Plan for Stafford Borough: Whole Plan Viability Report

FINAL REPORT

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SKM Colin Buchanan in association with Hewdon Consulting

Hewdon Consulting

SKM COLIN BUCHANAN

Plan for Stafford Borough

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1 Introduction and Approach

1.1.1 SKM, in association with Hewdon Consulting, has been commissioned to assess the 'whole plan viability' of the Plan for Stafford Borough: Pre-submission Publication (PSB) (January, 2013) in accordance with the requirements set out in the National Planning Policy Framework - NPPF (March, 2012). The study is intended to set out to what extent the evidence base informing the plan provides a comprehensive and sound basis for meeting the viability requirements of the NPPF, with particular reference to housing development.

1.1.2 Prior to the introduction of the NPPF, Planning Policy Guidance only required the testing of individual policies in a plan (particularly affordable housing policies) to make sure they did not render development unviable. The NPPF now requires the plan as a whole to be assessed, to make sure that the cumulative impact of policies does not make it unviable. The NPPF requirements are set out in more detail in Section 2 but the key requirement is:

To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

1.1.3 This simple requirement has led to a need for complex economic viability modelling taking into account sales prices, construction costs, interest charges, appropriate profit margins etc… all of which can be the subject of much dispute.

1.1.4 We have had regard to guidance on viability, as far as it exists. The Taylor Review of Planning Guidance (January 2013) identified the need for guidance on viability as a priority under the new system. There is some help from the DCLG Guidance on the Community Infrastructure Levy (CIL). There are also the two reports from the Local Housing Delivery Group (LHDG), "Viability Testing of Local Plans" (2012) and "A Review of Local Standards for the Delivery of New Homes" (2012). We have also had regard to the "RICS Guidance Note on Financial Viability in Planning" (2012). Although this has been the subject of some criticism, our understanding is that it is under review and the new version is likely to carry considerable weight.

1.1.5 The LDHG included representatives from the major house builders, viability consultants, local authorities and their planners, and the Planning Inspectorate (PINS), so the reports are clearly persuasive statements of best practice at least as it applies to house builders. Much of what the reports say is indisputably correct and is referred to extensively in this analysis. However, they cannot on their own, be regarded as definitive guidance. The reports have not been issued by the Secretary of State as statutory guidance so may not be regarded as definitive templates against which to work, and they have not yet been the subject of consistent consultation or testing. Moreover the reports discuss, but do not resolve some areas of particular difficulty, for instance:

- Currently, the conventions adopted by development viability consultants do not match the approach used by house builders (for instance in treatment of interest and overheads) and will not give the same results from viability testing.

- The LHDG discusses house builders' use of Operating Margin and Return on Capital Employed as key viability measures used by house builders but there is no agreed definition of either. Indeed, we looked at the accounts of five major house builders' and found no agreement on the use of these terms.
- The approach used by the LHDG to describe willing landowners and developers does not sit comfortably with the definition derived from a key pertinent judgement in FR *Evans* (*Leeds*) Ltd v English Electric Co Ltd. 1977.
- The definition of and method of calculating "threshold value", above which a development is assumed to be viable, is still hotly contested.

1.1.6 It should also be noted that the PSB has been in preparation since 2009, well before the introduction of the 'whole plan viability' requirement introduced by the NPPF in March 2012. LHDG guidance makes a number of recommendations about the need for collaboration with developers and others in assessing viability. LHDG guidance is not statutory and we are not aware of Planning Inspectors insisting on exact compliance as a requirement for soundness. However, Stafford Borough Council (SBC) should attempt to comply with the spirit of the LHDG guidance as far as possible.

1.1.7 As LDHG guidance says:

> *It is very unlikely that any planning authority will be starting with a blank sheet when it comes to considering the viability of its policy requirements. Assessments may have been carried out on affordable housing viability, a CIL charge may be under consideration, infrastructure requirements may have already been costed, Strategic Housing Market Assessments conducted and the work to prepare a Strategic Housing Land Availability Assessment may provide evidence of the deliverability of a range of sites. An early task should therefore be to review existing assessments and their evidence bases, to determine what can be used or developed further as part of the plan-wide viability assessment. This will help to reduce the burden and is in line with guidance to consider appropriate and available evidence. Particular consideration should be given to approaches that have been used in the past that have found good levels of support from local stakeholders.*

1.1.8 As well as reviewing the requirements of national policy and identifying policies in the draft Local Plan that could impact on viability, we have had regard to Inspectors' reports on the examination of other local plans in similar environments to Stafford[1]. The representations on the PSB have also been reviewed as far as they relate to viability. A detailed response to representations goes beyond the scope of this report but the issues raised have been considered.

[1] Local Plan Inspectors' Reports reviewed included Blaby, Eastbourne, Hertsmere, Purbeck, and South Oxford

2 Policy Context

2.1.1 Since the publication of the National Planning Policy Framework (NPPF) in March 2012, there has been a requirement to show not just that infrastructure in general is deliverable but that the cost of providing it will not make development unviable. Moreover, the NPPF requires a holistic approach in which the cumulative impact of all the requirements on development is assessed to ensure viability. It says that:

> *177. It is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion. To facilitate this, it is important that local planning authorities understand district-wide development costs at the time Local Plans are drawn up. For this reason, infrastructure and development policies should be planned at the same time, in the Local Plan. Any affordable housing or local standards requirements that may be applied to development should be assessed at the plan-making stage, where possible, and kept under review.*

2.1.2 The NPPF has a whole section of five paragraphs on viability and deliverability including the crucial requirement in Paragraphs 173 and 174 that:

> *173. Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.*

> *174. Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.*

3 Non Residential Property

3.1.1 This report concentrates on the viability of the PSB as it relates to housing provision. There were few major issues raised by representations on the PSB in relation to the viability of non-residential development. There are probably several reasons for the absence of debate about commercial viability:

- There is already an ample supply of consented land for commercial and retail development. Indeed some representations argued that there might be too much (e.g. Sustainability Matters / Friends of the Earth).
- The County Council is a major promoter of employment sites.
- Commercial development is not subject to the same level of obligations particularly in respect of affordable housing.
- The main burden on retail and employment land would come through CIL where charging levels have not been proposed.

3.1.2 The main issue was a representation by Sainsbury's in relation to BREEAM standards. The PSB has a requirement for new non-residential buildings to achieve BREEAM Excellent standard. This standard was revised in 2011 and there is little information available on the cost of achieving it. The most authoritative research discovered (The Value of BREEAM, BSRIA 2012) concluded that there was no direct relationship between BREEAM level and cost. Other factors such as previous experience of BREEAM design and the stage at which the BREEAM approach was incorporated into the project were more important. As it appears that Sainsbury's typically develops to BREEAM Very Good standard, it may incur some cost in switching to Excellent. Equally, Waitrose, for instance, typically develops to BREEAM Excellent standard already, so the requirement for BREEAM Excellent is unlikely to put the viability of the Plan in jeopardy.

4 Housing

4.1 Up to date Evidence

4.1.1 The main evidence for whole plan viability in relation to housing is the Affordable Housing Viability Study originally carried out by Levvel in July 2011 and based on information from 2009-10. This report was reviewed and updated in 2012 and again in 2013 so that it is now based on up to date evidence of completed sales.

4.1.2 The picture painted by this report for the period 2009-12 is one of slow improvement in the market. All the major house builders' Annual Reports reviewed (Taylor Wimpey, Redrow, Persimmon, Bellway and Barratt) have reported improved operating margins and profits for the year 2011-12 even though sales prices have generally only improved in London and the south-east. The improvement has been driven in part by slightly increased sales, cost reductions and a better mix of unit sizes. However the most important factor has been the acquisition of new sites during the recessionary market from 2009 to 2011, paid for on deferred terms rather than with upfront cash. As a result, the house builders have been paying down debt in some cases to negligible levels.

4.1.3 However, the reports have not been able to take into account the very significant improvement in the market during Spring 2013, driven in large part by the Government's Help to Buy initiative which:

"will invest £3.7 billion between 2013-14 and 2015-16 in England and provide up to £12 billion of guarantees across the UK, through Help to Buy. This will enable the current generation to enjoy the benefits of home ownership in the same way as their parents have. The Help to Buy: equity loan scheme has supported over 4,000 new build home reservations in its first two months and will support up to 74,000 sales by 2015-16. The Help to Buy: mortgage guarantee will be in place by January 2014;"[2]

4.1.4 The Government is also providing £1 billion of loan finance between 2013-14 and 2015-16, as well as the use of guarantees, to support new build private rented homes in England.

4.1.5 The effect of these initiatives has been to increase sale prices and sales volumes, both of which have a significant impact on the viability of individual sites. For instance, Persimmon released a trading statement in July 2013, saying:

The Government's "Help to Buy" 20% shared equity scheme, introduced in April 2013, has generated a positive response from prospective homebuyers, bringing additional momentum to the traditionally stronger spring sales season. Persimmon has secured 1,124 Help to Buy reservations since launch. Whilst our weekly private sale reservation rate for the first half of the year was 12% ahead of last year, our reservation rate as measured from the date of introduction of the "Help to Buy" scheme was 30% stronger.

4.1.6 Taylor Wimpey said:

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[2] Investing in Britain's Future. HMT 2013

We are seeing improvements across most of our markets in the UK, with our businesses in the South East and Midlands regions performing particularly well in the first half of the year.

