The Planning Inspectorate
Yr Arolygiaeth Gynllunio

Report to Newport City Council

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an Examiner appointed by the Council

3 August 2016

PLANNING ACT 2008 (AS AMENDED)

SECTION 212(2)

REPORT ON THE EXAMINATION OF THE DRAFT NEWPORT CITY COUNCIL COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE

Charging Schedule submitted for examination on 11 May 2016

Examination procedure: Written Representations

File Ref: PINS/G6935/429/2

Non-Technical Summary
This report concludes that the Newport City Council Draft Community Infrastructure Levy Charging Schedule provides an appropriate basis for the collection of the levy in the area. The Council is able to demonstrate that it has sufficient evidence to support the Schedule and can show that the levy rates would be set at levels that will not put the overall development of the area, as set out in the adopted Newport Local Development Plan 2011 – 26, at risk. The proposals will secure an important funding stream for infrastructure necessary to support planned growth in Newport.

Introduction

1. This report contains my assessment of Newport City Council's draft Community Infrastructure Levy (CIL) Charging Schedule in terms of Section 212 of the Planning Act 2008 (as amended). It considers whether the schedule is compliant in legal terms and whether it is economically viable, as well as reasonable, realistic and consistent with the CIL guidance[1].

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

3. The basis for the examination is the Draft Charging Schedule (DCS), which was published for public consultation between 29 January 2016 and 11 March 2016. The DCS proposes CIL charges for residential and retail developments

4. The proposed residential CIL charges would be differentiated by geographical location. Four charging zones are proposed and the CIL, expressed as pounds per square metre (psm), would be:

   Newport East - £45 psm

   Rogerstone / Newport West - £20 psm

   Malpas and Bettws - £60 psm

   Caerleon / Rural Newport - £60 psm

   The zones are coterminous with those established in the Council's development plan for affordable housing policy purposes. The DCS also

[1] The guidance is set out in the (England) Planning Practice Guidance (PPG) which, for CIL purposes, is also relevant to Charging Authorities in Wales.

proposes that the development of apartments would be zero rated for CIL purposes i.e. £0 psm.

5. The proposed retail development CIL is not zoned but the DCS proposes to differentiate retail developments that would be subject to CIL by type and scale. Development of a *'food supermarket A1 (3000 sqm plus)'* would incur a CIL of £150 psm, whereas a *'food supermarket A1 (less than 3000 sqm)'* would incur a CIL of £100 psm and *'General Retail A1 – A3 (excluding food supermarket)'* would be subject to a £50 CIL charge.

6. The DCS also sets out that CIL would be set at £0 psm for developments of 'all other non-residential uses excluding retail uses.'

Background – Newport City, the development plan, infrastructure and economic viability evidence

Newport City

7. Newport is the third largest city in Wales, with a population of 145,700[2]. It is situated in south-east Wales on the River Usk, close to its confluence with the Severn estuary. The city has a rich industrial heritage with its origins as a medieval port. It experienced significant growth in the nineteenth century as the focus of South Wales' coal exports and, in the twentieth century, as a centre for steelmaking. Traditional coal, steel and port based activities have now substantially declined, leaving a legacy of brownfield sites, including the Llanwern steelworks that closed in 2001.

8. Modern day Newport is a growing multi-cultural university city, with a diverse economy where surviving traditional industries sit alongside 'high tech' and financial service businesses which enjoy the city's strategic gateway location.

9. Newport City Council is a unitary authority that covers a geographical area of 73.5 square miles. This area embraces the city itself and its hinterland, stretching from the Severn estuary in the south to the communities of Rogerstone, Bettws, Malpas and Caerleon in the north.

Newport Local Development Plan

10. The Newport Local Development Plan (LDP) covers the period 2011 – 2026 and was formally adopted in January 2015. The LDP's vision seeks to capitalise on Newport's strategic gateway position and to make the city a centre that celebrates its culture and heritage, while being a focus for varied economic growth. It also states that Newport will be recognised as a lively, dynamic growing City, where communities live in harmony within a unique natural environment.

