



Shropshire Community Infrastructure Levy

Levy Rationale Background Paper March 2011

LEVY RATIONALE BACKGROUND PAPER

1. Legislative Requirements

- 1.1 The Planning Act 2008 enables a local planning authority to charge a Community Infrastructure Levy (CIL) in its area. In setting CIL rates, charging authorities must use “appropriate available evidence to inform the draft charging schedule” (section 212(4) of the Planning Act 2008) and comply with the CIL Regulations.
- 1.2 Regulation 14 of the Community Infrastructure Levy Regulations 2010 specifies: *“In setting rates....a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between –*
- (a) the desirability of funding from CIL (in whole or in part) the actual or expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and*
- (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.”*
- 1.3 The charging authority must also have regard to Statutory Guidance issued by the Secretary of State as required by section 221 of the Planning Act 2008. The Guidance requires the independent examiner to check that, “evidence has been provided that shows the proposed rate would not put at serious risk overall development of the area” (paragraph 9 of the “Charging setting and charging schedule procedure guidance” March 2010).
- 1.4 This background paper sets out how Shropshire Council has used “appropriate available evidence to inform the draft charging schedule”, including infrastructure evidence and economic viability evidence as required by the Regulations, and that the proposed Levy rates will not put at serious risk the development strategy for Shropshire. The evidence base documents are listed in Appendix A and are available on our website and on request.

2. Development in Shropshire

- 2.1 The Shropshire Core Strategy (adopted 24 Feb 2011) sets a development strategy that will deliver, “around 27,500 new homes, of which 9,000 will be “affordable housing”, up to 290 hectares of employment land, and accompanying infrastructure” (Policy CS1).
- 2.2 The Core Strategy seeks to reflect and deliver the Sustainable Community Strategy’s vision to ensure “strong market towns and rebalanced rural settlements”. This vision is reflected in the Core Strategy spatial vision and objectives, and a distribution of development that focuses “significant retail, office and employment development” in Shrewsbury, with around 25% of Shropshire’s residential development, with the 18 market towns and other key centres receiving around 40% of residential development and seeking to “maintain and enhance their traditional roles in providing services and employment” (Core Strategy Policies CS1, CS2 and CS3). The rural areas will

accommodate around 35% of residential development (significantly less than the 42% previously experienced over 1998-2008) with an emphasis on the “rural rebalance” approach that seeks to deliver community benefits in the form of contributions to affordable housing for local people and better facilities, services and infrastructure, to improve the sustainability of the rural area (Core Strategy Policies CS1 and CS4).

- 2.3 Infrastructure provision to accompany development is an integral part of Shropshire’s Local Development Framework and is a strong and recurring theme in the Core Strategy’s Spatial Vision, Strategic Objectives and Policies CS1, CS2, CS3, CS4, CS6, CS7, CS8, CS9, CS10, CS12, CS13, CS17 and CS18.
- 2.4 Infrastructure requirements at the time of the Core Strategy examination are detailed in the LDF Implementation Plan (July 2010). However, infrastructure needs will change over time, and therefore a commitment has been made to regularly update the LDF Implementation Plan. Furthermore, the LDF Implementation Plan has been developed into 18 ‘Place Plans’, centred on each of the 18 market towns and their hinterlands. These will be updated annually in March each year, and form the basis for discussing with communities and other stakeholders the infrastructure priorities for the year ahead. The CIL list of infrastructure to benefit from the Levy (Regulation 123) will be based on this annual review of the Place Plans, ensuring that it is directly linked to the Local Development Framework. The annual process is set out in the Developer Contributions SPD and accompanying Code of Practice.
- 2.5 Although there is no statutory requirement to publish any Regulation 123 CIL infrastructure list, Shropshire Council intends to publish its first annual CIL infrastructure list before the Charging Schedule comes into effect, and annually in March / April each year thereafter.
- 2.6 Shropshire’s character, with a large number of medium and small settlements, results in a large number of relatively small to medium scale infrastructure projects. Many settlements will have relatively little development, but nevertheless local infrastructure to support that development is key to ensuring that the development does not have an adverse impact and helps make those settlements more, rather than less, sustainable.

3. Infrastructure requirements and funding gap

- 3.1 The Statutory Guidance requires the charging authority to identify an aggregate infrastructure funding gap, informed by a selection of infrastructure projects or types which are indicative of the infrastructure likely to be funded by CIL in that area (paragraphs 12-18, CIL Guidance March 2010).
- 3.2 The infrastructure needs identified in the 18 Place Plans at March 2011 have been used to inform the Charging Schedule, as the most up-to-date infrastructure plans and those that will be used to inform the preparation of the Site Allocations and Management of Development DPD (submission expected 2012).
- 3.3 The Place Plans include infrastructure that is funded by a variety of means. Only a subset will be eligible for developer contributions through the CIL, and only some of

these will in turn be identified as annual priorities on the Regulation 123 CIL list as explained in paragraph 2.4 above. The starting point for the indicative list of infrastructure schemes has been section 216 of the Planning Act 2008, which defines infrastructure as:

“including:

- (a) roads and other transport facilities,
- (b) flood defences,
- (c) schools and other educational facilities,
- (d) medical facilities,
- (e) sporting and recreational facilities,
- (f) open spaces”

3.4 The implication of the term “including” in section 216 of the Planning Act is that local planning authorities may add to this list as they think fit. As a result of consultation with infrastructure providers, police stations and the electricity supply for Whitchurch have been added to the Shropshire list. The aggregate indicative funding gap is as shown in table 1 below.

Table 1: Aggregate funding gap for indicative infrastructure requirements

	Est. total cost	Funding Gap
ROADS AND TRANSPORT FACILITIES		
Sustainable transport facilities, including bus, train, cycle and pedestrian facilities (for details see Appendix B)	£39,500,000	£37,300,000
Shrewsbury urban traffic management control system	£7,000,000	£5,000,000
Shrewsbury speed and safety enhancements	£1,500,000	£1,500,000
Urban traffic management measures in the other market towns and key centres (details in Appendix B)	£7,750,000	£2,000,000
Rural highway improvements	£120,000,000	£120,000,000
A5 junction improvements at Shrewsbury and Oswestry (details in Appendix B)	£9,750,000	£9,750,000
Inner Relief Road (Phase 3) Market Drayton	£2,000,000	£1,000,000
FLOOD DEFENCES		
Surface Water Management Plans for Oswestry, Church Stretton, Craven Arms, Shifnal and Shrewsbury and an Integrated Drainage Management Plan for Much Wenlock.	£800,000	£800,000
SCHOOLS AND OTHER EDUCATIONAL FACILITIES		
Schools and other educational facilities (see Appendix B for assumptions)	£61,000,000	£61,000,000
MEDICAL FACILITIES		
4 new GP surgeries over 2011-2026 (for details see Appendix B)	£7,056,000	£7,056,000
SPORTING AND RECREATIONAL FACILITIES		
Church Stretton multi-purpose health & wellbeing centre	£812,000	£462,000

Oswestry Powys Hall	£180,000	£70,000
Village halls, assumed 1 built per annum over 15 years (2011-2026), at a cost of £450,000 each	£6,750,000	£6,750,000
Outdoor Sport Provision (based on the average rate in the adopted Interim Planning Guidance (IPG) on Open Space, Sport and Recreation of £3,934 per dwelling, assuming 3 beds per dwelling & excluding maintenance, x 21,600 homes ¹)	£84,974,400	£84,974,400
Formal childrens' play space (IPG average of £560.18 per dwelling, assuming 3 beds per dwelling & excluding maintenance, x 21,600 homes)	£12,099,888	£12,099,888
OPEN SPACES		
Amenity Green Space (IPG average of £64.51 per dwelling, assuming 3 beds per dwelling & excluding maintenance, x 21,600 homes)	£1,393,416	£1,393,416
Natural and semi-natural open space (IPG average of £274 per dwelling x 21,600 homes)	£5,918,400	£5,918,400
POLICE STATIONS		
Bridgnorth police station	£3,000,000	£3,000,000
Cleobury Mortimer	£125,000	£125,000
Craven Arms	£2,500,000	£2,500,000
Ellesmere refurbishment	£250,000	£250,000
Oswestry replacement station	£2,500,000	£2,500,000
Shrewsbury replacement station	£16,000,000	£16,000,000
ELECTRICITY SUPPLY		
Forward-funding of Whitchurch's electricity capacity upgrade	£4,400,000	£4,400,000
TOTAL		
	£396,459,000	£385,459,000

Sources: 'Place Plans March 2011', LDF Implementation Plan (July 2010) and the Local Transport Plan evidence base

- 3.5 If the aggregate funding gap is £385,459,000 is divided by the number of homes planned for 2010-2026¹, this equates to approximately £17,800 per dwelling. Shropshire Council intends to use the CIL to contribute to these infrastructure costs.

4. Economic viability considerations

Methodology

- 4.1 Research into the economic viability of development in Shropshire and a viable level of CIL was carried out for Shropshire Council by Fordham Research and reported in

¹ At 31st March 2010, 4,711 dwellings had been completed (LDF Annual Monitoring Report December 2010). Assuming provision of 1,177 homes over 2010/11 (based on the 2006-2010 average delivery of new homes), the planned provision for 2011-2026 is approximately 21,600 homes (27,500 - 4,711 - 1,177).

the “Analysis of CIL and Affordable Targets” (August 2010). The effect on viability of affordable housing contributions and sustainable design requirements is built into the study. It assumes an affordable housing contribution of 20%, which is significantly higher than the actual affordable housing prevailing target rate for 2011/12 of 13%. Furthermore it assumes building to Code for Sustainable Homes Level 3 in its construction costs².

- 4.2 While the viability studies are thorough and authoritative, they recognise a number of significant limitations that need to be taken into account in applying their results to the decision on an appropriate Levy rate. Firstly, the viability assessments reflect one point in time. It is reasonable to assume that market conditions will change. Variables include market prices (gross development value), construction costs, land values and finance costs, amongst others. Sensitivity analysis indicates that the greatest influence on viability is market prices³.
- 4.3 Deterioration in market prices, as has occurred for a number of types of development in Shropshire in recent years, has a significant impact on viability. For example, dynamic viability (detailed in Shropshire Council’s Type and Affordability of Housing SPD) has resulted in a reduction in the affordable housing prevailing target rate from 20% in 2010/11 to 13% in 2011/12.
- 4.4 A key test in determining an appropriate level of CIL is that the proposed rate would not put at serious risk overall development of the area. It is therefore important to consider what impact a deterioration in the market in future will have, and reasonable that Shropshire Council reflects this possibility when determining Levy rates.
- 4.5 The viability studies also recognise the inherent variability of developments. The more variable a dataset, the less useful is the average as an approximation of the data. The assessment of possible Levy rates is effectively generating an average in a highly variable dataset, which should be used with caution in the knowledge that half of sites will have a viability of less than the average.
- 4.6 In assessing the potential effects of the imposition of CIL on the economic viability of development we will first consider the viability study results, and then adjust for sensitivity to changing conditions and variability amongst developments. This is consistent with the statutory Guidance, which recommends that, “Charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area. Charging authorities should also seek to illustrate, using appropriate available evidence, that their proposed charging rates would be robust over time. In setting a CIL rate, charging authorities will need to bear in mind that the economic circumstances and land values could change significantly during the lifetime of the charging schedule.”⁴
- 4.7 The viability studies assessed how much CIL development can bear, assessed by calculating how much *additional profit* was available on developments, over and above the normal developer profit, using the calculation:

² Section 5 of the Affordable Housing Viability Study April 2010

³ Planning Advisory Service Viability Handbook, available at www.pas.gov.uk

⁴ Paragraph 29, “Charge setting and charging schedule procedures” Guidance

Additional profit =	Gross Development Value (The combined value of the complete development)	LESS	Cost of creating the asset (land + landowner profit at £75,000 ⁵ per acre + construction costs + fees + finance charges + developers profit at 17.5%-20% of costs)
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4.8 The results of the viability studies are considered in turn for commercial and industrial development; for other use classes including retail; and for residential development.

