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**From:** Nick Freer [REDACTED]  
**Sent:** 02 October 2019 15:15  
**To:** Planning Policy  
**Cc:** [REDACTED]  
**Subject:** East Devon CIL Draft Charging Schedule consultation  
**Attachments:** EDDC CIL Representations by East Devon New Community partners inc app.pdf

**Follow Up Flag:** Follow up  
**Flag Status:** Completed

Sirs/Keith

Thank you for the opportunity to provide comments on the East Devon CIL Charging schedule.

I am pleased to enclose comments on the behalf of the East Devon New Community partners and specifically by each of Hallam Land Management, Persimmon Homes and Taylor Wimpey (TW) in respect of their respective interests at Cranbrook. Separate or additional representations may be made on an individual basis by each party.

The representations comprise a letter setting out the comments made plus an appendix comprising a viability issues evidence paper previously submitted in the consultation on The Cranbrook Plan DPD.

In accordance with the Statement of Representations Procedure, and in accordance with the Community Infrastructure Levy Regulations (Regulation 21), I request the right to be heard by the Inspector at an Examination in respect of the matters set out below, and related matters, concerning the proposed CIL Charging Schedule for East Devon.

I look forward to your confirmation, in due course, of our participation in the examination.

Nick Freer  
Chairman



David Lock Associates Limited  
50 North Thirteenth Street | Central Milton Keynes | MK9 3BP



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**From:** Planning Policy <PlanningPolicy@eastdevon.gov.uk>  
**Sent:** 20 August 2019 16:08  
**Subject:** East Devon CIL Draft Charging Schedule consultation

Dear sir/madam,

The Community Infrastructure Levy (CIL) is a charge to help deliver infrastructure to support development. The rate of CIL to be paid by new development is set out in a "charging schedule." East Devon District Council adopted its Charging Schedule in April 2016, and is now in the process of revising it.

Following consultation on a "preliminary draft charging schedule" earlier this year, the Draft Charging Schedule consultation document, statement of the representations procedure, and relevant evidence have now been

published at: <http://eastdevon.gov.uk/planning/planning-policy/infrastructure-provision-and-community-infrastructure-levy/community-infrastructure-levy-policy/cil-charging-schedule-revision/>

If you would like to comment on the CIL Draft Charging Schedule consultation document, please email us at [planningpolicy@eastdevon.gov.uk](mailto:planningpolicy@eastdevon.gov.uk) or post comments to Planning Policy, East Devon District Council, Blackdown House, Border Road, Heathpark Industrial Estate, Honiton, EX14 1EJ. The consultation period runs from **Wednesday 21 August until Wednesday 2 October 2019 (at 5pm)**.

Regards, Keith

**Keith Lane**

Planning Policy Officer  
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Planning Policy  
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Blackdown House  
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email: [planningpolicy@eastdevon.gov.uk](mailto:planningpolicy@eastdevon.gov.uk)

1 October 2019

Dear Sirs,

WCN053/nf

**COMMUNITY INFRASTRUCTURE LEVY  
Draft Charging Schedule: Consultation Response**

1 Thank you for the opportunity to comment on Draft Charging Schedule for East Devon.

2 These comments are made on the behalf of the East Devon New Community partners and specifically by each of Hallam Land Management, Persimmon Homes and Taylor Wimpey (TW) in respect of their respective interests at Cranbrook.

3 Separate or additional representations may be made on an individual basis by each party.

4 The views of the partners should be given considerable weight given the importance of the delivery of Cranbrook to the achievement of the East Devon Local Plan strategy.

**Request Right to be Heard at the Examination**

5 In accordance with the Statement of Representations Procedure, and in accordance with the Community Infrastructure Levy Regulations (Regulation 21), I request the right to be heard by the Inspector at an Examination in respect of the matters set out below, and related matters, concerning the proposed CIL Charging Schedule for East Devon.

6 I look forward to your confirmation, in due course, of our participation in the examination.

***General Observations***

7 By way of preliminary and general observation, the EDNCp are acutely aware of the relationship between the CIL Charging Schedule and the Council's proposals within The Cranbrook Plan which is to be subject of a separate but apparently consecutive examination. EDNCp welcome the intention of EDDC to hold parallel and linked examinations into the CIL Schedule and the Cranbrook DPD. The two are related and need to be considered alongside each other.

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8 The outcome of the examination into the soundness of The Cranbrook Plan – in particular the viability of that Plan – may have a bearing on the representations and comments that Taylor Wimpey, Hallam and Persimmon would wish to make in the CIL Examination in respect of Cranbrook.

9 As is evident from their representations on the Cranbrook DPD, EDNCp (TW, Persimmon and Hallam) have fundamental objections to the “CIL Review and Cranbrook DPD Viability Study” and the provisions of the Cranbrook DPD – in particular its requirements in respect of infrastructure and section 106 obligations. Those representations are appended to this consultation response.

### **Residential CIL Rates at Cranbrook**

10 EDNCp note and support the zero CIL rate proposed for residential development at Cranbrook. EDNCp understand that this reflects EDDC’s recognition of a substantial section 106 burden, and described in the Cranbrook IDP and the viability study. The Councils DPD and Viability study relies upon a zero rate for Cranbrook.

11 Confirmation of a zero Cranbrook rate will be a necessary requirement, irrespective of the outcome of the examination into the Cranbrook Plan to give the best prospect of delivery of Cranbrook - upon which the District wide strategy and Local Plan relies.

12 Suffice to say that EDNCp have set out cogent and detailed objections to the Cranbrook Plan and the viability evidence that supports it (appended). The expectations placed on development at Cranbrook in the Cranbrook Plan – even with a zero residential rate – represent a quantum leap in the costs placed on the expansion of Cranbrook compared to the first phase of 3,500 dwellings.

13 The affordability of that infrastructure and section 106 obligation will need to be considered in the context of the Cranbrook DPD and its viability, effectiveness and justification and may have a bearing on the CIL examination

14 In reality, if the potential section 106 contributions at Cranbrook (set out in the Cranbrook IDP/DPD) were to be fully taken into account then the resultant CIL rate would be heavily negative. Of course, it gets “capped” at £0. This will mean that it may well be the case that many infrastructure elements may prove unaffordable and unviable.

15 In the light of the above, the burden placed on Cranbrook’s development provides all of the necessary justification for the adoption of a separate nil rate for Cranbrook – the provision being set out in the CIL Regs for variable charging zones so long as they are based on viability concerns. The viability issues at Cranbrook are so manifestly and massively different to the rest of the district that a separate geographical charging zone is not only justified but the only appropriate response.

16 With regard to the geographical extent of £0 rate Residential CIL Charging zone at Cranbrook, EDNCp support the geographical boundaries for Cranbrook on page 19 of the Draft Schedule recognising at the same time that the outcome of the DPD examination which will define the boundaries of Cranbrook, may necessitate some refinement.

### **Retail CIL Rates**

17 EDNCP support the setting of a zero rate for all development at Cranbrook and hence for retail development that takes place within Cranbrook. The boundaries of the zero retail rate at Cranbrook on page 39 of the schedule are supported.