4.1.7 The other major house builders were similarly optimistic, reporting increases in selling prices and sales per outlet around 35 per annum (pa) compared with 30pa or 25pa in 2009-10. It is reasonable to conclude that viability has improved significantly during 2013, but this will not be reflected in historic sales prices.

4.2 A Collaborative Approach

4.2.1 The LHDG report recommended that viability modelling should be carried out on a collaborative basis, involving developers, with the aim of agreeing assumptions and model inputs in advance. The Levvel study was completed before the publication of the LHDG report and this approach has not been possible. However, Levvel are experienced development consultants with a private sector and public sector client base whose methodology has been tested elsewhere. Their Stafford report has been publically available for a considerable length of time, and the assumptions and outputs have been made clear so that developers can test them with their own models if required.

4.2.2 There has also been considerable involvement of the development industry in preparing the evidence base for the new Local Plan. The Strategic Housing Land Availability Assessment (SHLAA) has been prepared by a partnership involving developers and their agents. Levvel consulted local agents in preparing their report and had the benefit of some detailed evidence on viability put forward by developers in support of planning applications. Levvel has also engaged with the developers of two of the Strategic Development Locations (SDLs) to identify common assumptions and any differences in approach. So, all in all, it appears that there has been adequate consultation on viability to date, even though there might be a more formal collaboration process if one were starting over again.

4.3 Community Infrastructure Levy

4.3.1 The NPPF (Para 175) says that “Where practical, Community Infrastructure Levy (CIL) charges should be worked up and tested alongside the Local Plan.” This has not proved practicable in Stafford Borough and the result, expressed in the representations, is some nervousness about the level of charges that will be sought. For example, Taylor Wimpey has said:

CIL must be further advanced so that the level of funds which can be viably delivered through CIL can be fully understood and inputted into the Infrastructure Delivery Plan.

4.3.2 However, the Government has recently announced some significant changes to the CIL regime and extended the date when limitations on the use of s106 become effective from April 2014 to April 2015, recognising that authorities need more time to address the changes in the CIL regime. It is therefore not possible to address this point directly.

4.3.3 However, Levvel have tested the viability of development with two different assumptions about the amount of CIL payable per dwelling and this gives an indication of the level of CIL that can be justified.

4.3.4 From Levvel's work, the burden of infrastructure and other costs on the SDLs is such that a Nil CIL rate is justified for these sites. Any developer contributions will therefore be collected by s106 obligations. Indeed, the Eastern SDL is already the subject of a planning application which will very likely be determined before the introduction of a CIL charge. As Levvel has now consulted with the developers of the other SDLs, it is apparent that adequate consideration has been given to the likely scope of developer contributions and their impact on viability.

4.4 Local Standards

4.4.1 The NPPF requires that the impact of any local standards should be taken into account in assessing Whole Plan Viability. The LHDG report on the matter identified the ten most common design standards, and considered their impact. The report found a general lack of information about their impact and a lack of detailed costing information in particular, so it recommended that the Government take the issue up. It appears that the chief problem is not so much the impact of the standards on construction costs; it is the effort of finding out what each local authority requires and then working out how to comply.

4.4.2 A list of local standards identified in the Plan for Stafford Borough – Publication (PSB) is provided in the table below:

Table 1: Standards included in Plan for Stafford Borough (January 2013)

Standard in Draft Submission Plan	Reference
40% affordable housing in specific settlements; 30% elsewhere.	Policy C2
Suitable Alternative Natural Greenspace	Policy N6; Stafford 2, 3, 4
Building for Life	Policy N1
Secured by Design	Policy N1
Lifetime Homes	Policy N1 (Supporting Text and Performance Target)
Code for Sustainable Homes	Policy N2
Sustainable Urban Drainage Systems (SUDS)	Policy N2
Non-residential development: BREEAM Very Good (up to 1000m2)	Policy N2

BREEAM Excellent (over 1000m2)	

4.4.3 Two design standards reviewed by the LDHG are required in the PSB – Lifetime Homes and Code for Sustainable Homes. The inclusion of both was subject to criticism from a number of respondents on the grounds of the adverse impact on viability.

4.4.4 It is noted that Taylor Wimpey's formal representations on the PSB say:

The Policy sets out a range of sustainable design features which new development is expected to incorporate. Whilst the policy allows for submissions on viability to offset such requirements, there is no part of the Plan's evidence base which explains how the level of environmental standards proposed in the policy are viable for most developments.

4.4.5 And elsewhere:

We are concerned that the plan requires compliance with the Building for Life standard which is outside the local authority's control and which could change significantly. Such changes could affect the viability of development and would not have been subject to an assessment for the cumulative impact on viability as required by the NPPF. The Building for Life standards are a good example of this. The 2012 BFL is completely different to that which preceded it.