11. The growth focus of the LDP reflects Newport's identified role as a key settlement of national importance in the Wales Spatial Plan. As part of the 'South-East Wales – Capital Region', Newport is identified as the economic

[2] 2011 Census

gateway to Wales, sitting astride the main corridors of national connectivity running along the coastal belt.

12. The key elements of LDP's strategy are to:

- Make provision for the delivery of 10,350 new dwellings in sustainable locations over the Plan period.
- Facilitate the creation of around 7,400 new jobs over the Plan period.
- Maximise affordable housing provision within the overall housing delivery.
- Ensure that adequate and appropriate employment land is made available to meet forecast employment requirements.
- Maintain a focus on the regeneration of sustainably located brownfield sites.
- Support and strengthen the role of the city centre.
- Ensure that development is resilient in terms of climate change and does not compromise natural resources.

13. In terms of housing delivery, the LDP makes provision for 11,623 units (i.e. in excess of the assessed requirement and includes a Plan period affordable housing target of 2,061 (about 18% of the overall housing). Policy SP10 sets out that these houses will be delivered 'primarily on previously developed land.' These would include existing sites with planning permission, the Eastern Expansion Area[3], allocations made in the LDP itself and through 'infill, windfall and small sites'. The LDP makes 50 specific site allocations under its Policy H1; these vary from the smallest of around 10 units up to the strategic scale sites, which includes 4,000 homes at Glan Llyn, 1100 at Llanwern village and 1064 at Jubilee Park (the former Alcan site south of Rogerstone).

14. The Council's policy approach to affordable housing evolved over the course of the LDP examination. An initially proposed uniform requirement (30% on qualifying sites) was replaced with differential rates based on viability considerations in defined housing sub-markets. Policy H4 seeks the provision of 40% affordable housing in 'Caerleon and Rural Newport'; 30% in 'Rogerstone and West Newport'; 20% in 'East Newport' and 10% in 'Malpas and Bettws'. The narrative supporting the policy explains that new developments will be required to include affordable housing against these targets but that the actual amount will be assessed on a 'site-by-site'[4] viability basis i.e. developers can negotiate for lower levels where these are supported by viability evidence.

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[3] The Eastern Expansion Area is a strategic scale regeneration area focused on the Llanwern steelworks (also known as Glan Llyn) and some sites at Llanwern village. The area was first designated in the former Newport Unitary Development Plan 1996 - 2011

[4] Newport Local Development Plan 2011 – 2026 – Paragraph 5.15

15. The LDP's employment chapter sets out the approach to supporting the economic growth of the area. This includes the allocation of a portfolio of employment land sites, which range from smaller 2 hectare sites up to strategic scale allocations, the largest of which is 43 hectares. The LDP protects these sites for their intended purpose.

16. In terms of new retail development, the LDP identifies a clear hierarchy of retail centres and it adopts a strong 'city centre first' policy position. This is consistent with national policy contained in Planning Policy Wales. The 'sequential' test is applied to hierarchical locations outside the city centre, with preference given, in order, to defined district centres and local centres ahead of 'out of centre' locations. Out of centre retail development proposals are subject to a series of tests, through Policies R10 and R11; these include 'need', impacts on defined centres and traffic considerations.

Infrastructure planning evidence

Infrastructure Development Plan (IDP)

17. In November 2015, the Council produced an Infrastructure Development Plan (IDP), which provides a strategic overview of the infrastructure needed to support the growth set out in the LDP. It also includes a Draft Regulation 123 list of projects that the Council intends to fund using CIL receipts and these are assessed as 'first', 'second' and 'third' priorities, according to their criticality to delivery of LDP planned growth.

18. The IDP is a succinct document but nonetheless gives a clear overview of infrastructure categories and sub-categories that have been assessed. The categories include transport; utilities; flood defence; waste management; education; community health; community facilities; recreation and sport; emergency services and green infrastructure. The narrative does explain that certain infrastructure types (e.g. education) will be CIL funded, whilst others (e.g. flood defences) will not. Some other categories and sub-categories are expressed a little ambiguously. For example, the prospect of future CIL funding for waste management and for 'superfast broadband' (a sub-category under 'utilities') is kept open.

19. The Draft Regulation 123 list sets out a list of 51 identified infrastructure projects, although, rather confusingly, 15 of these are 'non CIL' funded projects. Of the 36 'CIL Projects' (to be funded at least in part by CIL), 8 are assessed as first priority ('critical'), 11 are second priority ('necessary') and the remaining 17 are third priority ('desirable'). The first priority projects are all transport related schemes.

20. The Council assesses that the cost of all 51 projects would be £371.67 million. Once identified funding is subtracted, the gap that would fall within the scope of CIL would be circa £348 million.

21. The Council has made an estimate of likely CIL receipts. It has assessed the anticipated housing delivery rates in each charging zone, then applied the relevant affordable housing level (which will all be CIL exempt) to establish the number of CIL qualifying market housing units. It has then assumed a

standard 90 square metre unit floorspace and applied the relevant CIL from its DCS. This calculation suggests that if the DCS were implemented, CIL from residential development may provide a sum of circa £8.38 million towards filling the gap over the Plan period. The Council does not consider it possible to anticipate retail development CIL receipts, but it is likely to be a comparatively small amount.

Conclusions on infrastructure evidence

22. The evidence indicates that there is a significant need for new infrastructure to support planned growth in Newport. The funding gap for that infrastructure is substantial and the imposition of a CIL regime is justified. Although the CIL revenue projection methodology is quite broad brush, it does demonstrate that CIL would make a modest, but nonetheless important, contribution to reducing the funding gap and to supporting the delivery of new infrastructure required to support growth. However, a substantial funding gap would remain.

23. The Council's IDP and Draft Regulation 123 list does set out the infrastructure that it intends to fund, partly or wholly, through CIL receipts. However, the Council may wish to consider providing some greater clarity on the scope of CIL, to improve transparency. Many charging authorities have adopted a tabular format to give greater precision to what is (and is not) within the scope of CIL and what site specific requirements will be dealt with by other means (typically through obligations under Section 106 of the Planning Act). I also suggest that the 'non CIL' projects are removed from the final version of the Regulation 123 list. These are not matters that are critical to my examination findings, but I trust the Council will consider the refinements suggested.

Economic viability evidence

Methodology

24. The Council has produced viability evidence in the form of a CIL Viability Assessment (October 2015) which is informed by a Construction Costs Study (by Gleeds) and a Land and Property Value Appraisal Study (by HEB Chartered Surveyors). For simplicity, I refer to all of this body of evidence as the Viability Assessment (VA).

25. For both residential and commercial developments, a residual valuation approach is employed. In summary, this seeks to assess the gross development value (GDV) of a project and deduct from it the total costs of the development, including assumed allowances for build costs, land value, fees and finance, developer profit and the costs of any S.106 obligations. Where GDV exceeds these total costs of the scheme, the model output will be a surplus (or 'overage') that could be used to make CIL contributions. Where this overage occurs, this value can be seen as the maximum theoretical 'ceiling' for setting CIL.

Residential modelling assumptions

26. The modelling assessed a range of generic residential development scenarios that the Council considers are reflective of the sites identified in the LDP. There were nine tested residential scenarios, which ranged from small (5 unit) schemes up to strategic scale (500 and 1,000 unit) developments. One of the scenarios was a 20 unit apartment scheme but, based on local intelligence (about lack of viability for such products), apartments were excluded from the other residential scheme mixes. The range of notional sites tested is thorough and comprehensive and provides a good proxy for the real world sites, either set out in the LDP (the Policy H1 allocations) or arising through infill and windfall proposals.

27. Local residential sales value assumptions were derived from a detailed analysis of prices on new and 'nearly new' home developments in the area. This was supplemented by input from developers active in the local market and by reference to the Zoopla and Hometrack house price databases for the area. The evidence gathering covered the period from January 2012 to March 2015 and appeared to be very comprehensive and thorough. It tested the sales values in the adopted LDP's four affordable housing zones but found that, for three of the four LDP zones, new build prices were broadly comparable and it was only in the Caerleon / Rural Newport zone that notably higher prices were achieved. It therefore proposed a two zone approach to sales values, with a sales rate of £1,950 psm being employed for testing purposes in most areas and £2,050 psm being used for the higher value Caerleon / Rural Newport area.