18 EDNCp are well aware of the commercial difficulties in delivering retail development at Cranbrook. They have extensive knowledge and evidence of the commercial limitations. In this regard the commercial realities have deteriorated since the 2016 CIL Schedule when a zero retail rate in Cranbrook was also agreed. The difficulties of delivering retail development preclude any CIL charge for retail at Cranbrook.

19 In this regard a minor clarification in footnote 4 of the Draft Schedule should be made. Footnote 4 seeks to define areas where a £84 retail rate – ie those outside of centres. It does so by two means – the areas shown on the charging zone maps. Those areas are correct.

20 In addition, Footnote 4 refers also to “Town Shopping Areas as defined in the Local Plan and East Devon Villages Plan”. Neither of those plans, it is understood, refer to a Shopping zone at Cranbrook. Reference therefore should be made only to the charging schedule maps. This is a matter of clarification and avoiding any risk of unintended misinterpretation. The amendment to Footnote 4 should be as follows: *“Retail is defined as all uses that fall within Classes A1, A2, A3, A4 and A5 of the Town and Country Planning (Use Classes) Order 1987 as amended, or any other order altering, amending or varying that Order, and related sui generis uses. The retail rate applies to qualifying floor space outside of Town Centre Shopping Areas as defined in the East Devon Local Plan 2013 to 2031 and East Devon Villages Plan, those £0 retail CIL zones as shown on the charging zone maps”.*

### **Draft Infrastructure List**

21 The Draft Charging Schedule has prepared a Draft Infrastructure List upon which CIL receipts may be spent. It closely resembles the Council’s existing Regulation 123 list although that no longer has effect.

22 One element that needs to be considered in relation to the delivery of Cranbrook is the need to attract external funding to support infrastructure. The possibility that CIL funding (albeit that there are no CIL receipts generated from Cranbrook) is mooted in para 2.10 of the Draft Schedule: *“the figure will be higher if the Council decide to spend CIL receipts on delivery of Infrastructure at Cranbrook”.*

23 This will be discussed more in the Cranbrook Plan DPD examination. It is EDNCps view that in the light of that discussion it may be necessary for CIL receipts to be spent in Cranbrook – and that the infrastructure list should allow for that possibility more explicitly. Consideration should be given to the prioritisation of infrastructure spend collected through CIL to support the Local Plan including Cranbrook DPD.

24 To assist this process EDNCp advocate to EDDC the preparation and publication of the first Annual Infrastructure Funding Statement (required under the new Regs) alongside the Draft Charging Schedule. In this regard the most recent revision of the CIL Planning Practice Guidance is clear regarding the need for clarity: *“Charging authorities should work proactively with developers to ensure they are clear about the authorities’ infrastructure needs and what developers will be expected to pay for through which route”.* (Paragraph: 095 Reference ID: 25-095-20190315)

### **Evidence Base and Assumptions**

25 As noted above EDNCp have responded fully in relation to the viability evidence pertaining to Cranbrook in response to the Cranbrook DPD and will raise such matters robustly at the DPD examination.

26 In this regard EDNCp note the inclusion of a 50% buffer in the viability assessments completed for the setting of CIL rates, yet the absence of similar buffers in relation to the Cranbrook DPD.

27 As set out in representations on the Cranbrook DPD serious concerns have been raised in relation to:

- failure to engage with developers over viability at Cranbrook in the manner required by Government Guidance;
- the net to gross assumptions made in relation to Cranbrook and other development scenarios - the assumptions for instance relying on policy rather than the realities of site masterplanning (for instance the need to retain specific features of the site in open space (floodplain, biodiversity or landscape features) etc well in excess of the EDLP or DPD standards);
- the Council’s view on density and site coverage and hence on revenue generation;
- the cost base assumptions employed in the viability study;
- cost attributed to some of the additional policy expectations at Cranbrook and the overall unrealistic infrastructure burden;
- The wholly inappropriate and unjustified use of 17.5% developer return for market housing at Cranbrook – yet 20% in all other cases;
- the calculation of benchmark land values (including as a result of the Land Use budget assumptions and the treatment of SANGs values); and

- the general impression in the viability work at Cranbrook that where assumptions have been made then these have all tended to be in the same “conservative” direction leading to a more optimistic picture of affordability or viability.

I trust that the above representations are helpful to the CIL examination and we look forward to elaborating on them at that point

Yours sincerely,



NICHOLAS FREER  
CHAIRMAN

Email: 

Appendix:

Evidence Paper on Viability Issues (Submitted as part of representations on  
The Cranbrook Plan) (23 April 2019)

## REPRESENTATIONS ON THE CRANBROOK PLAN: EAST DEVON NEW COMMUNITY PARTNERS

### EVIDENCE PAPER: VIABILITY ISSUES

#### CB6 (Infrastructure Delivery) and CB11 (Affordable Housing) and Other Policies with Significant Cost Implications

Prepared by David Lock Associates with inputs from Whiteleaf Consulting Limited (WCL) and Brookbanks Consulting Limited (BCL)

#### 1 Introduction

- 1.1 A fundamental concern of East Devon New Community partners (EDNCp) - who will be the developers of the Bluehayes and Cobdens Expansion Areas relates - is in relation to the viability of the DPD proposals - in particular the DPD's policies in relation to the scale of infrastructure required to support development and the expectations placed on development in respect of affordable housing (in particular) (CB11) but also in other respects for instance delivering zero carbon (CB13), custom build housing etc (CB12).
- 1.2 This Paper is referred to and should be read as part of the representations on Policies CB6, CB11, CB12, CB13 and as otherwise set out.
- 1.3 The DPD will fail the following tests of soundness if it cannot demonstrate that the proposals and policies set out are viable:
  - not justified
  - not effective
  - not consistent with national policy.
- 1.4 As drafted, EDNCp do not believe that the DPD proposals are viable.
- 1.5 For the DPD to be viable it be necessary to:
  - reduce the expectations placed on the development in respect of affordable housing and other costs; and/or
  - reduce the expectations placed on the development in terms of infrastructure delivery and section 106 obligations.

#### 2 Context to Assessment of Viability

- 2.1 The context for considering viability in plans is set out in the NPPF.
- 2.2 While it is right and proper for plans to set out the contributions expected from development including the levels and types of affordable housing provision required, along with other infrastructure (such as education, health, transport, water, green and digital infrastructure): *"such policies should not undermine the deliverability of the plan"* (para 34).
- 2.3 Planning Practice guidance is more pragmatic. Not only should policies not undermine deliverability they must be realistic: *"Viability assessment should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan"* (Ref 10-002-20180724).
- 2.4 The importance of ensuring deliverability at Development Plan stage is emphasised by the relatively recent advice that *"where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable"* (NPPF, para 57).

- 2.5 Nor is viability assessment intended to extract the maximum contribution to development. It is intended to assist a process where a balance is struck: "*In plan making and decision making viability helps **to strike a balance** between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission*" (para 010).
- 2.6 EDNCp consider that the DPD, and viability assessment that accompanies it, does not strike an appropriate balance. It substantially extends the expectations placed on the Cranbrook expansion from that provided for in the East Devon Local Plan (adopted only in 2016) and in relation to the first phases of Cranbrook - now under-construction.