Commercial and industrial development

4.9 The research found that much commercial and industrial development is not viable in the current difficult economic climate, particularly small developments and those on brownfield sites. For large developments on greenfield sites, a possible CIL rate of £20 / m2 could be achieved for industrial developments, with office developments more variable by location, as shown in table 3 below.

Table 3 Maximum levels of CIL <u>now</u> in Shropshire in £ per sq m					
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office >2,500 sq ft</i>	<i>Small office < 2,500 sq ft</i>
Bridgnorth	Greenfield	20	0	220	0
	Brownfield	0	0	17	0
North Shropshire	Greenfield	20	0	0	0
	Brownfield	0	0	0	0
Oswestry	Greenfield	20	0	0	0
	Brownfield	0	0	0	0
Shrewsbury & Atcham	Greenfield	150	0	410	110
	Brownfield	0	0	205	0
South Shropshire	Greenfield	20	0	55	0
	Brownfield	0	0	0	0

Source: Table 6.3 "Analysis of CIL and Affordable Targets" (August 2010) Fordham Research

4.10 Any viability study is an approximation of reality, which will vary greatly from site to site, and an element of error should be assumed as a result. It is therefore preferable to not set Levy rates too close to the maximums indicated in the study. A "safe" Levy rate that is somewhat below the ceiling of the "maximum" Levy rate is a matter of judgement. £20/m2 is considered too marginal to be within the margin of error of

⁵ It is recognised that in reality 'landowner profit' and therefore land cost depends on willingness to sell / expectations, but it is considered that the calculation's assumptions are reasonable for the purposes of viability assessment.

viability studies and therefore a nil Levy rate is considered by Shropshire Council to be a sensible and pragmatic response in relation to developments where the capacity to carry CIL is low.

- 4.11 The study showed that there is potential capacity for some CIL on developments of large offices on greenfield sites in the former Bridgnorth District, South Shropshire District and Shrewsbury and Atcham Borough areas. In addition, small offices on brownfield sites in Shrewsbury could carry some CIL. However, the consultants urged caution as the commercial property market remains highly volatile and uncertain.
- 4.12 The Council undertook further analysis of the viability results in Appendix 5 of the study to test the impact of a reduction of 20% in market prices. This produced the results shown in Table 4 below. Viability is greatly affected, with only large offices on greenfield sites in the former Shrewsbury and Atcham Borough area remaining viable. If market prices were to reduce by 25%, even large offices in Shrewsbury would cease to be viable. Given the uncertainties inherent in the current economic climate, these scenarios merit consideration.

Table 4 Capacity to carry CIL with 20% reduction in market prices (£ per sq m)					
		<i>Large industrial</i>	<i>Small industrial</i>	<i>Large office >2,500 sq ft</i>	<i>Small office < 2,500 sq ft</i>
Bridgnorth	Greenfield	0	0	0	0
	Brownfield	0	0	0	0
North Shropshire	Greenfield	0	0	0	0
	Brownfield	0	0	0	0
Oswestry	Greenfield	0	0	0	0
	Brownfield	0	0	0	0
Shrewsbury & Atcham	Greenfield	0	0	64	0
	Brownfield	0	0	0	0
South Shropshire	Greenfield	0	0	0	0
	Brownfield	0	0	0	0

Source: Shropshire Council further analysis of Appendix 5 results from the "Analysis of CIL and Affordable Targets" Study (August 2010) Fordham Research

- 4.13 The Council must consider the potential effects of the Levy on the delivery of the development strategy, and this is considered further in section 6. Consultation on the Preliminary Draft Charging Schedule revealed a great deal of support for a nil Levy on land uses that create employment⁶.

⁶ Paragraphs 3.47, CIL Statement of Consultation (March 2011)

Other land use classes

4.14 For many land uses, only a small number of developments, if any, occur each year. It is not possible to achieve a sufficiently large sample to provide “typical” results. When small numbers are combined with high variability it is questionable what evidence can be collected that has any meaningful value. Nevertheless Shropshire Council commissioned Fordham Research to advise on the scope for charging CIL on hotels, residential institutions, community / institutional uses, leisure, agricultural and retail uses. With the exception of retail, the consultants were not asked to undertake detailed viability assessments as a broad indication of viability was considered sufficient and consistent with the spirit of the Guidance.

4.15 Their report, “Further Analysis of CIL (Retail)” (February 2011) the consultants advised:

- Agricultural development is generally minor. Relatively few agricultural applications require planning permission, and the majority would not be treated as development for the purposes of section 208 of the Planning Act 2008 in relation to liability for the Community Infrastructure Levy, as they are buildings into which people do not normally go.
- Agricultural diversification projects will be considered under the appropriate end use – ie. industrial, office, etc.
- Hotels and leisure - the very low level of activity either at the planning stage or the construction stage, and the number of unimplemented planning consents, are an indication that the sector is at the margins of viability at the moment.
- Village halls – whether considered as community or leisure buildings, these are rarely viable in purely commercial terms. Development is normally subject to grant funding, and many strive to break even.
- Leisure developments cover a wide range such as gymns, equestrian developments, golf club houses, outdoor pursuits centres, etc and a Levy rate that was designed for one type could have unwelcome effects on other businesses. The consultants pointed out that there would need to be numerous different charging rates for the different types of development which would be against the spirit of the CIL regulations. This sector could be revisited should the market improve or change markedly in the future.
- Residential institutions – the consultants advised that they do not believe that it is viable to levy CIL on this sector at the moment, given current market values in relation to construction and other costs.
- Community / institutional uses, such as medical, health or educational uses, are predominantly brought forward for development by the public sector or by not-for-profit organisations. The Council notes that such uses are identified in its Place Plans as potential beneficiaries of the Levy and consequently it seems perverse to subject them to the Levy.
- Sui generis uses – the “Further Analysis of CIL (Retail)” report has considered typical uses that are likely to occur in Shropshire. The statutory guidance recognises that available data is unlikely to be fully comprehensive or exhaustive, and that there is room for some pragmatism⁷.