28. The Council has based threshold land values on a calculation of the gross uplift in land value arising from the granting of planning permission (for a more valuable development). It assumes that half of this uplift will be available for funding affordable housing and CIL, with the other half remaining as the return to the landowner. This approach, whilst relatively broad brush, has been found sound in other CIL examinations and Planning appeals. It is generally considered to strike a reasonable balance between necessary landowner returns (to trigger development) and funding the requirements deemed necessary through the planning system, to allow the development to proceed. Furthermore, the values derived were 'sense checked' with major housebuilders and local expertise from qualified professionals. I consider the Council's threshold land values for greenfield and brownfield land, derived by this method, to be appropriate for CIL testing purposes and note that there were no challenges to the values adopted.

29. The Construction Cost Study provides a robust set of building costs for different types of residential development. These are drawn from Gleeds Research and Development Database and the Building Cost Information Service (BCIS), with some reference to government sources on housing construction costs[5]. All costs were adjusted for the locality and updated by appropriate indexation to give January 2015 base build costs for modelling. The study also includes a range of additional costs that can be factored into

[5] *Cost of building to the Code for Sustainable Homes* - Department for Communities and Local Government

a specific scheme appraisal; these included abnormals, archaeology, site specific access works, ecological mitigation, flood defence works and land contamination. The modelling also makes a £3,000 per unit cost allowance for installing fire sprinklers in new homes, which is a legal requirement in Wales.

30. Affordable housing content was modelled at the full LDP policy levels for each of the four affordable housing zones. The costs of affordable housing were drawn from the Welsh Government's guidance[6] and based on the 'Neutral Tenure' type.

31. Developer profit was set at an assumed profit of 20% on GDV on all market housing units and 6% on affordable homes. The modelling assumed that residual S.106 planning agreement costs would be limited to £1,000 per unit on all sites. All other cost assumptions, including professional fees, marketing and contingency allowances, were all reasonable and conformed to industry norms.

Commercial development modelling assumptions

32. The Council tested assumed typologies for a wide range of commercial developments. These included developments of industrial, office, food retail, general retail, residential institution, hotel, community buildings, leisure, agricultural, car sales and vehicle repairs.

33. The assumptions employed for land values, build costs, developer's profit margin (17.5%), fees, contingencies and finance all appeared reasonable for high level CIL testing purposes.

Conclusions on background evidence

34. The Newport LDP provides a clear strategic planning framework to guide sustainable growth in Newport in the period to 2026. The IDP assesses and identifies the infrastructure needed to support planned growth. The evidence demonstrates a sizeable infrastructure funding gap that justifies the introduction of a CIL regime. CIL receipts will help to reduce that gap, although a significant funding shortfall will remain.

35. The economic viability evidence for both residential and commercial development that has been drawn from available sources and is well grounded and appropriate. The application, interpretation and use of that evidence, in defining the proposed CIL rates and zones, are discussed more fully below.

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[6] *Acceptable Cost Guidance / On-Costs for use with Social Housing / Grant Funded Housing in Wales*. Welsh Government - April 2015

Residential Development CIL – proposed CIL charging zones, appraisal findings and proposed CIL rates

Charging zones

36. The Council proposes to carry forward the affordable housing zones established in its LDP and to use these as the basis for its CIL regime. There is some merit in this approach, as the affordable housing zones are themselves based on a fairly recent and detailed Affordable Housing Viability Assessment (AHVA)[7] and this has been tested through the LDP examination. Furthermore, affordable housing costs will tend to have much higher impacts on scheme viability than CIL. There is therefore a good basis for adopting these 'ready-made' viability zones as the platform for the CIL proposals, rather than creating new ones. The Guidance does counsel against 'undue complexity'[8] which could arise if two different sets of zones were employed.

