



# Viability Testing of Site Allocation and Development Management Policies Development Plan Document

Prepared on behalf of  
**Hinckley & Bosworth Borough Council**  
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DTZ, a UGL company

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# Executive Summary

## CONTEXT

Hinckley and Bosworth Borough Council appointed DTZ in May 2013 to assess the viability of a variety of sites that are being considered for allocation in the forthcoming Site Allocations and Development Management Development Plan Document (hereafter known as the DPD).

Production of the DPD (then known as the Site Allocations and Generic Development Control Policies Development Plan Document) began in 2007 with the publication of the Issues and Options Papers. In 2009, the Preferred Options report was published for consultation. Since the adoption of the Core Strategy in 2009, the Council has been progressing the DPD to Submission stage. The DPD is now being finalised prior to pre-submission consultation.

The DPD will allocate sites for a variety of land uses across the Borough's settlements to meet the policy requirements set out in the Core Strategy. The specific site allocations will sit alongside development management policies for use in day-to-day decision making on planning applications.

This is a strategic study which considers the deliverability of the DPD at a policy level and is not focused upon specific site analysis. The assessment will take into account the cumulative impact of these policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy, alongside the diverse sub-markets within the plan area.

As a strategic study, the results of this study will inform policy but do not bind HBBC to adopt the results or follow the guidance in relation to specific or individual sites.

## VIABILITY MODELLING APPROACH

It was agreed that the most appropriate approach would be to test a number of hypothetical sites / site archetypes typical of sites featured in the DPD. Sites were characterised as falling within one of the following market areas:

- Rural Prime
- Rural Secondary
- Rural Tertiary
- Hinckley Prime
- Hinckley Secondary
- Burbage

Central to the assessment of the viability of housing development is the concept of residual land value.<sup>1</sup> Residual land value is the value that can be attributed to land, when the total cost of development, including an allowance for profit is deducted from the sales values of housing built on site.

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<sup>1</sup> This valuation approach is applied for property with development or redevelopment potential. This equation is: Completed Development Value less Planning and Construction cost; less on cost and finance costs; less Developers Profit = Residual Land Value.

The residual land value must be equal or above that deemed sufficient to provide a competitive return to a “willing land owner”, as set out in Paragraph 173 of the National Planning Policy Framework (below),

With regard to the land value, and the assumption of profit within it, Paragraph 173 of the Framework, specifically states that:

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

For each site archetype, the model calculates a residual land value, including an allowance for a competitive profit return prerequisite for a willing developer, “to determine whether it is above “threshold” land values deemed sufficient to *“provide competitive returns to a willing land owner to enable the development to be deliverable.”* Competitive landowner returns are benchmarked on the basis of 25% of Gross Development Value in the case of brownfield land archetypes, and £150,000 / gross acre, in the case of agricultural / Greenfield land.

If there is a residual land value that is higher than the benchmark threshold, then the development can be deemed viable; if it is below then the development will not be considered viable by the market.

With regard to developer profit, for the purpose of this study, DTZ have assumed, through their experience of working with developers, that a developer will require a minimum return of 20% (on GDV) if they are to proceed. Developments that would yield less than this threshold are deemed not to be viable since they do not generate the target rate of return. There are certain circumstances where a developer will proceed with higher or lower rates of return but for this project, the middle ground is selected.

At the core of the study is a detailed viability modelling exercise. This examines the impact on viability of different policy requirements upon hypothetical development schemes in different parts of the study area. The modelling runs a cash flow analysis of each of the hypothetical schemes under each development scenario

Six market value areas (based on Beacon areas in which market research into property prices have been undertaken (see section 2) where researched, covering 28 development site archetypes, as a representative sample of sites proposed to come forward through the DPD.

Viability is measured using a traffic light indicator system. Where a site is modelled and it produces a positive return of 20% or above the site is given a green light (wholly viable). Where the assumptions (outlined in section 3) result in a return of 17-19.9% Profit (on Gross Development Value) this is given an amber light (marginally viable). Where the assumptions inputted into the model yield a return of less than 17% then the site is given a red light (unviable).

Policy is tested on two levels:-

- A geographical basis (as this forms the basis of affordable housing policy), i.e.
  - Burbage (20% affordable)
  - Hinckley (20% affordable)
  - Rural (40% affordable)

- A market basis, within these geographical areas, where applicable e.g.
  - Rural Prime: Tywcross
  - Rural Secondary: Market Bosworth
  - Rural Tertiary: Groby
  - Hinckley Prime: New Build development in the Hinckley Western Ring<sup>2</sup>
  - Hinckley Secondary: A selection of Small New Build (since 2000) developments in the Coventry Road<sup>3</sup>, North Hinckley<sup>4</sup> and Hinckley Town Centre (South and North)<sup>5</sup> submarket areas
  - Burbage: New development at Brookside

The assessment has taken into account the cumulative impact of Core Strategy policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy. Note, the emerging development management policies are not adding any additional financial burden onto the development of sites, so have not been factored into the viability modelling.

The financial impact of most of the Core Strategy Policies (Policy Numbers 14, 16, 19, and 21) are factored in as constants in the modelling. For the most part (except where highlighted, in order to aid understanding through sensitivity testing, specifically with regard to the Secondary Hinckley market), Policy 15 (Affordable Housing) is also a constant (% applied to the modelling as geographically appropriate).

The key policy variable in the modelling relates to Policy 24 – Sustainable Urban Design and Technology, where we have tested viability in relation to: -

- Current building regulations (equivalent to Code for Sustainable Homes Level 3),
- Code for Sustainable Homes Level 4, tested for viability with regard to:
  - the policy aim of implementation from 2013, and,
  - over the plan period generally (applying growth to the midpoint between 2013 and 2026, taken to be 2019)
- Code for Sustainable Homes Level 6, tested for viability with regard to:
  - the policy aim of implementation from 2016 (applying the low growth and high growth scenarios), and,
  - over the plan period generally (applying growth to the midpoint between 2013 and 2026, taken to be 2019)

On this basis, we have analysed of policy and viability, by Code for Sustainable Homes Levels 3 (Current Building Regulations), 4 and 6, broken down by Affordable Housing Policy requirement (Urban Areas 20% and Rural Areas, 40%).

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<sup>2</sup> Market Area as defined by the Leicester and Leicestershire Housing Market Assessment

<sup>3</sup> ibid

<sup>4</sup> ibid

<sup>5</sup> ibid

## SUMMARY OF VIABILITY MODELLING

The policy aim of Policy 24 is for homes to be delivered to Code for Sustainable Homes Level 4 as of 2013. The modelling suggests that the DPD sites are viable and deliverable on the basis that:

- **with regard to the urban area:** the archetype modelling suggests that it is deliverable now in the Prime Hinckley market area (all Greenfield sites), and also in Burbage now with further offsetting against other Section 106 contributions (for example the reduction of affordable housing to between 10% and 15%, alongside average other Section 106 payments per dwelling of £4,000), or later in Burbage, but within the plan period with no additional Section 106 offsetting (c. 2019 onwards), and assuming high growth. Delivery in the Secondary Hinckley market area, alongside a reasonable affordable housing quantum depend on a reasonable degree of market growth (no more than 5% less than the 20% Policy target) are slimmer (will depend on the high market growth scenario). Notably, the capacity of DPD sites in the Secondary Hinckley market area represents a smaller proportion of the DPD housing quantum in the Urban area
- **with regard to the rural area:** the archetype modelling suggests that it is deliverable now in the Prime and Secondary Rural market areas. Whilst delivery (without significant offsetting against affordable housing provision) in the Tertiary Rural Market area may only be possible in the latter half of the Plan Period, assuming the high growth scenario, it should be borne in mind that DPD sites in the Prime and Secondary Rural markets represent just over a quarter of potential development of the DPD sites

The further policy aim of Core Strategy Policy 24 is for homes to be delivered to Code for Sustainable Homes Level 6 as of 2016. Beyond the Rural Prime DPD sites (where it is not actually policy) the modelling reveals that CSH Level 6 is not likely to be achievable in any of other the sites within the Plan Period, even beyond 2016, without significantly compromising the delivery of other Core Strategy policy aims at the sites.

Notwithstanding this, additional sensitivity modelling, applying the two growth scenarios (low and high) suggests that the Burbage DPD site archetypes, may be able to absorb extra over costs relating to Code for Sustainable Homes of between £3,500 - £10,000 per dwelling. Whilst falling short of current estimates<sup>6</sup> of the extra over costs of Code for Sustainable Homes Levels 5 and 6 (between circa £20,000 and £35,000 per dwelling), there is at least some scope for the sites to deliver progressive improvements in statutory Part L Building Regulations (which are currently accepted as being a good proxy to Code for Sustainable Homes Level 3, with the pace of change to other CSH levels currently uncertain<sup>7</sup>), without seriously compromising other Core Strategy policy aims.

The study has assessed the viability of a sample set of site archetypes, reflective of the sites that the Council are considering allocating for development through the DPD process. This is in order to satisfy the requirements of the NPPF in relation to viability, and to ensure that the proposed allocations are deliverable in respect of the policies, contained in the Core Strategy.

The assessment has taken into account the cumulative impact of these policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy.

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<sup>6</sup> Cost of building to the Code for Sustainable Homes: Updated cost review, DCLG, Davis Langdon (2011)

<sup>7</sup> Housing Standards Review Consultation, DCLG (2013)

***Having tested the viability of a sample set of site archetypes, reflective of the sites that the Council are considering allocating for development through the DPD process, this study concludes (notwithstanding site specific abnormal costs) that the residential allocation is deliverable in the context of reasonable flexibility in the interpretation and application of Core Strategy Policy.***

***Most of the sites will be able to achieve Code for Sustainable Homes Level 4 at various points over the plan period without seriously compromising other Core Strategy policy requirements.***

***Whilst delivery of sites to Code for Sustainable Homes Level 6 over the Plan Period (based on current estimates of extra over costs), in accordance with Policy 24 may be limited to certain rural sites (where Policy 24 does not actually apply), the modelling does suggest that within the Urban area (where Policy 24 does apply) that there is a capacity for Prime Hinckley and Burbage DPD site archetypes, to absorb extra over costs relating to Code for Sustainable Homes of between £3,500 - £10,000 per dwelling. Whilst falling short of current estimates<sup>8</sup> of the extra over costs of Code for Sustainable Homes Levels 5 and 6 (between circa £20,000 and £35,000 per dwelling), there is at least some scope for the sites to deliver progressive improvements in statutory Part L Building Regulations (which are currently accepted as being a good proxy to Code for Sustainable Homes Level 3, with the pace of change to other CSH levels currently uncertain<sup>9</sup>), without seriously compromising other Core Strategy policy aims. This is a very important consideration in concluding that the DPD site allocations are deliverable against the Core Strategy policies.***

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<sup>8</sup> Cost of building to the Code for Sustainable Homes: Updated cost review, DCLG, Davis Langdon (2011)

<sup>9</sup> Housing Standards Review Consultation , DCLG (2013)

# 1 Introduction to the Study and the Approach

## 1.1 STUDY PURPOSE AND OBJECTIVES

Hinckley and Bosworth Borough Council (HBBC) has appointed DTZ to assess the viability of a variety of sites that are being considered for allocation in the forthcoming Site Allocations and Development Management Development Plan Document (hereafter known as the DPD).

The aim of the study will be to assess the viability of a sample set of site archetypes that are reflective of the sites that the Council are considering allocating for development through the DPD process. This is in order to satisfy the requirements of the National Planning Policy Framework in relation to viability, and to ensure that the proposed allocations are deliverable in respect of the policies, summarised below.

Production of the DPD (then known as the Site Allocations and Generic Development Control Policies Development Plan Document) began in 2007 with the publication of the Issues and Options Papers. In 2009, the Preferred Options report was published for consultation. Since the adoption of the Core Strategy in 2009, the Council has been progressing the DPD to Submission stage. The DPD is now being finalised prior to pre-submission consultation.

The DPD will allocate sites for a variety of land uses across the Borough's settlements to meet the policy requirements set out in the Core Strategy. The specific site allocations will sit alongside development management policies for use in day-to-day decision making on planning applications.

This is a strategic study, and in line with the NPPF (Paragraph 167), which states that assessments should be proportionate and not repeat policy assessment which has already been undertaken, considers the deliverability of the DPD at a policy level, given the range of site archetypes featured, and is not focused upon specific site analysis. The assessment will take into account the cumulative impact of the policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy, alongside the diverse sub-markets within the Plan area.

The results of this study will inform policy but do not bind HBBC to adopt the results or follow the guidance in relation to specific or individual sites.

## 1.2 STUDY APPROACH

It has been important for the study to test the viability of different site types in different locations in order to understand how viability varies with site size, different values of the housing developed and different locations. It has, therefore, been necessary to develop a typology of the different types of sites likely to come forward for housing development in the Borough, and to test the viability of these hypothetical sites under a set of different development scenarios.

The typology of sites to be assessed was developed in conjunction with HBBC and stakeholders to reflect the emerging DPD Site Allocations and Development Management Policies document in terms of the range, type of sites and locations likely to come forward.

This approach of testing hypothetical sites allows different policy options to be tested in a consistent manner across the range of likely development scenarios. This would not be possible in the same way had the study focused on actual "real life" sites where the particular features of those sites would inevitably have made it difficult to generalise about viability.



Central to the assessment of the viability of housing development is the concept of residual land value.<sup>10</sup> Residual land value is the value that can be attributed to land, when the total cost of development, including an allowance for profit is deducted from the sales values of housing built on site.

The residual land value must be equal or above that deemed sufficient to provide a competitive return to a “willing land owner”, as set out in Paragraph 173 of the National Planning Policy Framework. With regard to the land value, and the assumption of profit within it, Paragraph 173 of the Framework, specifically states that:

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

For each archetype, the model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a “willing developer”) to determine whether it is above “threshold” land values deemed sufficient to “*provide competitive returns to a willing land owner to enable the development to be deliverable.*” Competitive landowner returns are benchmarked on the basis of 25% of Gross Development Value in the case of brownfield land archetypes, and £150,000 / gross acre, in the case of agricultural / Greenfield land.

If there is a residual land value that is higher than the benchmark threshold, then the development can be deemed viable; if it is below then the development will not be considered viable by the market.

With regard to developer profit, for the purpose of this study, DTZ have assumed, through their experience of working with developers, that a developer will require a minimum return of 20% (of GDV) if they are to proceed. Developments that would yield less than this threshold are deemed not to be viable since they do not generate the target rate of return. There are certain circumstances where a developer will proceed with higher or lower rates of return but for this project, the middle ground is selected.

At the core of the study is a detailed viability modelling exercise. This examines the impact on viability of different affordable housing contributions upon hypothetical development schemes in different parts of the study area. The modelling runs a cash flow analysis of each of the hypothetical schemes under each development scenario. More information on the model is presented in Section 3 of this report, with details provided on the way the model works, its key assumptions and its operation.

In summary, the key question the study seeks to address is the deliverability of the sites in the DPD considering the cumulative impact of the policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy, alongside the diverse sub-markets within the plan area.

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<sup>10</sup> This valuation approach is applied for property with development or redevelopment potential. This equation is: Completed Development Value less Planning and Construction cost; less on cost and finance costs; less Developers Profit = Residual Land Value.

### 1.3 VIABILITY TESTING APPROACH

For each site archetype, a residual development appraisal has been prepared calculating total revenue and deducting from that all costs associated with delivering the development including all costs relating to the policies of the Core Strategy, plus an element of developer profit (20% on value), in order to determine what value is left to pay for the land (the residual land value).

The residual land value for the residential development, expressed per acre, is then compared with benchmark rates that must be met for the residential development to be considered viable. