

NEWCASTLE AND GATESHEAD COMMUNITY INFRASTRUCTURE LEVY**EXAMINATION IN PUBLIC****Response to Examiner's Main Issues and Questions****Made on Behalf of Taylor Wimpey UK Limited*****Issue 3 – Residential Rates*****Preamble**

- 3.1 On behalf of our client Taylor Wimpey UK Ltd, we write to provide comments in response to Newcastle City Council's ('NCC's') and Gateshead Metropolitan Borough Council's ('GMBC's') submitted Community Infrastructure Levy ('CIL') Charging Schedules following our previous comments on the consultation for the Charging Schedules submitted in May 2015, December 2015 and March 2016.
- 3.2 Our client is one of the UK's leading home builders, committed to the highest standards of design, construction and service. They have a large number of site interests across Newcastle and Gateshead and therefore are very keen to engage in the Examination process in order to ensure that the adopted CIL Charging Schedules are supported by robust, up to date and comprehensive evidence.

Taylor Wimpey UK Limited's Interests in Newcastle and Gateshead

- 3.3 Our previous CIL representations have highlighted our client's land interests in Newcastle and Gateshead. However, for completeness, we list these below with corresponding allocation contained in the joint adopted Core Strategy and Urban Core Plan ('CSUCP'):

Newcastle

- Kenton Bank Foot (NN2);
- Upper Callerton (NN1); and
- Newcastle Great Park (NN4).

Gateshead

- Sunnyside South East (GV7B);
- Kibblesworth (GV5);
- Crawcrook North (GV2A); and
- Ryton (GV6).

3.4 These sites in total therefore make an important contribution to the supply of housing in both authorities over the plan period of the CSUCP. Consequently, it is vitally important that any obligations associated with these sites (including CIL) will not cause them to become unviable.

3.5 These statements should be read alongside our previous written representations and set out our client's previously submitted comments on both NCC's and GMBC's CIL Charging Schedules.

3.6 Issue 3, which covers Residential Rates, is considered below. The Examiner has set an overall question for the session which is:

"Are the Charging Schedules supported by appropriate available evidence on viability?"

3.7 There are then a series of separate questions posed by the Examiner. Our responses to these questions are set out below. All of this should be read together.

3.8 It should be noted from the outset that our client has no 'in principle' objection to CIL in Newcastle and Gateshead on the basis that if set out clearly and fairly, then it will provide certainty to developers bringing forward large strategic housing sites within Newcastle and Gateshead. However, in this case, it is considered by our client that key elements of the CIL Charging Schedules are opaque and that elements of the evidence base are either unclear or flawed. The result of this is there is a danger that many of the strategic sites across Newcastle and Gateshead will be unviable and this in turn will greatly affect the ability for both NCC and GMBC to deliver the housing required in the CSUCP.

a) Do the generic residential typologies tested in the viability evidence adequately reflect the type, density and size of the schemes/units likely to come forward in Gateshead and Newcastle? Has sufficient testing been undertaken of strategic allocations?

3.9 We do not have any additional comments to make on this matter over and above those expressed in our previous representations. We do, however, reserve the right to debate this matter further at the examination.

b) What evidence has been used to inform the residential threshold values and the Value Zone Maps (as set out in the Viability and Deliverability Report Annex Update February 2016 – P04)?

3.10 Our Client's consistent view on residential thresholds values is that the method used is opaque and it is not at all clear how this relates to any specific piece of evidence presented in the *Viability and Deliverability Report Annex (February 2016) (P04)*.

3.11 The Council also seek to compare benchmark values in both County Durham and examine Stockton Borough Council's approach, although again little justification is given as to why this approach would be deemed appropriate and what judgements have been made within this compare and contrast exercise. It is clear that the form and function of the housing market in County Durham and Stockton is likely to be somewhat different to Newcastle and Gateshead and so it is questionable as to the relevance of this information.