4.4.6 The LHDG report said: "*The present Lifetime Homes Standard was considered by many to be cumbersome and inflexible, which partly explained why it was not widely embraced by developers on a voluntary basis."* There is a good deal of overlap between the standard and Part M of the Building Regulations, and Part M may eventually subsume the standard. The Code for Sustainable Homes also subsumes the standard. Levvel have taken the cost of the Lifetime Homes standard (which applies to developments of more than 10 dwellings) into account and assumed a cost of £607 per unit based on studies reported by the Lifetime Homes organisation. Moreover, it should not be assumed that all design standards are unwelcome additional costs for house builders. Taylor Wimpey's annual report 2011-12 states: for example:-

During 2012, we have continued to implement and improve our house type portfolio…. The house types are designed to meet specific space standards and comply with Secured by Design principles, the nationwide initiative intended to reduce crime through home and scheme design. They are also capable of achieving Lifetime Homes standards of accessibility and adaptability for changing lifestyles, where appropriate. As at January 2013, these house types were plotted on approximately 150 sites. This will continue to have a positive impact on build efficiencies, and costs, mitigating build cost inflation.

4.4.7 Policy N2 of the PSB says that:

All new residential development will be expected to incorporate sustainable design and construction technology to achieve a Code for Sustainable Homes star rating in line with Government policy.

4.4.8 It is therefore doubtful whether this is actually a local standard or whether it is merely stating a national policy requirement. There is no Government policy on the Code other than to require new homes to be assessed against it. Compliance is not compulsory. However, Part L of the Building Regulations is gradually catching up with some aspects of the Code. Moreover, most of the elements of Code Level 4 are now included in Part L of the Building Regulations and are now compulsory anyway. Levvel have allowed an average build cost of £35 psm to comply with this part of Code Level 4, based on estimates provided by DCLG on an annual basis. It is generally assumed that this cost will fall once construction volumes increase.

4.4.9 The PSB does incorporate several other local standards relating to Building for Life, onsite renewables and low energy, open space, car parking standards and Secured by Design. These were discussed in the LHDG report and it is clear that there is little information on the cost of implementing them. Additional requirements for the SDLs are also included in the PSB relating to matters such as broadband connections. It is not always easy to understand why these standards are imposed and the extent to which they are genuinely local or re-statements of national requirements. , However, there is no clear evidence that these local standards in the PSB create additional construction cost. Moreover, DCLG has taken on the task of reviewing and rationalising these standards, so the administrative burden they create should be reduced in due course.

4.5 Suitable Alternative Natural Green Spaces (SANGS)

4.5.1 SANGS – (Suitable Alternative Natural Green Spaces) are a requirement of the European Habitats Directive. Where new housing is provided within the catchment of a Special Area of Conservation (SAC) it must be assumed that the greater accessibility to the SAC afforded by adjacent housing will increase recreational use and associated environmental damage. This should be mitigated, usually by providing alternative recreational open space in the form of SANGS for people to use instead. In the case of Stafford Borough, the SAC is Cannock Chase and PSB Policy N6 requires any new development within a 12 mile radius to undertake mitigation measures or to contribute to general mitigation measures set out in the Cannock Chase Visitor Impact Management Strategy. Larger developments are expected to provide their own on-site mitigation.

4.5.2 The issue was considered in 2012 during the South Staffordshire EIP, when it was agreed that since the mitigation strategy relied on an out of date visitor survey, more work should be commissioned jointly by the 11 neighbouring authorities. As a result, consultants published an updated impact study and mitigation strategy in February 2013. Their recommendation was that mitigation should include the creation of four SANGS around Cannock Chase. Each SANGS would be 35ha in extent and one should be close to Stafford Town. The SANGs would be funded by developer contributions from every residential development within a 15km (8.1 miles). This would extend the contributions zone as far as Stone, although it is also proposed to have a higher rate of contributions within an 8km (5 mile) zone, which would include Stafford Town and the SDLs. Developments of over 50 dwellings would be required to provide additional (unspecified) on-site mitigation. This has attracted some representations about the impact of SANGS on viability.

4.5.3 The Council's current proposal is to require a financial contribution to the common SANGS and on-site mitigation . On-site mitigation could use multifunction green space and is likely to be more cost effective alongside financial contributions from the larger greenfield sites, including SDLs. Where contributions to off-site SANGS are required, the expectation is that the level of contribution sought will be around £400-500 per dwelling (to provide for both capital and revenue – maintenance – costs). Levvel have included this as part of their general allowance for infrastructure costs.

4.6 Affordable Housing

4.6.1 As its name implies, the Affordable Housing Viability Study considers the impact of affordable housing on viability and concludes that 30% affordable housing is generally viable, with up to 40% possible in the high value areas to the north of the Borough. The study assumes a mix within the affordable component of 80% rented and 20% intermediate tenure, and it has been updated to reflect the introduction of affordable rent tenure, for which it assumes no grant is available.

4.6.2 So, the PSB follows best practice in adopting targets of 30% and 40% affordable housing but saying this will be subject to variation if it can be shown that viability is adversely affected. Thus in principle, the policy complies with NPPF requirements. A number of respondents complained that the wording of this policy is not clear enough or that it puts too much onus on the developer to demonstrate that viability is impaired. For example, Lufton & Associates on behalf of Barratt say:

> *"The caveat that developers will be released of their affordable housing provisions by submission of economic viability assessments is a weak element of the policy that will complicate and protract the planning process at the application stage. A much preferred approach would be for the Borough Council to set much more realistic affordable housing requirements that have some chance of being achieved."*

4.6.3 It is noted that this has been a frequent topic at EIPs elsewhere and it is expected to be in Stafford. However, it is a matter of clarity of wording rather than viability as such. In our view, SBC's approach is in line with the ruling in Barratt Developments PLC v The City of Wakefield and Another ([2010] EWCA Civ 897), and balances the NPPF requirement to plan for the whole identified housing need against the need for viability.

4.6.4 Levvel's work makes the conventional assumption that sites will deliver the appropriate percentage of affordable housing with no grant. This convention appears too unrealistic on two counts. First, according to the Homes and Communities Agency (HCA), over 90% of all affordable rent housing is delivered with grant.

4.6.5 Secondly, there is grant available. In the current Spending Round, the grant was allocated to Registered Providers (RPs) on a programme basis, rather than by site. The result appears to be that there is some funding available from unspent programmes. The Government has now announced an extension of the Affordable Homes Programme, with £957m funding each year from 2015/16 to 2017/18, and a £400m Affordable Rent to Buy scheme, to deliver 165,000 new affordable homes. So, in future, it should be possible to agree programmes for grant assisted homes with Registered Providers but tied to specific sites. Conventionally it is assumed that grant is not available for affordable housing provided through s106 but this convention appears to be stretched is some cases. Clearly this will only improve the viability of the sites to which grant is allocated, so it does mean that the overall delivery of affordable housing in the Borough could be higher than the conventional assumptions might imply.

5 Viability of Hypothetical Large Sites

5.1.1 The modelling approach used in the viability study is most suited to smaller sites, with a short delivery timescale and fewer site specific infrastructure requirements. The Viability Study was required to make some general assumptions about the viability of hypothetical larger sitesthat might come forward. The viability of the three SDLs was studied separately. This report is not the place for a detailed discussion of modelling techniques or the minute details of input assumptions, but there are some basic matters to address. The LHDG identified four common problems in viability modelling for large sites. These are:

- Estimating development capacity by applying an average density to the gross site area.
- Not making sufficient allowance for infrastructure costs.
- Not allowing enough for promotional costs.
- Not adjusting for cash flow implications.

5.2 Development Density

5.2.1 The Levvel study, in common with the SHLAA and the PSB, assumes a development density of 30dph on the gross site area of large sites. However, as the LDHG pointed out:

> *The net area can account for less than 50%, and sometimes as little as 30% on larger sites, of the site to be acquired (ie. the size of the site with planning permission). Failure to take account of this difference can result in flawed assumptions and inaccurate viability studies.*

5.2.2 It is important to understand that, outside major cities, the density of development expressed in built area per hectare varies relatively little, typically in the range 3,100-3,500 m2 per hectare. What varies is the way this built area is divided into units. While the assumptions used point to a lower density of units being achievable on the gross site area, this is offset by the fact that 30 dwellings per hectare (dph) is an unrealistically low assumption for development on the net developable area of major sites. It is the equivalent of the old 12 units per acre, typically used in the interwar period for estates of large semi-detached houses each with a large garden. The LHDG report gives a figure of 40dph as typical for medium-to-large edge of town sites. Depending on the market in Stafford, higher density figures could be achieved and should be adopted for planning purposes.

5.2.3 . Elsewhere, on medium sized sites, the allowance of 30 dwellings per hectare (dph) gross compares with the benchmark of 40dph net and 50% net-to-gross land area – or 20 dph gross. So, there will be some sites - medium sized edge of town or rural - where the assessed capacity is greater than the actual capacity. Equally, there will be urban and / or brownfield sites where the assessed capacity is less than actual capacity.

5.2.4 Moreover, development density expressed as dwellings per hectare will vary with the state of the market and is likely to increase as Government initiatives favour first-time buyers who typically buy smaller units in denser developments.

5.2.5 Our view is that, provided the development capacity of the SDLs has been robustly assessed, development density on other smaller sites is unlikely to have a critical bearing on overall plan viability.

