Building the Case for Net Zero: A feasibility study into the design, delivery and cost of new net zero carbon buildings* (UK GBC, Advancing Net Zero, September 2020) suggests the cost of increasing to the 2025 standards (from 2013's) would be 3.5% with the stretch target being 5.3% - the latter relating to regulated and unregulated Zero Carbon factoring in whole life carbon costs.

4.11 On this basis, considering the various sources of information above, it is estimated that the 2025 Future Homes Standard would add about 4% to the cost of development.

4.12 It is timely to note that building to higher standards that result in lower running costs does result in higher values[10] of about 1.7%[11], whilst this is less than the additional costs, it is significant. There is relatively little research in this regard, so we recommend that this is kept under review.

Electric Vehicle Charging Points

4.13 EV Charging facilities are now a requirement (from 25th June 2022) of Building Regulations (Approved Document S). No allowance was made for EV Charging in the 2018 Viability

[10] See *EPCs & Mortgages, Demonstrating the link between fuel affordability and mortgage lending* as prepared for Constructing Excellence in Wales and Grwp Carbon Isel / Digarbon Cymru (funded by the Welsh Government) and completed by BRE and *An investigation of the effect of EPC ratings on house prices* for Department of Energy & Climate Change (June 2013.)

[11] Nationwide Special Report (August 2021).

Update Note. Typically, we expect these to cost about £800/unit (having fallen somewhat over the last year or so).

Biodiversity

4.14 The Environment Act received Royal Assent in November 2021 and mandates that new developments must deliver an overall increase in biodiversity – Biodiversity Net Gain (BNG). The requirement is that developers ensure habitats for wildlife are enhanced and left in a measurably better state than they were pre-development. They must assess the type of habitat and its condition before submitting plans, and then demonstrate how they are improving biodiversity – such as through the creation of green corridors, planting more trees, or forming local nature spaces. Green improvements on-site would be preferred (and expected), but in the rare circumstances where they are not possible, developers will need to pay a levy for habitat creation or improvement elsewhere.

4.15 This requirement was not considered as an option in the 2018 Viability Update. The costs of this type of intervention are modest and will be achieved through the use of more mixed planting plans, that use more locally appropriate native plants. More thought and care will however go into the planning of the landscaping. There will be an additional cost of establishing the baseline 'pre-development' situation, as a survey will need to be carried out.

4.16 The Government's impact assessment[12] suggests an average cost of scenarios including where all the 10% Biodiversity Net Gain provision is on-site and where all is off-site.

[12] Table 14 and 15 Biodiversity net gain and local nature recovery strategies: impact Assessment. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839610/net-gain-ia.pdf

Table 4.2 Cost of Biodiversity Net Gain – South East 2017 based costs		
	Scenario A 100% on-site	**Scenario C** 100% off-site
Cost per ha of residential development	£3,456/ha	£63,841/ha
Cost per ha of non-residential development	£3,150/ha	£47,885/ha
Cost per greenfield housing unit	£162/unit	£3,305/unit
Cost per brownfield housing unit	£56/unit	£660/unit
Residential greenfield delivery costs as proportion of build costs	0.1%	2.4%
Residential brownfield delivery costs as proportion of build costs	<0.1%	0.5%
% of industrial land values	0.2%	3.0%
% of commercial land values (office edge of city centre)	0.2%	2.3%
% of commercial land values (office out of town - business park)	0.2%	2.6%

Source: Tables 14 to 23: Biodiversity net gain and local nature recovery strategies – Impact Assessment

4.17 Based on the above, the costs of meeting 10% Biodiversity Net Gain is likely to be about 0.1% of the build costs

Accessible and Adaptable Standards

4.18 In July 2022, the Government announced the outcome of the 2020 consultation on raising accessibility standards of new homes[13] saying:

> *73. Government proposes that the most appropriate way forward is to mandate the current M4(2) (Category 2: Accessible and adaptable dwellings) requirement in Building Regulations as a minimum standard for all new homes – option 2 in the consultation. M4(1) will apply by exception only, where M4(2) is impractical and unachievable (as detailed below). Subject to a further consultation on the draft technical details, we will implement this change in due course with a change to building regulations.*

4.19 The Government will now consult further on the technical changes to the Building Regulations to mandate the higher M4(2) accessibility standard. No timescale has been announced.

4.20 In the 2018 Viability Update it was assumed, in line with the Council's then adopted policy, that 25% of new homes would be to the M4(2) standard. The cost of Category 2 was taken to be £521[14]. This cost, if it had been indexed[15] by 35%, would now be about £730/dwelling.