⁷ Paragraphs 23 and 27, “Charge setting and charging schedule procedures” Statutory Guidance

4.16 For retail developments, the results of the viability study are as shown in table 5 below.

Table 5 Appraisal Results showing potential CIL payment £ per m2					
	<i>Town Centre Shop</i>	<i>Smaller Shed</i>		<i>Larger Shed</i>	
		<i>Food Store</i>	<i>Bulky Goods</i>	<i>Food Store</i>	<i>Bulky Goods</i>
Greenfield					
Central Shrewsbury					
Outer and Market Towns		349	0	248	0
Rural		133	0	248	0
Brownfield					
Central Shrewsbury	0				
Outer and Market Towns	0	23	0	0	0
Rural	0	0	0	0	0

Source: Fordham Research 2011

4.17 Retail development in general is not able to sustain a Levy on brownfield sites. Given the number of empty shops currently vacant in Shropshire's market towns, this should not be a surprise. The Council undertook an additional sensitivity analysis assuming a 10% reduction in market rents. The results in table 6 below show a significant reduction in viability if market rents drop.

Table 6 Capacity to carry CIL with 10% reduction in market prices (£ per sq m)					
	<i>Town Centre Shop</i>	<i>Smaller Shed</i>		<i>Larger Shed</i>	
		<i>Food Store</i>	<i>Bulky Goods</i>	<i>Food Store</i>	<i>Bulky Goods</i>
Greenfield					
Central Shrewsbury					
Outer and Market Towns		20	0	9	0
Rural		0	0	9	0
Brownfield					
Central Shrewsbury	0				
Outer and Market Towns	0	0	0	0	0
Rural	0	0	0	0	0

Source: Shropshire Council further analysis of Appendix 4 in Fordham Research's report "Further Analysis of CIL (Retail)"

Residential development

4.18 The "Analysis of CIL and Affordable Targets" (Fordham Research, August 2010) concluded that the maximum levels of CIL that could be charged on residential developments were as shown in table 7 below.

Table 7: Additional profit per square metre for residential developments		
	<i>CIL on all homes, with 20% affordable housing contribution</i> <i>£ per m2</i>	<i>Adjusted* to net out profit and for nil CIL on affordable homes</i> <i>£ per m2</i>
Shrewsbury Average	189	199
Market towns Average	182	193
Rural Average	203	213

Source: Tables 4.8, 4.10 Fordham Research "Analysis of CIL and Affordable Targets" August 2010

*Worked example showing adjustment: For the Royal Hospital Site, Shrewsbury: the additional profit figure of 189 contained 18.5% profit on cost. This is removed by dividing (1 + 0.185) to give 159. However the 159 covered all dwellings including affordable at 20%. To adjust for this, 159 was divided by 80% (0.8) to give 199 for market dwellings only.

- 4.19 The "Analysis of CIL and Affordable Targets" report used the Affordable Housing Viability Study (AHVS) as its basis. The AHVS uses a sample of 20 sites that were carefully selected to represent a range of types and sizes of developments across a very varied county. The AHVS modelled the impact of a +10% increase and a -10% decrease in market prices⁸. This sensitivity analysis showed that, while a market improvement results in a significant improvement in viability, a market deterioration results in a significant worsening. The LDF monitoring report (December 2010) noted that the house price index dropped by -1.1% between the date of the AHVS report (November 2008) and the Quarter 3 2010 value, whilst construction costs rose by +2.3%⁹. In light of this drop in viability, the Council's prevailing target rate for affordable housing contributions has dropped from 20% in 2010/11 to 13% in 2011/12. While the market is expected to improve over the medium term, the direction of travel for the viability of residential developments in the past two years gives rise to caution in setting the Levy rate.
- 4.20 Comments received on the Preliminary Draft Charging Schedule¹⁰ suggested that £40/m² was, "generally reasonable and realistic for urban sites". Discussions with the development industry suggested that a rate of £40/m² would be unlikely to have a detrimental effect.
- 4.21 While both large and small developers did not raise too many objections to a £40/m² Levy rate, there was significant objection to a £120/m² Levy rate, as higher than the market can bear. Interestingly, although £120/m² was considered highly likely to undermine development viability and to deter delivery of new homes, developers generally accepted that a differential Levy rate between the towns and the rural areas was reasonable in principle. However, a very high differential was widely regarded as likely to result in lower delivery of housing in the rural area.

⁸ Table 6.5, Shropshire Affordable Housing Viability Study (April 2010).

⁹ Page 32, Shropshire LDF Annual Monitoring Report: based on the Halifax House Price Quarterly Index (seasonally adjusted) for the West Midlands and the RICS Build Cost Index

¹⁰ CIL Statement of Consultation (March 2011) and the Summary of Responses (March 2011)

4.22 The results in table 7 indicate that the rural areas can sustain a higher levy than Shrewsbury and the market towns. To supplement the Fordham Study we have analysed house price data, as shown in table 8 below.