5.3 Infrastructure Costs and Promotion

5.3.1 The main Levvel appraisals include an addition to base construction costs to allow for external site costs on small developments. However, larger sites usually have additional costs relating to strategic infrastructure. These fall broadly under four headings:

- Generic servicing costs of large sites including spine roads, sewer runs, etc.
- Green space, which serves several functions including SANGS, open space, flood mitigation, drainage and so on.
- Payments to private sector utilities suppliers
- Public infrastructure including highways, schools and community facilities

5.3.2 It is obvious that these costs will vary enormously from site to site. However, for the purposes of testing whole plan viability, it is necessary to make assumptions about the typical costs in occurred on a hypothetical larger site. The Viability Study (2011) tested levels of infrastructure cost contributions at Nil, £5,000 and £12,000 per unit on hypothetical medium-sized sites, which it could be argued is an underestimate, but these sites constitute a minority of the housing supply Moreover, the majority of these medium sized sites are in rural areas or around Stone where viability is significantly better than at Stafford town. So they could afford a higher level of infrastructure costs

5.3.3 Again, provided that the viability of the SDLs has been robustly assessed, this is unlikely to have a critical bearing on overall plan viability.

5.4 Cash flow Implications

5.4.1 In simple terms, the LHDG report proposed that allowance should be made for financing costs on land and upfront infrastructure, not just on building costs. It is apparent that Level have taken this cost into account by increasing the interest cost in their appraisals for medium sized sites.

5.5 Viability of Large Sites

5.5.1 Residual value appraisals as carried out in the 2011 Viability Study and commonly used by property appraisers are a crude but reasonably accurate guide to the value of “oven ready” fully serviced sites which can be built out and sold within a year or two. However such appraisals do have severe technical limitations when used to assess the viability of large sites. As the previous discussion makes clear, on larger sites an allowance has to be made for the cost of servicing the site with strategic infrastructure. Much of this infrastructure has to be provided upfront whereas the land must be developed in phases over several years before any income from sales comes in. This cash flow deficit has to be financed in some way and the developer needs to obtain a suitable return on the investment. This more complex set of circumstances can only be modelled using an annual cash flow incorporating assumptions about sales rates, inflation etc. So, without this technical detail it is not possible to say whether Levvel's approach produces a more favourable outcome than a more detailed model or not.

5.5.2 However, it is not always necessary to go into this technical detail. Practically, if there are extra costs involved in making a large site oven ready, these are deducted from the market value of the site. So, the land value paid for large sites is well below that of small sites – it may be a third or less per hectare and this will have been factored in by those deciding a minimum acceptable sale price when negotiating sale or option agreements.

5.5.3 The main house builders also make it clear that in the current market they are increasingly reliant on purchasing sites on deferred terms. Each of the large house builders that we looked at carries over £100m of deferred purchases as reported in their Annual Reports.

5.5.4 By doing this and by buying new sites for owners with reduced expectations house-builders have been able to achieve their target profit margins. Barratt Homes' statement in their annual report 2011-12 is typical:

> *The primary driver of the Group's profit growth was the increased proportion of completions from newer, higher margin land. During the period 4,381 completions (35%) were on newer, higher margin land and in 2012/13 we expect this to increase to just over 50% of completions. The land we have bought since re-entering the land market in 2009 currently meets or exceeds the minimum hurdle rates set on acquisition – namely, a 20% gross margin and a 25% return on capital based on operating profit.*

5.5.5 Note here that, as remarked in Section 1, Barratt Homes like the other major house builders use different metrics from those used by viability consultants. Profitability is measured as 20% gross margin, before deducting overheads, interest costs and taxes. Return on capital is defined as operating profit (before interest and after exceptional items) divided by capital (for which no definition is given). Barratt do elsewhere give their definition of Return on Capital Employed which is "*calculated as operating profit (measured across the whole financial year to 30 June 2011) divided by shareholder funds plus net debt less goodwill and intangible assets (being the average of the 12 month-end figures during the same year)."* We have yet to see this metric used in a development viability appraisal.

5.5.6 However, the key point is that house builders' business models rely on being able to turn over the same capital quickly by building and selling houses. Any upfront capital investment in infrastructure reduces the Return on Capital Employed (however defined) – which is the other key financial target for them. The result is that at present the house builders tend to avoid large sites. Barratt again:

> *One of the key factors driving down debt has been the focus on smaller sites of, on average, 110 plots predominantly for houses rather than flats. The new sites have greater potential for standardised product and lower infrastructure expenditure, which result in a significantly lower average investment per site.*

5.5.7 This aversion to large sites is a permanent feature of the house builders' business model and not a consequence of low viability levels. However, even if large sites do not fit the house builders' business model and do not deliver the returns specified in the LHDG report, this does not mean that large sites are not viable for other developers with different, more capital intensive business models. There have always been commercial developers and land companies who specialise in the assembly of large sites which, when oven-ready are then broken up into tranches and sold on to house builders. In this context it is illuminating that the Eastern SDL is being promoted by Commercial Estates Group and the Northern SDL by Maximus, another commercial developer. In both cases they are working with the landowners and it seems entirely reasonable to take this as evidence that these sites will, as required by the NPPF "*provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable*."