37. However, some complications arise that should be noted. Whilst the AHVA and the VA have some broad methodological similarities, the former employed a high level testing approach (of a 'notional' 1 hectare site), whereas the latter is much more detailed. Perhaps of greater relevance is a degree of apparent inconsistency on sales value evidence. The AHVA's assessed geographical variations in sales values were the primary determinant of the four zone approach and the setting of differing affordable housing proportions, now enshrined in the adopted LDP. However, these conclusions were not precisely mirrored in the more recent and detailed VA analysis. This assessed that, whilst there were differences in sales values across Newport, new build values were similar in three of the affordable housing zones and only notably higher in the Caerleon / Rural zone.

38. These matters may be explained by differing data sources, time periods and methodologies, but it is not my role to re-examine earlier LDP evidence. I take the view that the affordable housing zones must be treated at face value, as part of the adopted development plan. As such, the geographically differentiated levels of affordable housing that they prescribe (and the viability affects arising from these) are the 'policy compliant' scenarios that must be examined in CIL testing. This does not invalidate the use of the affordable housing zones as the basis for CIL charging, but it does, as I explain below, lead to some slightly anomalous modelling results.

Appraisal findings and proposed CIL rates

39. Each of the generic residential development types was tested in each of the four affordable housing zones, using both brownfield and greenfield scenarios. The results are presented as a matrix of 'maximum' residential CIL rates. In all, there are 72 results (9 scenarios x 4 zones for greenfield sites and the same number for brownfield sites). The greenfield results are

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[7] Newport City Council - Affordable Housing Viability Assessment – March 2012

[8] PPG - Paragraph: 021 Reference ID: 25-021-20140612

more relevant to the Caerleon and Rural Newport zone, whereas the brownfield results have greater relevance in the other three zones.

40. Three general findings emerge from the results. First, under all scenarios the notional apartment scheme was not viable, generating negative results ranging from -£211 psm to -£336 psm; this justifies the proposed £0 psm set out in the DCS. Second, all of the other housing schemes generated positive viability, under all scenarios. Third, brownfield test results were, understandably, lower than greenfield results.

41. In the Caerleon and Rural Newport zone (40% affordable housing), the greenfield 'maximum' CIL results fell within the range of £113 - £136 psm. The brownfield results fell within the range of £75 psm - £101 psm. Given the assumed greater prevalence of greenfield sites in this zone, the proposed CIL rate of £60 psm would leave a comfortable viability margin (or 'buffer'). Even in the brownfield scenarios, there is still some headroom for the worst case scenarios. The £60 CIL in this zone is supported by the evidence.

42. In the Rogerstone and Newport West zone (30% affordable housing), the greenfield results fell with the range of £62 - £88 psm and the brownfield results fell within the range of £26 psm - £52 psm. The proposed CIL rate of £20 psm in this zone would leave a comfortable viability buffer in most cases. In the worst case (brownfield) scenario, the CIL would be set at about 77% of the modelled maximum, whilst in the best case it would be set at about 23% of the maximum. The evidence supports the £20 CIL in this zone.

43. The Newport East zone (20% affordable housing) returned greenfield results within the range of £98 - £120 psm and the brownfield results fell within the range of £63 - £85 psm. The proposed CIL rate of £45 psm in this zone would leave a comfortable viability buffer in all modelled scenarios.

44. In the Malpass and Bettws Zone (10% affordable housing) all modelled schemes returned healthy viability results. The greenfield 'maximum' CIL results fell with the range of £134 - £151 psm and the brownfield results within the range of £101 - £118 psm. It is something of an anomaly that the zone previously judged to be the most challenging in viability terms (through the earlier the AHVA and LDP) can comfortably support the same £60 CIL rate as the higher value area of Caerleon and Rural Newport. However, this is purely a consequence of the lower (10%) affordable housing content embodied in the LDP and the updated evidence on new build sales values which have been employed in the modelling.

45. Overall, the appraisal findings support the residential development CIL charges set out in the DCS and the evidence indicates that the CIL will not pose any risk to scheme viability. The Council will no doubt look again at affordable housing and CIL charging zones at future review points and it would make sense to undertake these contemporaneously. However, there is nothing arising from these matters that materially affects my conclusions on development viability.