[13] Raising accessibility standards for new homes: summary of consultation responses and government response - GOV.UK (www.gov.uk)

[14] Paragraph 157 *Housing Standards Review – Final Implementation Impact Assessment* (DCLG, March 2015).

[15] BCIS Index March 2014 316.3, October 2022 444.9.

White Paper: Planning for the Future (MHCLG, August 2020)

4.21 The Government has consulted on *White Paper: Planning for the Future* (MHCLG, August 2020) and various supporting documents. In terms of viability, the two key paragraphs are:

> ***Assessments of housing need, viability and environmental impacts are too complex and opaque**: Land supply decisions are based on projections of household and business 'need' typically over 15- or 20-year periods. These figures are highly contested and do not provide a clear basis for the scale of development to be planned for. Assessments of environmental impacts and viability add complexity and bureaucracy but do not necessarily lead to environ improvements nor ensure sites are brought forward and delivered;*
>
> ***Local Plans should be subject to a single statutory "sustainable development" test**, and unnecessary assessments and requirements that cause delay and challenge in the current system should be abolished. This would mean replacing the existing tests of soundness, updating requirements for assessments (including on the environment and viability) and abolishing the Duty to Cooperate.*

4.22 Pillar Three of the White Paper then goes on to set out options around the requirements for infrastructure and how these may be funded. The key proposals are:

> *<u>Proposal 19</u>: The Community Infrastructure Levy should be reformed to be charged as a fixed proportion of the development value above a threshold, with a mandatory nationally- set rate or rates and the current system of planning obligations abolished.*
>
> *<u>Proposal 21</u>: The reformed Infrastructure Levy should deliver affordable housing provision*

4.23 The above suggests a downgrading of viability in the planning system, however, as it stands, the proposals in the White Paper are options which may or may not come to be adopted so, at the time of this note(October 2022) a viability assessment is a requirement.

Queen's Speech 2021 and 2022

4.24 A range of planning reforms were outlined in the papers supporting the 2021 Queen's Speech. For the purpose of this additional assessment, the key points are as follows:

> *Planning Bill "Laws to modernise the planning system, so that more homes can be built, will be brought forward…"*
>
> *The purpose of the Bill is to:*
>
> - *Create a simpler, faster and more modern planning system to replace the current one ...*
> - *Help deliver vital infrastructure whilst helping to protect and enhance the environment by introducing quicker, simpler frameworks for funding infrastructure and assessing environmental impacts and opportunities.*
>
> *The main benefits of the Bill would be:*
>
> - *Simpler, faster procedures for producing local development plans, approving major schemes, assessing environmental impacts and negotiating affordable housing and infrastructure contributions from development. ...*
>
> *The main elements of the Bill are: ... Replacing the existing systems for funding affordable housing and infrastructure from development with a new more predictable and more transparent levy.*

4.25 In the summer of 2021, the Ministry of Housing Communities and Local Government was renamed as the Department for Levelling Up, Housing and Communities (DLUHC). Various ministers have commented about revisiting some of the subjects that had been consulted on, however, beyond statements that Housebuilding remains a priority, no further firm details have been released.

4.26 The Government's further thinking was set out in the 2022 Queen's Speech which included the following:

> *"A bill will be brought forward to drive local growth, empowering local leaders to regenerate their areas, and ensuring everyone can share in the United Kingdom's success. The planning system will be reformed to give residents more involvement in local development."*
>
> *The main benefits of the Bill would be:*
>
> - *Laying the foundations for all of England to have the opportunity to benefit from a devolution deal by 2030 – giving local leaders the powers they need to drive real improvement in their communities.*
> - *Improving outcomes for our natural environment by introducing a new approach to environmental assessment in our planning system. This benefit of Brexit will mean the environment is further prioritised in planning decisions.*
> - *Capturing more of the financial value created by development with a locally set, non-negotiable levy to deliver the infrastructure that communities need, such as housing, schools, GPs and new roads.*
> - *Simplifying and standardising the process for local plans so that they are produced more quickly and are easier for communities to influence.*

Levelling-up and Regeneration Bill

4.27 In May 2022, the Government published the *Levelling-up and Regeneration Bill*. This includes reference to a new national Infrastructure Levy. The Bill suggests that the Infrastructure Levy would be set having regard to viability and makes reference to the *Infrastructure Levy Regulations*. *Infrastructure Levy Regulations* have yet to be published.

4.28 It will be necessary for the Council to monitor the progress of the Bill and to review this additional assessment, as and when the Levy Regulations are published.