### **3 Compliance with National Guidance in Respect of Process of Assessing Viability**

- 3.1 Given the prominence of viability assessment in plan making, the NPPF and NPPG similarly place an obligation on plan making authorities to discuss and agree the viability evidence:

*"It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers". (NPPG Reference ID: 10-002-20180724).*

*"Plan makers should engage with landowners, developers, and infrastructure and affordable housing providers to secure evidence on costs and values to inform viability assessment at the plan making stage". (NPPG Reference ID: 06-002-20180724)*

*"Any viability assessment should be supported by appropriate available evidence informed by engagement with developers, landowners, and infrastructure and affordable housing providers" (NPPG Reference ID: 10-002-20180724).*

- 3.2 In this circumstance there has been no substantive consultation on the specific assessment of Cranbrook DPD Viability Study prior to its publication.
- 3.3 To be clear, EDNCp (and all other stakeholders) saw the Council's Viability Study and IDP, for the first time on Monday 11<sup>th</sup> February when it was published at the same time as the Committee Report seeking approval to publish the Cranbrook DPD for consultation and submission. There was no advance consultation or sharing of information in the preparation of Viability study - because of the late production of it and the Council's imperative to approve a version of the DPD in February prior to a new electoral cycle.
- 3.4 EDNCp was concerned with this process and the lack of opportunity to contribute to the Viability Study in the manner required by the Planning Practice Guidance set out above.
- 3.5 EDNCp was concerned that the lack of discussion would lead to policy expectations and indicative section 106 expectation for the expansion areas being of such a scale to threaten delivery of the expansion areas.
- 3.6 The level of concern was reflected in correspondence to the Chief Executive on 23<sup>rd</sup> January and subsequently to members of the Special Planning Committee seeking the opportunity to review and agree where possible viability matters prior to the publication of the DPD for consultation and/or submission of the DPD for examination.
- 3.7 What the consortium has been anxious to avoid is a fundamental disagreement with EDDC and/or Three Dragons over the viability of the DPD proposals, at the Examination.

- 3.8 EDNCp are firmly committed to ongoing discussions with EDDC and Three Dragons now that the material is published. Since the approval of the DPD, there has been the beginnings of conversations with EDDC/Three Dragons to agree assumptions and outputs. A very preliminary meeting has taken place. More are planned. Discussions in the last fortnight have taken place with the Council's cost consultants (WWA) and those representing EDNCp (Brookbanks Consulting Limited) in relation to development cost (specifically the External Works Allowance).
- 3.9 However, the process of engagement is far from complete. EDNCp hope that such ongoing engagement will lead to an updating of the Viability Study to reflect discussion with the developers (for the first time) and, in all likelihood, amendments to the policy ambitions of the DPD.
- 3.10 EDNCp have expressed the view to EDDC that this should take place prior to the DPD being submitted for examination.

#### **4 Response to DPD - Format**

- 4.1 Notwithstanding the hope of EDNCp that the viability assessment will be the subject of further discussions and that the concerns of EDNCp would be updated in an updated position, the timetable for receiving representations on the DPD demands that EDNCp set out representations on the DPD, Viability Assessment and Infrastructure Delivery Plan in the consultation period.
- 4.2 In the following sections EDNCp set out representations on the following matters:
- the robustness and assumptions set out in Cranbrook DPD Viability Study; and
  - the effect of adopting more appropriate assumptions.

#### **5 Overview of Cranbrook Plan DPD Viability Study**

- 5.1 The Council's evidence is set out in the "CIL Review and Cranbrook Plan DPD Viability Study" dated January 2019 (albeit not published until mid-February). Prepared by Three Dragons with Ward Williams Associates, the "Viability Study" was published in its present, apparently final form. No drafts or previous versions were published or shared.
- 5.2 The Viability Study therefore undertakes two separate tasks - providing evidence in relation to the updating of the Council's CIL Schedule and evidence in relation to the viability of the Cranbrook DPD.
- 5.3 With regard to the Cranbrook DPD, the Viability Study tests the 4170 dwellings and related uses identified in the four expansion areas in the DPD. The policy obligations in the DPD and the potential section 106 obligations in the Cranbrook Infrastructure Delivery Plan are factored in.
- 5.4 Having done so the Viability Study concludes that development at Cranbrook is unable to sustain the 25% affordable housing policy obligation in the adopted East Devon Local Plan but that 15% affordable housing does remain viable so long as the developers return is reduced to 17.5%.
- 5.5 The Three Dragons summary appraisal is included in Annex H of the Viability Study. The 15% affordable housing and 17.5% developer return scenario is the first summary sheet within the Cranbrook section of Annex H. The summary sheet description is: "Cranbrook 4000 dwellings 15% AH Revised Section 106 costs and fees applied 14 January 2019 17.5% developers profit".
- 5.6 EDNCp would raise the following principal matters and concerns with regard to the assumptions made in the 4,000 dwelling scheme tested by Three Dragons. In so doing reference should also be made to Appendix 1 "*Cranbrook Expansion Viability*

*Issues: Executive and Conclusions Summary*" produced by Whiteleaf Consulting Limited in consultation with Brookbanks Consulting limited (both appointed by East Devon New Community partners).

**a) Headroom, Land Use Budget and Residual Land Value**

- 5.7 The essential premise of the viability assessment is that the residual land value emerging from the Viability Study exceeds the benchmark land values assumed for the purposes of establishing that the land would be brought forward for development.
- 5.8 The benchmark residual land mark employed by EDDC for strategic sites is £300,000 per hectare which is at least consistent with that adopted in the previous CIL viability study.
- 5.9 The new Viability Study has, however, chosen to discount the benchmark figure down to £205,000 per hectare on the basis of a blended rate with a rate of £25,000 per hectare for SANG land necessary to the development.
- 5.10 This has been calculated on the basis of a land use budget of 227.94 hectares of development land (Table 6.2) which presumes of 78.4 hectares of SANG land (with an assumed benchmark value of £25,000 per hectare) and 149.54 hectares (227.94-78.4) of development land (including residential, open space, education, sports, cemetery etc) (with an assumed benchmark value of £300,000 per hectare).
- 5.11 This is not a reasonable, justified or effective approach.
- 5.12 **First**, EDNCp do not consider that a differential rate should be employed for SANG land. Instead the residual benchmark value should be £300,000 per hectare including all SANG land.
- 5.13 The provision of SANG is a fundamental requirement to secure the delivery of the expansion areas. It is not an option.
- 5.14 Unlike the East Devon Local Plan, it is no longer the policy of the Council to allow Cranbrook expansion to contribute to the provision of SANG elsewhere - primarily the Clyst Valley Regional Park. Moreover, SANG is expected to be provided in parallel with occupations making reliance on off site provision unreliable - emphasising the importance of control over delivery. Fundamentally SANG is expected to be provided as part of each expansion area in specific locations identified in the DPD. There are no alternative options - no different landowners' options to deliver the requirements.
- 5.15 Moreover there is so much development proposed and progressing in Exeter sub area, and the requirements of SANG have proved so difficult to fulfil in the sense that substantial areas of land are required and the expectations at the prevailing market rate. Indeed this appears to be exactly the experience of the Local Authorities in trying (and not succeeding) to implement their proposals for the Clyst Valley Regional Park for SANGS land in the locality.
- 5.16 The integral and essential relationship between SANG and development of the expansion areas means that the SANG proposed is part of the development. The integral nature of the relationship between the development and the SANGS provision is spelt out in the penultimate policy paragraph of each of the policies for the expansion areas (CB2-CB5). There are no other options that can be pursued to those shown. Those options that are shown are part of the landownerships that also contain the development areas. There will be no distinction to the landowner and nor should there be.
- 5.17 The SANG requirement is in the Land Use budget in Table 6.2 of the Viability Study.

- 5.18 The provision of SANG as part of the development can be treated no differently to the provision of sports pitches, schools, general open space, drainage. It requires land as part of the development. There seems no reason therefore to treat SANGS as having a residual benchmark of anything other than £300,000 per hectare.
- 5.19 **Second**, and without prejudice to the fundamental conclusion that a universal rate of £300,000 per hectare should apply, the blended rate calculated by Three Dragons of £205,414 is in any event a substantial underestimate because it is dependent upon wholly unreliable theoretical land use budget assumption.
- 5.20 Fundamentally Table 6.2 in Viability Study which drives the blended rate, substantially underestimates the land necessary to deliver the expansion areas for the reasons set out below. It is not supported by the evidence base - most notably the EDDC's "The Cranbrook Masterplan, February 2019" which in Figure 5.1, sets out, the "land uses and likely uses associated with the expansion of Cranbrook".
- 5.21 Nor is it consistent with policies CB2 to CB5 and the allocations made therein.
- 5.22 In turn, the underestimation of the land use budget necessary to deliver the planned expansion areas has the important twin effect in relation to the robustness of the Viability Study:
- depressing the so-called blended benchmark rate by artificially inflating the SANG element as a proportion of the total necessary development area; and
  - inflating the residual value per hectare by underestimating the hectareage required to deliver the development.
- 5.23 At its simplest Table 6.2 of the Viability Study underestimates the land necessary to deliver the expansion areas by:
- excluding key elements of development infrastructure - in particular highway infrastructure. Specifically, 11.24 hectares of highway infrastructure in Land Use Budget on page 36 of "The Cranbrook Masterplan" (February 2019) is omitted from the Table 6.2 of the Viability Study. It cannot be netted out of the residential allowance of 99 hectares as that is the same in both tables and would result in pushing average residential densities close to 50dph. It appears to be an accidental omission but one of significant consequence;
  - excluding certain policy expectations in the plan e.g. SEN (1.2 ha), serviced land for place of worship, an extension to the existing sports hub (0.6ha) at Ingrams (all CB4).
  - excluding 9.8 hectares to satisfy the requirement for natural or semi natural green space which irrespective of whether they, in addition, perform the function of SANG is required by Local Plan policy Strategy 43.
- 5.24 Table 6.2 of the Viability Study also fundamentally ignores the proper master planning of each of the expansion areas and has no regard to place making principles and each expansion area's site's constraints and opportunities. It is largely an aggregation of development areas, and the consequences of applying standards e.g. in respect of open space standards and community requirements.
- 5.25 Table 5.1 and Figure 5.1 of The Cranbrook Masterplan sets out a master plan approach which the Council has undertaken. While EDNCp would not agree with every master planning outcome, and not that this is just one way to demonstrate how expansion could take place, the resultant Land budget plan takes account of factors such as levels, the substantial areas of flood plan that exist (in particular to the east) existing biodiversity and landscape features, size and location of drainage requirements. Inevitably, the proper master planning of Cranbrook expansion areas will result in areas being incorporated into the master plan and land use budget in excess of that implied simply by applying standards.
- 5.26 There is also a further wealth of master planning work beyond that undertaken by EDNCp in respect of the submitted applications for three of the four expansion areas. Those applications have identified various additional land use requirements

- for instance as compensatory flood plain, to retain or provide buffers to ecological features, veteran trees to be retained (with buffers) etc etc
- 5.27 That the land use budget of 227 hectares relied upon in the Viability Study is unrealistic is underlined in two ways.
- 5.28 In the first instance it is demonstrated to be unrealistic as a result of the net to gross ratio that it implies.
- 5.29 Together the residential, mixed use, traveller and employment elements of the land use budget (each being ascribed a development value by the Viability Study) constitute 75% of the 227 hectares (net of the 78 hectares of SANG land for comparative purposes). The implied 75% net to gross ratio is:
- substantially in excess of the net to gross ratio normally achieved on large sites;
  - substantially in excess of that achieved in Cranbrook to date; and
  - substantially in excess of the 55% net to gross ratio assumed in the nearest equivalent case study in the Viability Study (Case Study number 8, 900 dwellings).
- 5.30 In the second instance it is demonstrated to be unrealistic as a result of being inconsistent with allocations made in the DPD. Collectively policies CB2-CB5 allocate not 227 hectares of land (as in Table 6.2 of the Viability Study - which purports to include all necessary SANGS land) but 242 hectares. Such allocations take account of masterplanning principles and the constraints and opportunities identified in the areas - e.g. the areas of floodplain within the Cobdens Area.
- 5.31 Even so the 242 hectares allocate in CB2 -CB5 also underestimates the land use requirement by:
- omitting from the allocated area (by way of example) some 13 hectares of SANG land identified as meeting the obligation for SANG in the western expansion area (areas identified in the EDDC evidence paper - "Delivery Strategy: Habitat Mitigation SANGS");
  - the inadequate provision for SANGS in the Grange Expansion Area. To deliver 800 dwellings as per Policy CB5 The Cranbrook Master Plan anticipates some 18.96 hectares of residential development plus 1.14 hectares of mixed use 0.47 hectares of allotments and 1.69 hectares of highway - a total of 22.3 hectares (without the additional open space requirements in Policy CB5 (2.3 hectares). The SANGS requirement for 800 dwellings is some 15 hectares - likely to be some 10 hectares in excess of residual land available from the 30 hectares allocation made in the Plan;
  - not being able to reflect the outcomes of the more detailed master planning processes yet to be completed.
- 5.32 To conclude on this issue, the land use of budget of 227 hectares including 78 hectares of SANG is a substantial underestimate. The most conservative of uplifts to that budget would be to adopt a land use budget of 260-270 hectares (including 78 hectares of SANG). This would push the Councils SANG blended rate up to around £220,000 per gross hectare.
- 5.33 By way of context, this would result in a net to gross ratio of 58% (at 270 hectares) (excluding SANGS), still above that normally anticipated or achieved.
- 5.34 Of the Cranbrook scenarios tested by The Dragons and reported in the Viability Study, only one is identified to be viable (15% AH and 17.5% developer return) and that applying the blended benchmark rate assumed by Three Dragons. Employing all of Three Dragons assumptions, and its land use budget of 227 hectares, it generates a residual value of just £243,414 per gross hectare.
- 5.35 Manifestly it is not viable on the basis of the £300,000 per hectare benchmark that fundamentally is considered to be the appropriate basis for comparison (by EDNCp) and was adopted by EDDC in its previous viability assessment prepared to support the present CIL Charging schedule.

- 5.36 Applying a more realistic land use budget of 270 hectares, yet still retaining every other Three Dragons assumption, the residual value of the 4170 dwellings falls to £205,000 per hectare, even further below the appropriate benchmark and even below the blended SANGS benchmark rate preferred by Three Dragons the blended SANGS rate (which is £220,000 per hectare - having been adjusted simply in line with the revised land use budget of 270 hectares).

**b) Developers Rate of Return**

- 5.37 The only scenario that the Viability Study suggests may lead to a viable outcome is through the adoption of a 17.5% rate of return on market housing and 6% return on the construction costs of the affordable housing (equating to some 4% return on revenue which is below expected normal returns at 6% of affordable homes revenue).
- 5.38 The Viability Study draws attention to advice in Planning Practice Guidance to the effect that, for the purpose of plan making, an assumption of 15-20% of GDV may be considered a suitable return to developers in order to establish the viability of plan policies.

Clearly that advice is broadly based and applies to all circumstances found in a Local Plan context. It is not advice as to what to apply to any particular site. Equally national planning guidance acknowledges that plan makers should adopt appropriate figures "according to the type, scale and risk profile of planned development" ((NPPG Reference ID: 18-002-20180724).

- 5.39 Para 2.1.18 - 21 of the Viability Study draws attention to the publication "Viability Testing Local Plans - Advice for Practitioners" highlighting its role as guidance and its endorsement by MHCLG; LGA; PINS and POS.
- 5.40 That guidance is helpful in relation to developers return noting in particular that: *"the required developer return varies with the risk associated with a given development and the level of capital employed"* (Viability Testing Local Plans – Advice for Planning Practitioners, June 2012 page 36).
- 5.41 In practice therefore:
- *"Smaller scale, urban infill sites will generally be regarded as lower risk investments when compared with complex urban regeneration schemes or large scale urban extensions"* (Viability Testing Local Plans – Advice for Planning Practitioners, June 2012 page 36).
  - *"Schemes with high upfront capital costs generally require a higher gross margin in order to improve the return on capital employed".* (Viability Testing Local Plans – Advice for Planning Practitioners, June 2012 page 37).
  - *"Conversely, small scale schemes with low infrastructure and servicing costs provide a better return on capital employed and are generally lower risk investments. Accordingly, lower gross margins may be acceptable."* (Viability Testing Local Plans – Advice for Planning Practitioners, June 2012 page 37).
- 5.42 The advice in Planning Practice Guidance regarding a range of possible returns of 15-20% needs to be viewed in this context. In this light the advice does not say that 15-20% is capable of application to all sites. Rather it is saying that given the range of sites that are likely to come forward a range of returns might be found. In essence it says that the simplest smaller sites will have the lower end of the range and the larger complex ones will be at the top.
- 5.43 In order to justify an affordable housing rate of 15% (as set out in CB11), the Viability Study reduces the rate of return at Cranbrook from the 20% scenario tested to the 17.5% scenario.

- 5.44 This is unsound as it cannot be justified and appears to be a late stage adjustment to facilitate a preferred outcome in terms of infrastructure and affordable housing provision.
- 5.45 The lack of justification is emphasised by the apparent employment of a 20% rate of return in all of the other residential appraisals set out in Annex H of the Viability Study.
- 5.46 Bizarrely therefore:
- a 20% return is employed in the Viability Study for the smallest and simplest residential scenarios while 17.5% is employed for Cranbrook; and
  - a 20% return is employed in the Viability Study for the high value areas of the district at Sidmouth and Budleigh Salterton and 17.5% at Cranbrook which is one of the lowest value areas of the district.
- 5.47 The only rationale offered to reduce the return from the 20% employed everywhere else in the District, and indeed in the previous Viability Testing report that supported the previous CIL schedule (where 20% was employed at Cranbrook) is offered by Three Dragons in para 6.4.3 of the Viability Study: *"As noted in section 2, PPG suggests a range of 15%-20% developer return. Given that the initial development at Cranbrook is now well under way it is justifiable to assume that the overall level of risk is reduced and therefore the developer return need not be at the top of the range suggested by PPG"*.
- 5.48 For the reasons set out above this views the 15-20% range as applicable to any site. That however is not its principal intent - The range is to reflect the range of sites - small simple to large complex.
- 5.49 In any event, there is no basis for assuming that the overall level of risk is reduced in the Cranbrook expansion areas compared to the first phase of Cranbrook's development (the first 3500 dwellings).
- 5.50 The principal factors contributing to risk include: costs, delay, third party involvement, financing.
- 5.51 There is no indication that any such factors are reduced in planning and delivering the expansion of Cranbrook.
- 5.52 There is no indication that site opening up costs and development costs will have changed. Indeed additional policy aspirations will have resulted in additional costs.
- 5.53 Potential Section 106 costs have certainly not reduced but are proposed to grow substantially. The Viability Study builds in section 106 costs of £76.63million or £18,297 per dwelling for Cranbrook [that excludes approximately £43million of items identified in the Cranbrook Infrastructure DPD as section 106 costs which, in the Viability Study, have been apportioned to other headings (CHP (£20m); transport works (£8.3m); undergrounding; carbon reduction £6.4m)].
- 5.54 On a comparable basis, section 106 costs within the existing Cranbrook development of 3500 dwellings are estimated to be some £11,500 per dwelling - almost half of those now being sought.
- 5.55 The scale of investment has therefore not declined but grown significantly since the first phase of Cranbrook development. Much will be upfront and will need to be funded at risk.
- 5.56 Arguably there is less prospect of grant or loan funding now than was known about at the time of the commencement of Cranbrook - in particular the up front Kick Start funding that was made available to support the early phases of development. The developer risk grows accordingly.
- 5.57 That the upfront costs are undiminished is further emphasised by the fact that three of the expansion areas have been the subject of comprehensive outline

planning applications since December 2014. The extended timescales and lack of certainty plus the promotion and pre development costs therefore remain extensive in connection with the expansion areas.

- 5.58 Similarly the implementation period post commencement is undiminished. If anything the absence of Kick Start funding may result in more extended implementation period. Implementation over extended periods inevitably exposes developers to extra risk - changes in market, changes in costs, changes in regulatory environment etc etc. None of these risks are reduced in the case of the expansion areas compared to the first phase of Cranbrook now being implemented.
- 5.59 For all of the reasons above the appears to be no basis whatsoever to adopt a reduced 17.5% developer return in the Viability Study.

**c) Affordable Revenue**

- 5.60 A further substantial area of concern and discrepancy is the treatment of income from affordable housing.
- 5.61 Three Dragons in the Viability Study adopts a blended rate affordable housing revenue of approximately £2000 per sm (or £185 per sq.ft).
- 5.62 The only commentary in the in the Viability Study is in para 4.1.9 and 10 where reference is made to information (seemingly anecdotal) having been obtained regarding transfer values from providers - across the district. Table 4.7 sets out rates for "affordable rent" and for "shared ownership".
- 5.63 The experience of EDNCp is direct in relation to the transfer values that it has been able to obtain in relation Cranbrook 3500.
- 5.64 Based on those rates that have proved achievable for rented and shared ownership and producing a blended rate based on 70% rented and 30% intermediate, the realistic evidenced blended rate is calculated at some £138 per sq foot or some £1404 per sm.
- 5.65 In this respect it is important to note that the evidence is that the transfer values achievable for affordable rent and for social rent (policy CB11 not drawing a distinction between the two in terms of their contribution to the 70% rented share) are not significantly different.
- 5.66 The effect of adopting an evidenced blended rate is a significant hole in the viability assessment for Cranbrook.