3.12 In examining the current figures presented by the Council, our Client continues to believe there is a lack of transparency in the approach to setting benchmark land values and concerns remain that currently these benchmark values are set too low by not representing a fair return to landowners and with little in the way of justification. This is particularly the case in the High, High-Mid and Mid value areas. This has the effect of artificially boosting the CIL rate within Zone A and would indicate that the current CIL rate in Zone A is currently too high.

3.13 Within Appendix 5 of the *Viability and Deliverability Report Annex (February 2016) (P04)* both authorities provide comparable transactions. However, it is our Client's view that these transactions do not accurately reflect values which will form strategic residential development in Newcastle or Gateshead.

- 3.14 Our previous representations made to NCC's and GMBC's draft CIL charging schedules in May 2015 and December 2015 also expressed concern in relation to the setting of the value zones and specifically their inability to reflect specific and localised house prices.
- 3.15 In response to our concerns, NCC and GMBC have provided some sales data to attempt to justify some of the value zones they have outlined. Whilst this broad approach here is understood, it is our Client's view that this lacks the spatial sensitivity to accurately reflect values in key areas across Newcastle and Gateshead. The ultimate consequence of this is that in many areas this causes viability to be incorrectly calculated and therefore the incorrect CIL tariff to be set.
- 3.16 For Upper Callerton specifically, our Client's view is that NCC's assumptions on revenue are excessively high at £209/sq ft (£2,250/sq m) and as a result of this the area attracts the higher CIL tariff of £60/sq m. The major concern that our Client has is that this higher CIL rate simply renders Upper Callerton wholly unviable. As the Upper Callerton site forms a significant part of NCC's overall housing delivery, if it is made unviable by CIL, then this will seriously undermine the NCC's ability to ensure that it delivers the required housing as outlined in the CSUCP.
- 3.17 As part of our previous representations, Hometrack reports were submitted which showed the existence of low values at Upper Callerton using new-build comparable (£134/sq ft median and £165/sq ft upper quartile, £1,442/sq m and £1,776/sq m respectively). This is reflective of the NCC's own Residential Values Profile Maps which indicates Newbiggin Hall (immediately adjacent) at a 'Low' value (£135/sq ft) (£1,453/sq m).
- 3.18 NCC's approach has instead included Upper Callerton alongside Middle/Lower Callerton on the basis that the development of Upper Callerton will create a new market in this area and bring it on a par with Middle/Lower Callerton. Whilst our Client accepts that some new-build premium will happen at Upper Callerton and some new environment will be created, this would not be to the degree that would cause an uplift in revenues to £209/sq ft (£2,250/sq m).
- 3.19 The consequence is that not being able to achieve these values means a £60/sq m tariff at Upper Callerton would result in housing development not being able to be delivered.
- 3.20 Similar observations can be made with our Client's site in Kibblesworth and our previous representations to GMBC highlighted our concerns in this respect. Like Upper Callerton,

Kibblesworth is assumed to be able to generate revenues of £209/sq ft (£2,250/sq m) (a 'High-Mid' value), whilst in contrast the Hometrack reports submitted with our Client's representations shows that using new-build comparables, £146/sq ft (£1,571/sq m) can be achieved (using upper quartile figures).

This is more reflective of the GMBC's own Residential Values Profiles Maps which indicates Kibblesworth Village at a 'Mid' value area (£174/sq ft) (£1,894/sq m).

- 3.21 On this basis a revenue of £209/sq ft (£2,250/sq m) is clearly too high for the site and the subsequent CIL tariff of £60/sq m would make development unviable at Kibblesworth. Again, whilst our client accepts some new-build premium can be attached to its site in Kibblesworth, it will not be to the degree that would boost revenues to the levels assumed by GMBC. These observations also apply our client's sites at Crawcrook and Ryton and we look forward to discussing this in more detail at the examination.
- 3.22 In order to remedy this we recommend that the both NCC and GMBC reduce the CIL tariffs on these sites so that viability is not unduly affected and will not hinder the delivery of these sites.

c) What are the definitions of 'urban' and 'non-urban'?