Commercial development CIL– viability appraisal findings and the proposed retail CIL charges

46. The testing indicated that only retail development types could support CIL charges; all other tested commercial development scenarios generated negative results, justifying the £0 CIL for such developments.

47. The testing of general (non-food) retail use schemes anticipated in the Plan period comprised greenfield and brownfield developments of 100, 300 and 500 square metres floorspace. The six results fell within a narrow band between £98 psm and £113 psm. There was some challenge that specific testing had not been carried out for Class A2 and Class A3 uses, but I am unconvinced that the development economics of these uses, which typically trade alongside Class A1 uses, would be markedly different. In my assessment, the evidence adequately demonstrates that the proposed CIL of £50 psm can be sustained without any threat to scheme viability and the comfortable modelled buffer will allow for variations in specific rents and yields across the A1 – A3 Use Class spectrum.

48. The testing of various formats of food retail unit developments generated substantial maximum CIL rates. The largest formats, a 3,500 square metre 'large supermarket' and a 5,000 square metres 'superstore', generated results in the range of £734 - £764 psm. Smaller format supermarkets of (1,000 and 2,000 square metres floorspace) produced notably lower results, but the range was still a healthy one, with maximum CIL rates of between £377 - £413 psm. The 300 square metre convenience food store testing gave a range of £393 - £423 psm.

49. There was some Representor challenge to the Council's CIL proposals concerning foodstores. These included views that caution should be taken to avoid CIL becoming a disincentive to retail investment; that smaller format (food) convenience stores should be included in the general Class A1 – A3 type (with the lower £50 psm charge) and that such convenience stores should be differentiated from supermarkets with definitions based around the Sunday trading laws and their local 'top up' shopping function.

50. However, the evidence does indicate that a differentiation based on retail type and scale is justified. The modelling of convenience stores, many of which are now developed and operated by supermarket chains, does not present a case for differentiating them and applying a lower CIL. Indeed, the 300 sq metre convenience store's modelled results are in a very similar range to the 'small' and 'medium' sized supermarket variants and notably higher than the results a same sized general retail scenario (non-food A1 - A3).

51. The evidence does support the proposed differentiation by retail type and scale and the proposed CIL charges of £150 psm for larger supermarkets, £100 psm for smaller supermarkets and £50 psm for general retail. In all cases the CIL would be set with very comfortable viability headroom and, based on the evidence, the charges pose no threat to retail scheme viability.

Overall Conclusions

52. The LDP and the IDP provide a clear framework for planned growth and necessary infrastructure in Newport in the period to 2026. There is a substantial infrastructure funding gap that justifies the imposition of a CIL.

53. The Council's residential development CIL charge zones are based on its LDP affordable housing zones, which were founded on previously examined viability evidence. There is some inconsistency between this earlier evidence and the VA evidence supporting these CIL proposals, notably around the issue of variations in residential sales values across the Newport City administrative area. However, when tested against the policy compliant position, all residential development scenarios (except for apartments) performed well with the proposed CIL in place and reasonable viability headroom existed in all cases. The residential CIL charges are supported by the evidence and will not threaten the viability of housing development across the area.

54. The commercial development CIL charges are confined to retail schemes. The evidence indicates that the proposed differentiation by size and type of retail is supported and that the charges will not threaten retail scheme viability.

55. Overall, I conclude that the Newport City Council Draft Community Infrastructure Levy Charging Schedule satisfies the requirements of Section 212 of the 2008 Act and meets the criteria for viability in the 2010 Regulations (as amended). I therefore recommend that the Charging Schedule be approved.

LEGAL REQUIREMENTS	
National Policy / Guidance	The Charging Schedule complies with national policy / guidance.
2008 Planning Act and 2010 Regulations (as amended)	The Charging Schedule complies with the Act and the Regulations, including in respect of the statutory processes and public consultation, and consistency with the Newport Local Development Plan 2011 - 26 and is supported by an adequate financial appraisal.

P.J. Staddon

Examiner