**d) Other Differences**

- 5.67 Reference has previously been made to Appendix 1 "*Cranbrook Expansion Viability Issues: Executive and Conclusions Summary*" produced by Whiteleaf Consulting Limited in consultation with Brookbanks Consulting limited (both appointed by East Devon New Community partners).
- 5.68 The paper is presented as evidence and elaborates on some of the issues set out above. It is to be read as part of the representations by EDNCp on policies CB6, CB11-13 etc. of the DPD.
- 5.69 In addition it highlights additional concerns:
- the reasons why there is a high risk that base build costs have been underestimated;
  - the calculation and treatment of the External Works Costs allowance
  - the high risk that the coverage that results from the assumptions employed - particularly National Space Standards is in excess of normal market coverage and artificially increases total revenues and again may present a high risk that this overstates potential viability.

- 5.70 Regarding other general cost assumptions - fees, finance costs, marketing - the overall view is that Three Dragons have adopted levels that are either at the lower end of ranges typically accepted in practice, or even below in some cases. Although, taken individually, these might not be too significant, in combination they can present a potentially high risk to delivery. This is especially relevant if other costs or assumptions are unrealistic.
- 5.71 The overall conclusion drawn is that the DPD VA places unacceptable levels of cost burden and risk onto the developer, while constraining profit margins to levels that fail adequately to reflect that risk, thus also threatening potential delivery.

## **6 Consequences adopting More Appropriate Assumptions**

- 6.1 Appendix 1 "*Cranbrook Expansion Viability Issues: Executive and Conclusions Summary*" produced by Whiteleaf Consulting Limited has two functions.
- 6.2 First it has assessed and provided commentary in respect of the assumptions adopted by Three Dragons. This is reported above as appropriate.
- 6.3 Its second purpose is to test the consequences of adopting what have been evidenced as more appropriate assumptions.
- 6.4 To do so it mimics, for comparison purposes, the Three Dragons model. In so doing it considers the Bluehayes expansion area that is under the control of EDNCp.
- 6.5 To allow direct comparison, it employs the master planning principles adopted by EDDC and makes no allowance for a primary school or pitches in the expansion area. As such, the model assumes 930 new homes. The remainder of the allocation of 960 would be located on peripheral parcels within the allocation as envisaged by EDDC.
- 6.6 The first column "Three Dragons(3d)" are simply those extrapolated from Three Dragons 15% AH17.5 return model. All the figures are simply calculated on a pro rata basis of 930 dwellings.
- 6.7 The second column sets up the spreadsheet formulas to ensure that the model employed by Whiteleaf Consulting accurately mimics that employed by 3 Dragons - for the purposes of testing the consequences of revised assumptions. As is evident from the two columns the model accurately reflects 3 Dragons extracted model outputs. It replicates the Three Dragons forecast net residual value of £243,000 per hectare.
- 6.8 The third column "WCL at adopted" applies varied assumptions based on what WCL and EDNCp consider to be more realistic assumptions and having regard to a more detailed assessment of costs.
- 6.9 The anticipated section 106 obligation on the development (a pro rata share of the £76.67m in the Three Dragons model) is retained in all of the columns of the comparison table.
- 6.10 In respect to build costs and exceptional costs, discussion has taken place between WWA (working with Three Dragons) and Brookbanks Consulting limited (working with Whiteleaf Consulting). Whilst there is a reasonable level of agreement in the scale of those costs - the apportionment between Build Costs (relating to the plot) and the external development costs is treated differently. While Whiteleaf Consulting and Brookbanks consider that the exceptional costs are too high in the Three Dragons model, by the same token the plot based build costs are too low. Combined build costs and exceptional costs are estimated by Whiteleaf/Brookbanks to be £2.6m higher.
- 6.11 Other variances in the comparative assessment include:
- a marginally higher estimate of market revenue by Whiteleaf consulting

- a lower estimate in the cost of building garages
  - an increase in the provision need for professional fees and marketing costs
  - lower estimates of finance costs; agents and legal fees and stamp duty.
- 6.12 Working on a pro rata basis may also give the impression of a better viability position than which is likely to be the case - e.g because of the inclusion of a pro rata share of capital contributions from mixed uses although the Bluehayes area is planned to have a smaller proportion of such uses than across Cranbrook.
- 6.13 The principal differences are however those discussed above:
- a lower estimate of revenue from affordable housing (-4.5m)
  - an increase in the required developer return (£4.9million) consequent on adopting a 20% developer return.
- 6.14 The consequence of adopting the evidenced and appropriate assumptions - for the reasons spelt out above is a net residual value of not £12.9m but £2.2million and a residual value of approximately £45,540 per hectare well below any benchmark value that has been proposed or could even be considered.

## **7 Summary and Conclusion**

- 7.1 For the reasons set out in this Evidence Paper, EDNCp do not believe that the DPD proposals as drafted are viable.
- 7.2 For the DPD to be viable it be necessary to:
- reduce the expectations placed on the development in respect of affordable housing and other costs; and/or
  - reduce the expectations placed on the development in terms of infrastructure delivery and section 106 obligations.
- 7.3 Although concerned at the lack of opportunity for discussion and consultation on the Viability Study and viability aspects of the Cranbrook DPD to date, EDNCp are firmly committed to ongoing discussions with EDDC and Three Dragons now that the material is published. EDNCp hope that such ongoing engagement will lead to an updating of the Viability Study to reflect discussion with the developers (for the first time) and, in all likelihood, amendments to the policy ambitions of the DPD.
- 7.4 The Viability Study is not considered to be robust in its present form.
- 7.5 Specifically in respect of benchmark land values to assumed for the purposes of establishing that the land would be brought forward for development, it is wholly inappropriate to deviate from the adoption of the same benchmark rate across the development, including SANGs. As such the benchmark rate of £300,000 should apply to all land necessitated by the development - including SANGs. the detailed reasons why this should be the case are set out above.
- 7.6 the application of a principle of a discounted benchmark rate to allow for SANG land to be purchased at relatively minimal costs - is simply not reasonable, justified or effective approach. in any event the calculation of a "blended" benchmark rate is substantially underestimated as it relies upon a Land Use Budget in Table 6.2 of the Viability Study which underestimates significantly the land required to deliver the expansion areas and is inconsistent with The Cranbrook Masterplan evidence base and indeed policies CB2-5 of the DPD itself.
- 7.7 In turn, the underestimation of the land use budget necessary to deliver the planned expansion areas has the important twin effect in relation to the robustness of the Viability Study:
- depressing the so-called blended benchmark rate by artificially inflating the SANG element as a proportion of the total necessary development area; and
  - inflating the residual value per hectare by underestimating the hectareage required to deliver the development.