Changes in Local Policy through the Draft DPD

5.1 On the whole, the policies within the draft DPD simply update requirements or provide appropriate site specific guidance to ensure an acceptable and well planned new settlement. Having said this, the draft DPD includes several policy areas that require consideration.

5.2 The principal requirements that impact on viability are in connection to further moves towards mitigating climate change. At this stage, the DPD does not mandate Zero Carbon on new development, rather it seeks '*delivery of net zero carbon by 2038*'. The policy is broad, covering both construction and transport and to some extent will be covered by changes in national policy (for example, mandatory EV Charging).

5.3 The costs of moving to the Future Homes Standard are considered above. The changes to Part L of the Building Regulations in 2025 in this regard are expected to result in 75% to 80% less carbon emissions than homes delivered under the 2013 regulations.

5.4 There are few published costs of reaching Zero Carbon, and based on our wider work across the country, we know that a range of views have been put forward. The costs set out above suggest a cost of about 10% over and above the 2013 standard, which would be about 6% above the expected 2025 standard announced by the Government. The emerging policy does not require new homes to be built to a standard that is above Building Regulations – rather this is encouraged.

Strategic Infrastructure and Mitigation Costs

6.1 In the 2018 Viability Update, the cost of strategic infrastructure and mitigation, for this site, was assumed to be £45,000,000 (£15,000/unit).

6.2 We now understand, from the updated Infrastructure Delivery Plan (IDP) prepared to accompany the Draft DPD, that the total cost of strategic infrastructure and mitigation is now estimated to be about £83,000,000 (£27,600/unit).

Table 6.1 2022 Strategic Infrastructure and Mitigation Costs

	Cost	£/unit
Normal site cost	£23,787,577	£7,929
Abnormal site cost	£18,115,074	£6,038
IDP cost	£40,919,860	£13,640
	£82,822,511	£27,608

Source: HBC (December 2022)

6.3 It is important to note that this full list now includes costs that world normally be considered normal site costs, and abnormal costs.

6.4 Normal site costs include internal roads, services, landscaping and the like. In the 2018 Viability Update these were assessed at 20% of the BCIS cost and came to about £52,000,000. If this is indexed to the updated BCIS costs (see above,) the equivalent cost would be about £70,000,000.

6.5 Under the PPG, abnormal costs are reflected in the Benchmark Land Value - see below (with added emphasis).

> *How should costs be defined for the purpose of viability assessment?*
>
> *Assessment of costs should be based on evidence which is reflective of local market conditions. As far as possible, costs should be identified at the plan making stage. Plan makers should identify where costs are unknown and identify where further viability assessment may support a planning application.*
>
> *Costs include:*

- *build costs based on appropriate data, for example that of the Building Cost Information Service*
- *abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value*
- *site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value*
- *the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value*
- *general finance costs including those incurred through loans*
- *professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value*
- *explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return*

Paragraph: 012 Reference ID: 10-012-20180724

<u>What factors should be considered to establish benchmark land value?</u>

Benchmark land value should:

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

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

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

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

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

Paragraph: 014 Reference ID: 10-014-20190509

6.6 For the purpose of a viability assessment, the IDP costs are of a similar magnitude to those used in the 2018 Viability Update. Whilst the full list now includes additional items, these are accounted for elsewhere within a viability assessment carried out under the PPG.

Findings and Comment

7.1 The viability of the new settlement site was last formally considered in the 2018 Viability Update. Since then, the Land Registry suggests newbuild values have increased by about 30% and the BCIS suggests that build costs have increased by about 21%. Values have increased more than costs, suggesting viability has improved.

7.2 Over the same period several national requirements such as EV Charging, 10% Biodiversity Net Gain and the move towards the Future Homes Standard have been implemented. The combined additional cost of these is likely to be about 4%. The Government has also announced the mandating of accessible and adaptable standards and a further step towards the Future Homes Standard – although the details are not yet known. These implemented and announced additional standards are likely to increase the costs of development by 7% or so. It is therefore likely that the increase in costs can be covered by the improvement in viability from house prices increasing faster than build costs.

7.3 This leaves the costs of strategic infrastructure and mitigation. In 2018 these were estimated to be about £15,000 per unit, and the updated equivalent cost is about £14,000 per unit.

7.4 The delivery of this site, as with any large Strategic Site is likely to be challenging and require a detailed discussion with the developer over the details of the scheme but based on the very high level information presented above, it is unlikely that the changes in national policy and at the requirements of the DPD would render the site undeliverable. The Council can remain confident that the Green Hammerton / Cattal new settlement is deliverable, we however recommend that the Council continues to engage with the developers.

RS Drummond-Hay
HDH Planning & Development Ltd
19th December 2022