- 3.23 Our understanding is that non-urban sites relate to those strategic housing sites ('SLR' sites) allocated within the CSUCP that are CIL liable, whilst 'urban' sites relate more to brownfield sites within the existing built up area of Newcastle and Gateshead.
- 3.24 Whilst our client does not necessarily have issues with examining 'urban' and 'non-urban' sites separately, there has to be a recognition that many of the SLR sites are not wholly unfettered or unencumbered when it comes to costs and site preparation. This is detailed further in response to the questions below and when examining Issue 4.

d) Have reasonable assumptions been made in relation to other factors affecting viability of residential development and up to date evidence use? Including:

- ***Remediation costs associated with brownfield sites;***
- ***Build costs;***
- ***Site acquisition fees;***
- ***S.106 costs;***
- ***Marketing costs;***
- ***Abnormals allowance;***

- ***Externals;***
- ***Developer's profit on affordable housing; and***
- ***Requirements in Policies CS16 and CS17.***

3.25 We consider some of these factors under separate sub-headings below. Whilst we do not provide direct commentary on all these factors, we reserve the right to provide additional comments on them at a later date and look forward to the general discussions surrounding these inputs at the relevant examination session.

S.106 Costs

- 3.26 We note that NCC and GMBC have provided different Regulation 123 lists outlining those pieces of infrastructure which are expected to be funded/part funded through CIL contributions and those that will remain as S.106 planning obligations.
- 3.27 It is obviously worth making the observation that those pieces of infrastructure which are still to be funded through S.106 planning obligations will be subject to the restrictions in pooling of contributions outlined with the April 2015 amendments to the CIL Regulations (2010).
- 3.28 We have previously outlined our client's misgivings in relation to the mix of CIL and S.106 contributions in our previous representations submitted to NCC and GMBC and that the current approach makes ascertaining the total planning obligations and CIL liability unclear and that in some areas such as education, there is some evidence of 'double dipping' whereby contributions towards primary education are sought as planning obligations and through CIL. We look forward to discussing this matter further at the relevant examination session.
- 3.29 From our understanding of the Regulation 123 lists and the both NCC and GMBC's adopted Planning Obligation SPDs a number of assumptions for S106 costs highlighted in the *Viability and Deliverability Report Annex (February 2016) (PO4)* are not accurate. This is particularly apparent for our client's site interest at Kenton Bank Foot where its portion of the site alone is likely to match; or possibly exceed the overall S.106 costs assumed by the NCC in this instance which is £10.4m. This significantly reduces that headroom assumption for the site and endangers its viability.

- 3.30 It is considered that these costs on top of a CIL tariff of £60/sq m makes the scheme unviable and as a result of this the CIL tariff associated with Kenton Bank Foot should be reduced to a lower level that would not endanger the delivery of the scheme.

Marketing Costs

- 3.31 We note in the latest version of the *Viability and Deliverability Report Annex (February 2016) (PO4)* maintains a marketing cost of 3.5%. Our client continues to object to this and believes that this is set too low and that a figure of 6% would be more realistic and consistent with the HCA's EVA Toolkit.
- 3.32 Whilst our client notes that larger sites may enjoy certain economies of scale, it is unlikely to be to the degree that would allow a reduction to 3.5% as this needs to include running show homes on site and taking into account staff wages as well as other costs. The strength of the housing market also needs to be taken into account and as the North East represents the weakest housing market in England, a higher figure than 3.5% is certainly justified.