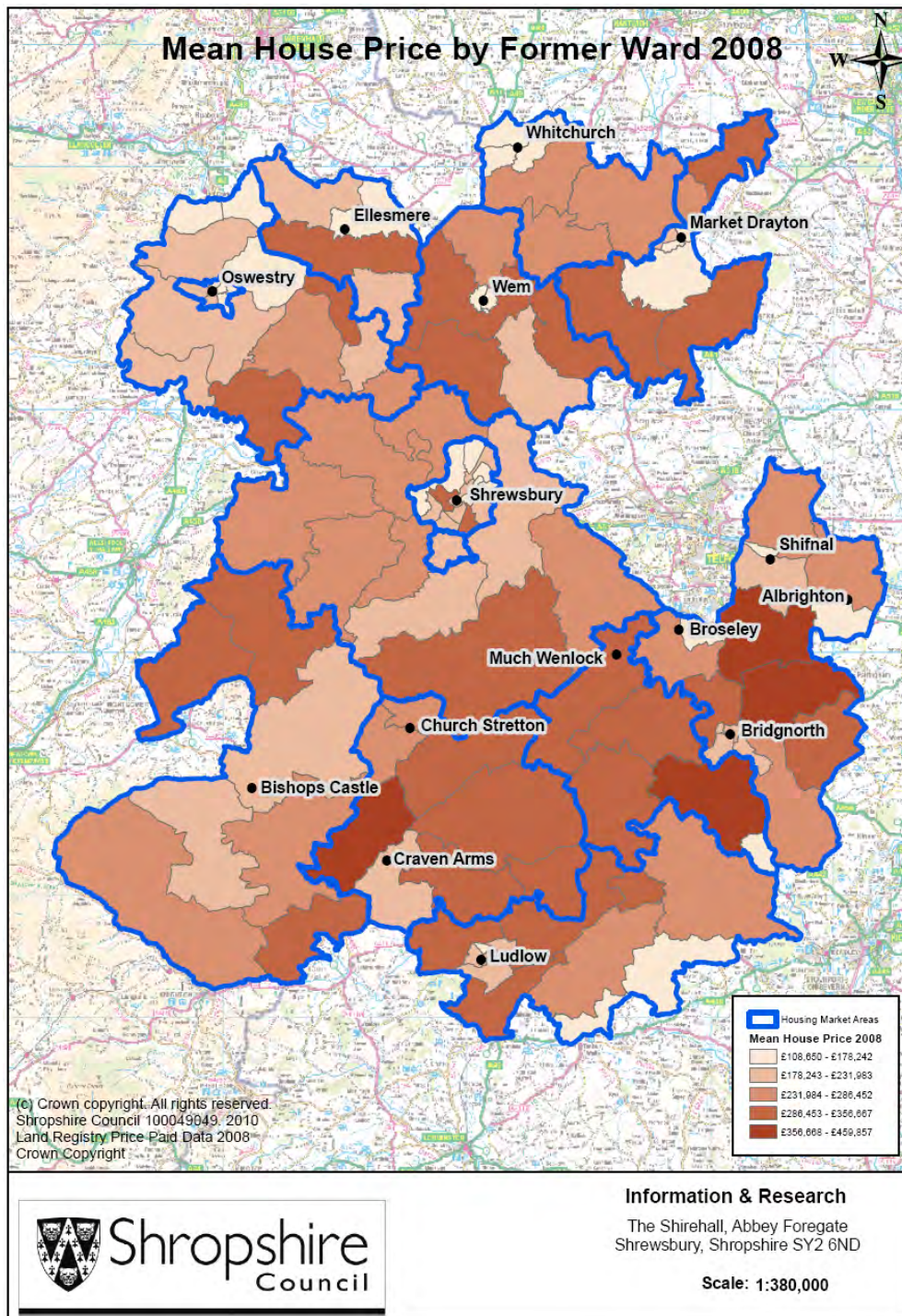
Table 8: House prices in Shropshire by geographical zones

	Mean New Build	Mean All Built
Shrewsbury	£163,622	£183,015
All market towns	£181,623	£173,397
Rural	£233,931	£249,956

Source: Land Registry all completed sales in Shropshire 1st January 2009 – 30th September 2010 (5,626 sales, of which 538 were new build)

4.23 The mean price of new housing in the rural area was over £52,000 more than the mean price in the market towns and over £70,000 more than the mean price in Shrewsbury. This supports Fordham Research's findings that a higher CIL rate is viable in the rural areas. As viability is highly sensitive to market prices, it is reasonable to assume that viability, and hence capacity for CIL, is significantly higher in the rural area.

4.24 Data from 2008 is shown graphically in the House Price "heat map" below.



4.25 The value of land varies between the key centres and the rural area, with higher values in the key centres reflecting greater “hope” value that planning permission for development will be forthcoming. Sites in the rural area, particularly in defined “countryside”, would not normally be granted planning permission for open market development and this fact is reflected in lower land values. Development that does occur is therefore often a financial “windfall” with very healthy profit levels.

4.26 Furthermore, development of land in villages is subject to very different planning policies from that in towns. Core Strategy Policy CS4 requires much higher community benefit to be provided by developers in villages. Core Strategy Policy

CS4 will provide new opportunities for development in villages that are identified as Community Hubs or Community Clusters, if they provide sufficient community benefit, and together these two aspects of Policy CS4 should reduce landowners' expectations regarding the value of their land. The economic viability of sites in villages is therefore quite different from that of towns, even when they are in relatively close geographic proximity.

Affordable housing

- 4.27 The Council's definition of "affordable housing" is contained in the Type and Affordability of Housing SPD (March 2011). It includes intermediate affordable housing for sale. On mixed sites, this is valued at a multiplier of average household incomes, with a maximum of x 3.75 median gross household income. At 2009 household incomes this is equivalent to a property price of approximately £116,000 (3.75 x £31,000). On exception sites, an owner-occupied affordable home is valued at around £140,000, based on construction and land costs. Furthermore, intermediate affordable housing is limited in its future value by a legal agreement, thereby reducing the potential to offset any immediate financial loss on a development with the longer term financial gain expected from a rising housing market. In light of their limited price both in the short and longer term, these properties are not considered economically viable (as defined by the usual economic viability models), and therefore their capacity to bear CIL is considered to be nil.