5.5.8 So, in our view it is reasonable to assume that the costs of preparing a hypothetical large site would be factored in to the price paid for it and that even if a house builder found it unviable, another developer might not.

The other major influence on viability is likely to be location. Although the SDLs are located on the edge of Stafford town, an area of lower house prices, the other larger sites that might come forward are more likely to be in the villages or around Stone. The Levvel study demonstrated that house prices are generally much higher in these areas, and therefore viability is unlikely to be an issue. So, provided the SDLs are viable, the overall plan is should be viable.

5.6 Strategic Development Locations

5.6.1 Stafford Borough is unusual in having such a large proportion of its proposed development on three large SDLs to the west, north and east of Stafford Town. These deserve special consideration in terms of their viability and deliverability. NPPF poses a different test, depending on whether the site is part of the 5 year land supply or not. For sites in the 5 year supply, the test is one of deliverability defined as follows:

"To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer demand for the type of units or sites have long term phasing plans".

5.6.2 A different less onerous test applies beyond the five year period for which the LPA should identify specific deliverable sites or broad locations for growth. Deliverable sites are defined by the NPPF as those which '*should be in a suitable location and there should be a reasonable prospect that the site is available and could be viably developed at the point envisaged.'*

5.6.3 These SDLs are all being actively promoted by experienced developers so the presumption must be that they have concluded the sites are deliverable. Moreover, after discussion with the promoters, Levvel has carried out more detailed viability appraisals of the Western and Northern SDLs. There are three issues worth considering in this context.

5.6.4 Some representations have questioned whether the three SDLs are capable of delivering the required number of dwellings. As a generalisation, the larger the development the more land is lost to uses other than housing. For instance when considering the SDL to the north of Stafford, in addition to the requirement for SANGS, the PSB says:

The development takes place on a 'neighbourhood' approach with the provision of a mix of uses including local retail facilities, social and physical infrastructure, a primary school, secondary education provision, a library service, health facilities and public open space;

5.6.5 Our understanding is that the assumed development capacity of the three Strategic Development Locations (SDLs) is based on discussions with the developers and on master planning, rather than rule of thumb estimates. So, it takes proper account of the difference between net and gross land areas.. If it turns out that the capacity is less than predicted, there are a number of possible strategies in response such as including additional farmland in the gross site area for the Northern SDL or allocating more residential development to the Eastern SDL. It is noted that the proposed route of HS2 immediately to the northeast of the northern SDL may also be a constraint on development.

5.6.6 It is apparent in the PSB that all three SDLs have very significant infrastructure costs including amounts for flood mitigation, SANGS and open space, highways enhancements, utilities capacity and so on. The requirements were identified in the infrastructure delivery plan and these sites were chosen as being the most deliverable locations for SDLs around Stafford. The exact costs and methods of delivery for the infrastructure have not yet been identified but this would not be expected at this stage of their development. However, Levvel has allowed a range of figures from £20-27,000 per unit to cover these costs, in line with LHDG estimates, which should be adequate.

5.6.7 The fourth issue is the one of deliverability, rather than viability. To deliver the full capacity of each SDL requires the provision of major transport infrastructure items which are not yet in place. To that extent the SDLs in their entirety do not meet the deliverability test required to be counted as part of the five year housing supply. However, each SDL is capable of delivering a significant first phase of housing without triggering the need for the major infrastructure items. Indeed the AkzoNobel site, which forms part of the northern SDL already has consent for 400 units. The Eastern SDL is subject to a fully compliant planning application and it has been agreed that the Western SDL can deliver 400 units as a first phase prior to extensive road upgrades[3]. So the first phases of SDL development would appear to be both viable and deliverable in terms of NPPF requirements.

5.6.8 The other question is whether there is a reasonable prospect of delivery for the infrastructure items required to deliver the full capacity of the SDLs, bearing in mind the level of infrastructure contributions included in the viability appraisals. The Government has become much more aware of the problems posed to house building by infrastructure costs and has launched a series of supply-side initiatives to help unlock sites. Among other measures:

- DCLG has launched a £474m Local Infrastructure Fund to help unlock large scale development.

[3] Stafford Borough Strategy: Infrastructure Delivery Plan (July 2012)

- The HCA is responsible for Get Britain Building, which offers debt or equity finance for site developers.
- Local Enterprise Partnerships operate a recycling fund – Growing Places – for infrastructure investment.
- The Department of Transport launched a Local Pinch Point Fund to help unlock constraints.
- Although the old Regional Transport Board funding was abolished an alternative form of delegated transport funding has now been set up through the Local Transport Bodies (LTBs). This enables local authorities to set their own order of priorities for spending on capital projects. The Stafford Western Access Route was put forward as a priority scheme by the Stoke and Staffordshire LTB in July 2013.
- Education funding has been reformed to make more grant funding available for new school places.

5.6.9 The challenge will be to make the most of these opportunities. Staffordshire County Council has already been successful in obtaining Local Pinch Point Funding to ease congestion on the A518 at Beaconside Business Park. This will help bring forward the Eastern SDL. The Local Transport Body is currently setting priorities for its 2015-19 programme.

5.6.10 Some of the funding mentioned above can be used not just to help fund local authority requirements, it can forward fund essential investment in pooled infrastructure requirements like SANGs or even electricity substations.

5.6.11 Although some of these Government initiatives are one-offs, it is reasonable to expect that they will be replaced by further similar schemes. The 2013 Comprehensive Spending Review and its companion document "Investing in Britain's Future" prioritised capital investment in infrastructure and in housing beyond 2015. As well as the measures to stimulate housing demand and to fund affordable housing, the Government will:

- for the first time set a specific long-term funding settlement for flood defences, rising to £370 million in 2015-16 and then protected in real terms until 2020. This will deliver improved protection to at least 300,000 homes.
- commit to invest more than £21 billion capital investment in schools over the next Parliament, which includes enough funding to build over 275,000 new primary school places; 245,000 new secondary school places; open up to 180 new Free Schools; 20 University Technical Colleges and 20 Studio Schools a year; as well as addressing all essential schools maintenance needs.
- pool £400 million from the New Homes Bonus within Local Enterprise Partnership (LEP) areas to support strategic housing and economic development priorities.
- create a Single Local Growth Fund (SLGF) with over £2 billion of budgets from skills, housing and transport for 2015-16;

- make a further commitment of £5 billion of transport funding in the SLGF from 2016-17 to 2020-21 to enable long-term planning of priority infrastructure while also committing to maintain the SLGF at a total of at least £2 billion each year in the next Parliament; and
- giving LEPs responsibility for how €6.2 billion (£5.3 billion) of EU Structural and Investment Funds is spent. Staffordshire and Stoke received an allocation of £161.6m.

5.6.12 Additionally, the Government is undertaking regulatory reforms to make housing delivery easier. In the context of PSB, two may be significant. First, the Deregulation Bill before Parliament imposes a duty on non-economic regulators (such as the Environment Agency and English Heritage) to:

"consider the importance for the promotion of economic growth of exercising the regulatory function in a way which ensures that:

(a) regulatory action is taken only when it is needed, and
(b) any action taken is proportionate."

5.6.13 Secondly, in "The Strategic Road Network and the Delivery of Sustainable Development",(2013) DfT announced that in assessing the impact of development on the trunk road network, the Highways Agency should only require a developer to ensure that there is adequate capacity in the network, rather than to pay the cost of preserving the existing level of capacity.

5.6.14 Clearly, none of these policy announcements by themselves can guarantee the viability of development in Stafford but they do demonstrate that the Government is now prepared to intervene to support major housing development and that significant funding is available.

6 Conclusions

6.1.1 The Plan for Stafford Borough has been prepared in accordance with the NPPF requirements for whole plan viability. The cumulative impact of the standards and policies in the Plan should not put implementation of the plan at serious risk, and will facilitate development throughout the economic cycle.

6.1.2 The viability studies carried out by Levvel have had regard to best practice guidance and make allowance for the costs of the Plan policies. The studies have involved consultation with the major development interests and have been updated in the light of the latest evidence of historic sales.

6.1.3 However the viability studies have not been able to reflect the impact of the Government's Help to Buy scheme, which has galvanised the housing market and to that extent the assumptions in the studies are pessimistic.

6.1.4 The studies are prepared on the conventional assumption that no grant is available for any affordable housing anywhere in the Borough and that affordable housing is developed without any grant. To that extent they are pessimistic about the prospects for affordable housing.

6.1.5 The majority of housing development in the Plan will be delivered in the Strategic Development Locations (SDLs). Viability appraisals have been prepared in collaboration with the developers and make allowance for the extra costs of infrastructure on large sites, and the lower gross density of development.

6.1.6 Over the last two years the Government has announced a series of initiatives to aid the delivery of larger housing sites. Some are financial incentives; some are deregulatory measures. Together these initiatives go a long way to easing the infrastructure challenge for larger sites.

6.1.7 Taking these factors into account, it is concluded that the Plan for Stafford Borough is viable, especially considering the Government's stated commitment to housing delivery. While there are significant challenges to overcome in delivering the SDLs, the majority of these are common to large sites across England. Moreover, while the new initiatives have yet to prove themselves, it would be perverse to evaluate the Plan for Stafford Bough on the assumption that all Government initiatives are bound to fail.