- 7.8 The only scenario that the Viability Study suggests may lead to a viable outcome is through the adoption of a 17.5% developer rate of return on market housing (and an uncontroversial 6% rate of return on affordable housing). This is not consistent with guidance. It is unsound as it cannot be justified and appears to be a late stage adjustment from the 20% modelled in all other circumstances to facilitate a preferred outcome in terms of infrastructure and affordable housing provision.
- 7.9 The only rationale offered to reduce the return from the 20% employed everywhere else in the District, and indeed in the previous Viability Testing report that supported the previous CIL schedule (where 20% was employed at Cranbrook) is offered by Three Dragons in para 6.4.3 of the Viability Study: *"As noted in section 2, PPG suggests a range of 15%-20% developer return. Given that the initial development at Cranbrook is now well under way it is justifiable to assume that the overall level of risk is reduced and therefore the developer return need not be at the top of the range suggested by PPG"*.
- 7.10 For the reasons set out above this views the 15-20% range as applicable to any site. That however is not its principal intent - The range is to reflect the range of sites - small simple to large complex.
- 7.11 In any event, for all the reasons set out above there is no basis for assuming that the overall level of risk is reduced in the Cranbrook expansion areas compared to the first phase of Cranbrook's development (the first 3500 dwellings).
- 7.12 There is no indication that site opening up costs and development costs will have changed. Indeed additional policy aspirations will have resulted in additional costs.
- 7.13 Potential Section 106 costs have certainly not reduced but are proposed to grow substantially. The Viability Study builds in section 106 costs of £76.63million or £18,297 per dwelling for Cranbrook [that excludes approximately £43million of items identified in the Cranbrook Infrastructure DPD as section 106 costs which, in the Viability Study, have been apportioned to other headings (CHP (£20m); transport works (£8.3m); undergrounding; carbon reduction £6.4m)].
- 7.14 On a comparable basis, section 106 costs within the existing Cranbrook development of 3500 dwellings are estimated to be some £11,500 per dwelling.
- 7.15 The scale of investment has therefore not declined but grown significantly since the first phase of Cranbrook development. Much will be upfront and will need to be funded at risk.
- 7.16 Similarly the implementation period post commencement is undiminished. Implementation over extended periods inevitably exposes developers to extra risk - changes in market, changes in costs, changes in regulatory environment etc etc. None of these risks are reduced in the case of the expansion areas compared to the first phase of Cranbrook now being implemented.
- 7.17 For all of the reasons above the appears to be no basis whatsoever to adopt a reduced 17.5% developer return in the Viability Study.
- 7.18 A further substantial area of concern and discrepancy is the treatment of income from affordable housing.
- 7.19 Three Dragons in the Viability Study adopts a blended rate affordable housing revenue of approximately £2000 per sm (or £185 per sq.ft). The evidence of EDNCp is that a realistic evidenced blended rate is calculated at some £138 per sq foot or some £1404 per sm. -leaving a large hole in the viability calculations.
- 7.20 Other concerns are set out.
- 7.21 Given such concerns the consequences of adopting more appropriate assumptions have been assessed and presented in Appendix 1 *"Cranbrook Expansion Viability*

*Issues: Executive and Conclusions Summary*" produced by Whiteleaf Consulting Limited and Brookbanks Consulting Limited.

- 7.22 The calculation mimics the model developed by Three Dragons then varies the assumptions in accordance with the evidence.
- 7.23 The consequence of adopting the evidenced and appropriate assumptions - for the reasons spelt out is a net residual value of not £12.9m but £2.2million in the Bluehayes expansion area and a residual value of approximately £45,540 per hectare - well below any version of benchmark that could be considered.
- 7.24 The conclusions are drawn in respect of the Bluehayes Expansion area with the particular purpose to illustrate the nature of the viability issue across the Cranbrook area and the four expansion areas. They are drawn to apply on a consistent basis across the remainder of the expansion areas and hence the DPD as a whole.
- 7.25 Manifestly it is not viable on the basis of the £300,000 per hectare benchmark that fundamentally is considered to be the appropriate basis for comparison (by EDNCp) and was adopted by EDDC in its previous viability assessment prepared to support the present CIL Charging schedule.
- 7.26 The overarching conclusion is that while Planning Practice Guidance is clear that policy should not only be viable it must also be feasible and explicitly "***to strike a balance*** between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission" (para 010).
- 7.27 EDNCp consider that the DPD, and viability assessment that accompanies it, does not strike an appropriate balance. It dramatically extends the expectations placed on the Cranbrook expansion areas from that provided for in the East Devon Local Plan (adopted only in 2016) and in relation to the first phases of Cranbrook - now under-construction.
- 7.28 The DPD seeks to achieve all possible outcomes in terms of Healthy new towns, Zero carbon, GI, custom built housing; Design Codes; digital connectivity; new railway infrastructure; ultra low emission charging and so on and so on.
- 7.29 The anticipated extremely large section 106 contributions and the 15% affordable housing policy expectation are therefore unaffordable.
- 7.30 The analysis set out in Appendix 1 shows that within the western expansion area alone (930 dwellings) the shortfall in value set against the £300,000 benchmark is some £12.6million.
- 7.31 To close the gap between the demonstrable residual values and the benchmark value, and ensure that the DPD is deliverable and hence sound, consideration needs to be given to a number of options. Based on the same tenure split the gap would be closed in one of the following scenario options:  
Scenario 1 Affordable Housing reduced to 10% and section 106 obligation reduced from £17.1m to £8m  
Scenario 2 Affordable housing reduced to 5% and section 106 reduced to £12.5million.
- 7.32 Other additional options or variations exist including adjusting the tenure split and producing savings on elements in the external costs that are policy based - CHP for instance.
- 7.33 The conclusions are drawn in respect of the Bluehayes Expansion area with the particular purpose to illustrate the nature of the viability issue across the Cranbrook area and the four expansion areas and are to be applied on a consistent basis across the remainder of the expansion areas. For the whole of Cranbrook

therefore, such savings or reductions on section 106 costs outlined in scenario 1 and 2 would need to be increased pro rata for the 4000 dwellings.

- 7.34 Any such savings could be addressed by successful external third party funding bids.

Appendix 1

*"Cranbrook Expansion Viability Issues: Executive and Conclusions Summary"*

# Cranbrook Expansion Viability Issues: Executive and Conclusions Summary

Produced by Whiteleaf Consulting Limited in consultation with Brookbank Consulting limited (both appointed by East Devon New Community partners).

- 1 **Coverage (built density, square feet per net acre).** For our model we have adopted the NDSS unit sizes, mix and unit numbers promoted in the DPD, but due to net residential area on the Cranbrook Western Extension being lower than Cranbrook as a whole, this creates a coverage of just below 18,000 sqft per net acre. This is in excess of normal market coverage and artificially increases our total revenues and again may present a high risk that this overstates potential viability.
- 2 **Affordable Revenue.** In our view, based on recent experience and site-specific advice, the average blended affordable revenue adopted in the DPD viability is unlikely to be achievable. Research being undertaken on behalf of our client currently indicates average blended affordable revenue of c£138psf, based upon a 70:30 (Affordable Rent:Shared Ownership) tenure split compared to the blended average of c£185psf assumed in the DPD VA. In our view, this level of revenue can only be expected to be achieved with a 100% Intermediate Tenure (Shared Ownership)
- 3 **Base Build Costs.** Based on our recent experience both of client housebuilder costs and recent viability precedent, we believe there is a high risk that base build costs have been underestimated. Three Dragons have used the lowest available BCIS measure (Lower Quartile) as at last Autumn. Build costs have risen since then and the updated figures are adopted in our assessment. Further, it is not clear that Three Dragons have added any contingency. This would be normal practice, especially when assuming the lowest level of base costs.
- 4 **External Works Costs Allowance.** For the DPD VA, WWA and Three Dragons have allowed a 7% (of base build) addition for on-plot externals and then used quants/rates to assess “standard” off plot externals (standard estate roads, drainage, utilities supply and associated works). Due to the high-level nature of assessing at Local Plan stage, we have adopted a standard approach of applying a percentage allowance of 13.5% (within the accepted range or 10-15%) to reflect all ‘standard’ external works, including plots costs AND standard estate works costs.
- 5 **Costs of infrastructure and site abnormals.** Our cost consultant has met with WWA and this has resulted in agreement around a total infrastructure and abnormals costs of c£37.4m for the 930-unit development.
- 6 **§106 Contributions** We have, for now, adopted WWA’s §106 assessment, extrapolated to the 930 units for the Western Expansion Area.

- 7 **Other ‘general’ cost assumptions.** Our overall view is that Three Dragons have adopted levels that are either at the lower end of ranges typically accepted in practice, or even below in some cases (see table on page 3, below). Although, taken individually, these might not be too significant, in combination they can present a potentially high risk to delivery. This is especially relevant if other costs (base build and abnormals) are also unrealistically low and density/revenue assumptions are high.
- 8 **Developer Margin (Profit).** Despite the high level of risk assumed to be borne by the developer from high revenue/density and low-cost assumptions, the DPD VA assumes a developer margin of just 17.5% on private revenue and 6% of affordable build cost. These are significantly below real market hurdle rates, as well as recent precedent in VAs, the latter, in our direct experience, being typically agreed at 20% of private and 6% of affordable revenue (NOT cost). Assuming at, plan stage, that developers will bear the significant risks of this scale and nature of development is likely to present a significant risk to delivery.
- 9 **Benchmark Land Values.** The Three Dragons VA adopts a figure of £300k per gross hectare. We do not disagree with this. They do, however, suggest that for any land required for SANG purposes, a separate allowance of £25k pg ha should apply. We cannot agree with this. There is a strong argument that any land without which a development cannot be implemented, should carry an equal value to the rest of the ‘red-line’ area. Whichever approach is adopted, it must be recognised that land required will need to be acquired and that the landowner will be aware of the potential allocation to which it relates (and so potentially constrains).

In conclusion, the combination of high densities, high affordable revenues, low base costs and other general assumptions adopted in the DPD VA is likely, in our view, to overstate potential viability when applied to the western extension and so may risk that the basis of the DPD viability could be judged to be unsound.

National Policy is designed to encourage all parties involved to work together to ensure viability of allocations. In our view, the DPD VA places potentially unacceptable levels of cost burden and risk onto the developer, while constraining profit margins to levels that fail adequately to reflect that risk, thus also threatening potential delivery.

**Other ‘general’ cost assumptions.** Comparison Table:

Input	Three Dragons	WCL	Comment
Professional Fees	6%	7% - 8%	WCL is typically accepted range, incl in DVS VAs

Finance	6%	6% - 7%	Three Dragons at bottom of typically accepted rates
Marketing	3%	3.25% - 4%	3% inadequate to cover all selling costs, incl agents' fees, marketing, show house set up, maintenance and staffing and conveyancing.
Agents and legal fees	1.75%	1.75%	At lower end of accepted rates
Garages cost	£7,500 per unit	£8,900 per unit	WCL based on actual housebuilder garage costs

**Table of Key Inputs and Outputs : Comparison between Three Dragons and Whiteleaf**

Input Description	Scenario			
	Three Dragons (3D)	WCL at 3D Assumptps (check)	WCL at adopted assumptions	Variance
<b>Dwelling Numbers:</b>	<b>930</b>	<b>930</b>	<b>930</b>	<b>930</b>
Affordable Content %	15%	15%	15%	
Affordable Numbers	140	140	140	
<b>Land Areas:</b>				
Gross Area (ha)	53.00	53.00	49.30	-11.51
Net Area (ha)	23.04	23.04	21.33	-1.71
net:gross	43.5%	43.5%	43.3%	7.9%
<b>Densities &amp; Coverage:</b>				
Density (units per ha)	40.36	40.36	43.60	3.24
GIA market (m2)	77.8k	77.8k	77.6k	0.2k
GIA affordable (m2)	10.6k	10.6k	10.3k	-0.2k
coverage sqft pna	16,728	16,728	17,957	1,229
<b>Total GIA</b>	<b>88.4k</b>	<b>88.4k</b>	<b>87.9k</b>	<b>-0.5k</b>
<b>Revenues:</b>				
Revenue Market	226.6m	226.6m	227.3m	0.7m
Revenue Affordable	20.6m	20.6m	15.4m	-5.2m
Total Revenue	247.2m	247.2m	242.7m	-4.5m
Average Revenue per unit (blended)	265.8k	265.8k	261.0k	-5.8k
Average Revenue per sqm (blended)	2793	2793	2761	-32
Average Revenue per sqft (blended)	259.5	259.5	256.5	-3
Capital Contributions (self build, mixed use)	4.8m	4.8m	4.8m	0
<b>Total Scheme Revenue</b>	<b>251.97m</b>	<b>251.97m</b>	<b>247.37m</b>	<b>-4.6m</b>
<b>Costs &amp; Fees:</b>				
Build Costs	104.4m	104.4m	116.5m	12.1m
Garages*	2.6m	2.6m	2.0m	-0.6m
Pro Fees	5.4m	5.4m	8.9m	3.5m
Marketing Costs (incl market and AH legals)	6.7m	6.7m	8.0m	1.3m
Exceptional Development Costs	46.9m	46.9m	37.4m	-9.5m
Planning Obligation Costs	17.1m	17.1m	17.1m	0
<b>Costs &amp; Fees totals</b>	<b>229m</b>	<b>229m</b>	<b>236m</b>	<b>7.0m</b>
<b>Profit and financing &amp; acquisition:</b>				
Developer's Return (Margin on revenue)	39.6m	39.6m	44.5m	4.9m
Contractor's Return (Profit on Affordable COST)	0.83m	0.83m	0.9m	0.07m
Finance Costs	9.1m	9.1m	9.3m	-0.2m
Agents and Legal Fees	229k	229k	41k	-188k
Stamp Duty	668k	683k	109k	-574k
<b>Total profit, finance and ancillary costs</b>	<b>50.4m</b>	<b>50.4m</b>	<b>54.8m</b>	<b>4.4m</b>
<b>Net Residual</b>	<b>12.89m</b>	<b>12.89m</b>	<b>2.24m</b>	<b>-10.65m</b>
<b>Net Residual per gross hectare</b>	<b>243,207</b>	<b>243,207</b>	<b>45,540</b>	<b>-197,667</b>
<b>Benchmark Land Value (BLV) - Three Dragons</b>	<b>10.89m</b>	<b>10.89m</b>		
<b>BLV per gross hectare - Three Dragons</b>	<b>205,414</b>	<b>205,414</b>		
<b>BLV SANGS at equal value to red line application area</b>	<b>15.9m</b>	<b>15.9m</b>	<b>14.8m</b>	<b>-1.1m</b>
<b>BLV SANGS at equal value per gross hectare</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	

\* Assumed for Three Dragons model that 37.5% of all homes have garages (table 4.9 of DPD); WCL 30% of private homes  
BLV excludes aquisition costs (legal, agent and SDLT)