5. Context for assessing an 'appropriate balance'

- 5.1 The decision to apply a Community Infrastructure Levy at all reflects a judgement by the Council that the Levy is an appropriate mechanism for raising revenue for infrastructure (for certain types of development) in the Shropshire context. The Levy is particularly appropriate for obtaining standard contributions from a large number of small scale developments. In Shropshire, around 60% of new dwellings over the ten years 1998-2008 were on sites of less than 5 dwellings, and the Levy offers greatest potential for ensuring that this category of development in particular contributes to the cumulative effect of development on the need for infrastructure.
- 5.2 Also important to the decision by the local authority to use the Levy is its effect on communities. Public concern that infrastructure should accompany development is often directed particularly against residential development. The introduction of the Levy may therefore actively reduce public objections to new housebuilding. To the extent that the Levy makes development acceptable to the local community where it previously may not have been acceptable, it enables development that otherwise would not have taken place.
- 5.3 Shropshire Council is currently preparing its Site Allocations and Management of Development DPD (SAMDev) to ensure that sufficient land is identified to deliver the Core Strategy. The existence of a Levy facilitates discussion with local communities on the quantity of development, infrastructure requirements and measures to improve sustainability in each settlement. The Core Strategy explicitly ties infrastructure to new development in many policies, with a particularly strong association in rural areas (Policy CS4) where it is recognised that development needs to work harder to ensure that it improves the sustainability of rural communities.

- 5.4 In this context Shropshire Council recognises that the Levy has desirable impacts on infrastructure and potentially on achieving a more positive approach from communities towards development. However, this has to be weighed against potential adverse impacts on the viability of development, and the impact of the Levy on delivery of the development strategy.

6. Balance of considerations

- 6.1 Shropshire is a large and varied county, and it is no surprise that the balance of considerations is not uniform in all parts of Shropshire, nor for all types of development. In this context, the weighing of the positive impact on infrastructure against the potential negative impact on development viability, and their impact on the development strategy for Shropshire, clearly differs by type and location of development. For example, a reduction in development in the rural area would not put at serious risk the development strategy, which seeks a reduction in rural residential development compared to past trends. However, a reduction in development in the market towns and other key centres and in Shrewsbury would be far more detrimental to the Shropshire development strategy. Similarly, a significant reduction in economic development would jeopardise delivery of the Shropshire development strategy, and delivery of the Sustainable Community Strategy and the Core Strategy Spatial Vision. Consequently the effect of the Levy on delivery of the development strategy for Shropshire varies by type and location of development.
- 6.2 The statutory Guidance requires that a charging authority's proposed CIL rate (or rates) should, "appear reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence...there is room for some pragmatism"¹¹.

Employment related and other developments

- 6.3 Developments that provide jobs, services and facilities, such as shops, leisure facilities or employment-related developments, are often considered by the public as infrastructure or as bringing benefit in themselves. Of course, these developments also have impacts, for example on traffic/roads, and these are usually addressed through consideration of the planning application.
- 6.4 The development strategy seeks to, "*plan positively to develop and diversify the Shropshire economy supporting enterprise, and seeking to deliver sustainable growth and prosperous communities*" (Core Strategy Policy CS13). The strategy places particular emphasis on, "*developing (Shrewsbury's) role as the county town, growth point and the main business, service and visitor centre for the Shropshire sub-region, in accordance with Policy CS2, and supporting the revitalisation of Shropshire's market towns, developing their role as key service centres, providing employment and a range of facilities and services accessible to their rural hinterlands, in accordance with Policy CS3*" (Core Strategy Policy CS13).

¹¹ Paragraph 27, "Charge setting and charging schedule procedures" Statutory Guidance

- 6.5 Any reduction in employment related development would adversely impact upon Shropshire's development strategy. In light of viability evidence, the results of consultation and the Council's balance of considerations, it appears to Shropshire Council that the desirability of funding from CIL is outweighed by its potential impacts on economic viability of development and on the development strategy, and consequently the Levy rate for these uses is set at nil.
- 6.6 The development strategy places an emphasis on "*supporting rural enterprise and diversification of the economy, in particular areas of economic activity associated with agricultural and farm diversification, forestry, green tourism and leisure*" and seeks to support, "*initiatives and development related to the provision of higher/further education facilities*" (Core Strategy Policy CS13). For these and sui generis uses the Council similarly considers that the risk to the development strategy of imposing a Levy is unjustifiably large, and the desirability of funding from CIL is outweighed by the potential impact of a Levy. Consequently the Levy rate for these uses is set at nil.
- 6.7 Should there be a significant improvement in any of these markets in future years, the Charging Schedule will be reviewed.

Residential developments

- 6.8 The economic viability evidence and policy considerations suggest that it would be appropriate, at least initially, to introduce the Levy for residential developments only. In Shrewsbury, the market towns and other key centres the current economic downturn and the Council's emphasis on market town revitalisation suggests that it would be appropriate to set a Levy rate that is not too high.
- 6.9 To deliver prosperity in Shrewsbury, the Core Strategy seeks a significant level of housing and economic growth linked to infrastructure improvements (Policy CS2: Shrewsbury Development Strategy). Market town revitalisation will be assisted by development supported by improvements in infrastructure (Core Strategy Policy CS3: Market Towns and Other Key Centres). In setting the Levy rate at £40/m², the Council has had regard to the desirability of economic development and regeneration in Shropshire's towns and other key centres and the need for the Levy to not jeopardise these objectives.
- 6.10 In rural Shropshire there is evidence that the economic viability of residential development is stronger than in the towns and key centres, and can support a higher Levy rate of £80/m². This is considered unlikely to jeopardise the development strategy, which seeks a lower proportion of development in rural areas over the period 2006-2026 (at 35%) than has occurred over 1998-2008 (42%).
- 6.11 Furthermore, Core Strategy Policy CS4 seeks market housing in the rural area to make "*sufficient contribution to improving local sustainability.... by delivering community benefits in the form of contributions to affordable housing for local people and contributions to identified requirements for facilities, services and infrastructure.*" The Core Strategy approach recognises that rural areas require greater investment in infrastructure if communities are to become more sustainable. In essence, the balance between the desirability of funding from the Levy in order to improve rural

sustainability on the one hand, and the impact of the imposition of the Levy on the other, is weighted more heavily in favour of the former in the rural areas.

- 6.12 In assessing the impact of the Levy, it should be made clear that the Levy is ultimately borne by the landowner, as developers set the sale price of their properties by local market values rather than the cost of development. Developers reflect their costs, including the cost of the Levy, in the price that they bid for land, and therefore the crucial question is whether there are sufficient landowners willing to bring their land forward for development at a lower price.
- 6.13 At 12 homes to the acre (30/hectare), and an average Levy of £4,000 per dwelling, there should be a reduction of £48,000 per acre. With average land prices (with the benefit of planning permission) of between £1 million - £1.5 million per acre¹² the Levy represents an approximate reduction in land value of between 3% and 5%. At an average Levy of £8,000 per dwelling, there should be a reduction in land value of £96,000 per acre, equivalent to a reduction in land value of between 6% and 10%.
- 6.14 The amount at which a landowner is willing to release their land for development varies widely, in the region of between £25,000 per acre to over £250,000 per acre, but broadly a landowner "profit" of £75,000 per acre is usually sufficient for land to come forward for development¹³. Whether a landowner can realise this uplift in value depends upon the current land use value. It is noted that a significant amount of land in Shropshire remains at agricultural use value.
- 6.15 Land supply and the degree of competition between landowners are central to assessing the impact that the Levy may have on the delivery of development. The Core Strategy provides a framework for a plentiful land supply in Shrewsbury (Core Strategy Policy CS2), the market towns and other key centres (Policy CS3) and the rural area (Policy CS4). The Site Allocations and Management of Development DPD that is currently in preparation (submission expected 2012) will provide greater certainty about land supply by allocating sufficient land to deliver at least 27,500 homes over the plan period as required by Core Strategy Policy CS1.
- 6.16 In the rural area, the development strategy (Core Strategy Policy CS4) explicitly recognises the contribution that development brings to making rural communities more sustainable, including its contribution to affordable housing and infrastructure. The higher the developer contributions are, the more impact development will have on improving a rural community's sustainability. The level of developer contributions is therefore expected to have a direct impact on decisions by communities regarding whether or not they wish to put themselves forward as settlements for development, namely Community Hubs or Community Clusters, in which a suitable scale of market development will be allowed.
- 6.17 The Council considers that there is sufficient land supply in Shropshire with an attractive 'uplift' in value that delivery of development will not be jeopardised by the imposition of a Levy at the rates of £40/m² in the towns and other key centres and £80/m² in the rural areas.

¹² paragraph 4.24, "Shropshire Affordable Housing Viability Study" (AHVS)

¹³ paragraph 6.17 – 6.18, AHVS

7 Charging Zones

- 7.1 The Preliminary Draft Charging Schedule proposed that the boundary between the towns and other key centres charging zone, and the rural charging zone, is defined by the development boundary. Land values beyond development boundaries are generally lower, as planning permission is far less likely to be forthcoming, whilst house prices are generally significantly higher, resulting in higher profitability (and capacity to carry a higher Levy) where planning permission can be obtained. However, the forthcoming Site Allocations and Management of Development DPD (SAMDev) will redraw the development boundaries, and the development economics of sites on the edge of towns and key centres is already beginning to shift in anticipation. The viability boundary (reflecting land value expectations in particular) is effectively moving outwards in expectation of new allocations of land for development on the edge of the towns and key centres.
- 7.2 Comments were received as part of the consultation on the Preliminary Draft Charging Schedule that land on the edge of settlements should be included in the £40/m² Levy rate. To provide certainty and to 'future proof' the Charging Schedule, the charging zone boundaries have been moved beyond the development boundaries by a reasonable distance. This is without prejudice to decisions on future development boundaries to be made through the SAMDev process.
- 7.3 The charging zone boundaries have been drawn so that the vast majority of sites that have been put forward for consideration through the SAMDev process are within the town and key centres charging zone. No bias towards particular sites can or should be inferred from the charging zone boundaries. Wherever possible they follow a geometric shape, roughly resembling the existing development boundaries with the addition of a generous buffer.
- 7.4 Where rural villages or hamlets lie close to a town or key centre, the charging zone boundary has been drawn so that they fall within the rural charging zone. This is for consistency of treatment with other rural villages and hamlets that are subject to the Core Strategy Policy on Community Hubs and Community Clusters (Policy CS4) or Countryside (Policy CS5).

APPENDIX A: EVIDENCE BASE

Evidence that has informed the Levy rate includes:

Infrastructure Evidence

LDF Implementation Plan July 2011

Albrighton & Surrounding Area Place Plan March 2011
Bishops Castle & Surrounding Area Place Plan March 2011
Bridgnorth & Surrounding Area Place Plan March 2011
Broseley & Surrounding Area Place Plan March 2011
Church Stretton & Surrounding Area Place Plan March 2011
Cleobury Mortimer & Surrounding Area Place Plan March 2011
Craven Arms & Surrounding Area Place Plan March 2011
Ellesmere & Surrounding Area Place Plan March 2011
Highley & Surrounding Area Place Plan March 2011
Ludlow & Surrounding Area Place Plan March 2011
Market Drayton & Surrounding Area Place Plan March 2011
Minsterley & Surrounding Area Place Plan March 2011
Much Wenlock & Surrounding Area Place Plan March 2011
Oswestry & Surrounding Area Place Plan March 2011
Pontesbury & Surrounding Area Place Plan March 2011
Shifnal & Surrounding Area Place Plan March 2011
Shrewsbury & Surrounding Area Place Plan March 2011
Wem & Surrounding Area Place Plan March 2011
Whitchurch & Surrounding Area Place Plan March 2011

Economic Viability Evidence

Analysis of CIL and Affordable Targets, Fordham Research, August 2010

Further Analysis of CIL (Retail), Fordham Research, February 2011

Affordable Housing Viability Study, Fordham Research, April 2010

Shropshire Council sensitivity analysis of commercial, industrial and retail models

Land Registry House Price data

Results of Consultation

Shropshire CIL Statement of Consultation March 2011

Consultation on PDCS Summary of Responses March 2011

These documents are available on our website and on request from planning.policy@shropshire.gov.uk or by telephoning 0345 6789004