Abnormals Allowance

- 3.33 Our representations to NCC's and GMBC's draft CIL charging schedules sought clarification on whether the allowance for abnormals takes into account the constraints facing many of the SLR sites.
- 3.34 Whilst many of these sites may initially appear unencumbered, it is in fact the case that several are affected by past mining activities which require specific technical solutions. Given the likelihood of having to take into account measures such as these as well as other issues such as land contamination (given the area's industrial past), then it needs to be certain that such elements are taken into account.
- 3.35 Our client's concern is that the current allowance for abnormals (even taking into account contingencies) would not be enough to take into account these factors and so should be revisited.
- 3.36 For instance there is acknowledgement within the CSUCP plan itself (paragraph 16.99) that Upper Callerton is reclaimed land following open cast mining and so will likely require detailed and intrusive ground works. Likewise investigations at Kenton Bank Foot, Ryton, Sunnyside and Kibblesworth have revealed that substantial ground works will also be needed with Sunnyside in particular have land contamination issues.

3.37 We note that the NCC and GMBC have sought to examine Gedling Borough Council as an example of how abnormals can be addressed. Whilst this is noted, it should be emphasised that Gedling Borough is substantially different in size and make up compared to Newcastle and Gateshead and so using it as a direct comparable on matters such as abnormals is not appropriate.

Requirements in Policies CS16 and CS17

3.38 We have previously highlighted in our representations our concern that the above policies have not been fully taken into account when considering viability. At the examination into the CSUCP much concern was raised on the additional costs these policies will have on development in the area. It is therefore crucial that these are factored into any viability modelling.

3.39 We note in the latest iteration of *Viability and Deliverability Report Annex (February 2016) (PO4)* that these policies are considered to be factored into the build cost. If this is the case, our client would contend that this is an unusual approach to taking into account these measures; especially as the policies are vague in some of their requirements (and therefore open to interpretation).

3.40 If they are indeed factored into the build costs then the assumptions for build costs and contingencies need to be appropriately increased to specifically take these policies into account and assume an appropriate 'worst case scenario'.

e) Do the appraisals for sheltered housing (assisted living) incorporate appropriate build costs and unit sizes?

3.41 Our client has no specific comments on make in relation to this question at this current time but reserves the right provide further representations in this area if it transpires that it will have an impact on our client's land interests in Newcastle and Gateshead.

f) What method has been used to produce the 'urban' and 'non-urban' typology appraisal results and the final headroom figures in Table 4.1 of the Annex Update (PO4)? In addition to the threshold values, what costs have been deducted from the residual values in the typology appraisals in Appendix 8 (shown as 'residualised price') to produce the final headroom figures in Tables

4.1? (the Council is requested to provide specific figures in relation to these additional costs, for each typology, as well as details of the general method).

- 3.42 We do not consider the figures used by NCC and GMBC in relation to the urban and non-urban typology appraisals to be accurate.
- 3.43 In many instances the calculations underestimate the true cost of development on our client's land interests in terms of S.106 and infrastructure. We look forward to discussing this with the other parties in more detail at the examination.

Concluding Remarks

- 3.44 As outlined in our Preamble above and in response to the overall question set in this session, if CIL Charging Schedules are to be adopted by NCC and GMBC, then it is imperative that these are clear and fair. There needs to be certainty for developers on how much CIL they are liable to pay and which obligations are to continue to be collected by other means (e.g. S.106). The evidence base also needs to be robust and transparent so that it is clear how both authorities have arrived at the CIL tariffs that are proposed.
- 3.45 The evidence base itself in many instances is opaque and it is not clear how NCC and GMBC have arrived at some of their assumptions. Nevertheless our client takes issue with a number of assumptions used and believes them to be incorrect in the context of their land interests. These are detailed in our responses to the specific questions set for this session.
- 3.46 All of which means that the imposition of a CIL tariff of £60/sq m on our client's land interests will make developing these sites unviable. Given the scope of our client's land interests, the inability to successfully develop out these sites will have a profound effect on NCC's and GMBC's ability to deliver its housing requirements as set out in the CSUCP. Consequently the CIL tariffs on our client's land interests need to be appropriately reduced.