APPENDIX B: EVIDENCE BASE ON INFRASTRUCTURE FUNDING TARGET**TRANSPORT**

Indicative Infrastructure	Est. total cost	Funding Gap
Sustainable transport facilities, including bus, train, cycle and pedestrian facilities		
Redesign/relocations of Shrewsbury bus station	£2,000,000	£2,000,000
Bus infrastructure improvements and bus priority measures in Shrewsbury	£2,000,000	£1,000,000
Development of fourth Park and Ride site at Shrewsbury	£4,000,000	£4,000,000
Bus priority measures and improvement of core bus network and related infrastructure in Oswestry	£2,500,000	£2,500,000
Bus hubs, network improvements and bus priority measures in:	£500,000	£500,000
Albrighton	£250,000	£250,000
Bishops Castle	£500,000	£500,000
Bridgnorth	£100,000	£100,000
Broseley	£500,000	£500,000
Church Stretton	£100,000	£100,000
Cleobury Mortimer	£250,000	£250,000
Craven Arms	£500,000	£500,000
Ellesmere	£100,000	£100,000
Highley	£500,000	£500,000
Ludlow	£500,000	£500,000
Market Drayton	£250,000	£250,000
Minsterley & Pontesbury	£500,000	£500,000
Much Wenlock	£500,000	£500,000
Shifnal	£500,000	£500,000
Wem	<u>£500,000</u>	<u>£500,000</u>
<u>Whitchurch</u>	£6,050,000	£6,050,000
Total		
Expand national cycle network	£3,000,000	£3,000,000
Develop network of cycle routes in Shrewsbury	£5,000,000	£3,000,000
Developing the cycle & pedestrian network in:		
Albrighton	£500,000	£500,000
Bishops Castle	£250,000	£250,000
Bridgnorth	£500,000	£500,000
Broseley	£250,000	£250,000
Church Stretton	£500,000	£500,000
Cleobury Mortimer	£500,000	£500,000
Craven Arms	£250,000 -	£250,000 -
	£1,000,000	£1,000,000
Ellesmere	£500,000	£500,000
Highley	£200,000	£200,000
Ludlow	£500,000 -	£500,000 -
	£2,000,000	£2,000,000
Market Drayton		
Minsterley & Pontesbury	£250,000	£250,000
Much Wenlock	£750,000	£750,000
Shifnal	£500,000	£500,000
Wem	£1,500,000	£1,500,000
<u>Whitchurch</u>	<u>£500,000</u>	<u>£500,000</u>

Total	£7,450,000 - £9,700,000	£7,450,000 - £9,700,000
Developing and improving the pedestrian network in Shrewsbury	£4,000,000	£2,000,000
Frankwell footbridge, Shrewsbury	£500,000	£500,000
Gobowen to Blodwel cycleway and long distance footpath	£4,000,000	£4,000,000
Cycle links between Oswestry Town Centre and the residential expansion area to the east	£1,000,000	£800,000
Station &/or station car park improvements at Gobowen, Whitchurch, Wem, Yorton, Ludlow, Church Stretton, Craven Arms, Albrighton, Cosford and Shifnal	£2,000,000	£1,000,000
TOTAL	£43,000,000	£36,800,000
URBAN TRAFFIC MANAGEMENT MEASURES		
Local highway improvements including traffic management, parking and speed and safety management::		
Albrighton	£500,000	
Bishops Castle	£250,000	
Bridgnorth	£500,000	
Broseley	£250,000	
Church Stretton	£250,000	
Cleobury Mortimer	£500,000	
Craven Arms	£250,000	
Ellesmere	£500,000	
Highley	£250,000	
Ludlow	£500,000	
Market Drayton	£500,000	
Minsterley & Pontesbury	£500,000	
Much Wenlock	£500,000	
Oswestry	£1,000,000	
Shifnal	£500,000	
Wem	£500,000	
<u>Whitchurch</u>	<u>£500,000</u>	
Total	£7,750,000	£2,000,000
A5 JUNCTION IMPROVEMENTS		
Junction improvements at Whittington Road junction, Oswestry	£350,000	£350,000
Junction improvements at Mile End roundabout, Oswestry	£2,100,000	£2,100,000
Junction improvements at Maesbury Road junction, Oswestry	£600,000	£600,000
Junction improvements at Churncote island, Shrewsbury	£2,700,000	£2,700,000
Junction improvements at Emstrey roundabout, Shrewsbury	£2,300,000	£2,300,000
Junction improvements at Preston Boats Junction, Shrewsbury	£1,700,000	£1,700,000
TOTAL	£9,750,000	£9,750,000

EDUCATION

Shropshire Council's Children & Young People's Services current S106 calculations use annually updated housing and population data and a nationally generated agreed sum per place generated. Please note the estimate below does not include nursery provision or college (age 16+) provision.

	Average multiplier per house (based on 5 districts data)	Estimated increase in school places 2006-2026 if dwellings increase by 27,500 homes	Cost per place* (2009)	Estimated cost of provision from new development
Primary school age (4-11)	0.18376 pupils / house	5,053	£11,276	£57.0 million
Secondary school age (11-15)	0.13784 pupils / house	3,791	£17,157	£65.0 million

* Cost per place are based upon national tender prices multiplied by an area factor (Shropshire's is 0.92).

The total cost of educational provision, if there were no surplus existing school places, would be £122 million. For Levy purposes, it has been assumed that 50% of this increase might be accommodated in existing school capacity, resulting in an estimated shortfall of £61 million. The requirement for new school places will vary by settlement, with some schools having capacity whilst others have none or are close to capacity.

(d) MEDICAL FACILITIES

The Patient to GP ratio is around 1,700:1. The forecast fifteen year increase in population of 30,880 (ONS 2006-based projections for 2011-2026) would therefore require an additional 18 GPs. If the cost of a new surgery is shared between four GPs, approximately 4 new GP surgeries will be required over 2011-2026.

The average total capital cost of a new GP surgery is £1,764,000 (source: Shropshire County Primary Care Trust 2010). Therefore the capital cost of 4 GP surgeries is £7,056,000.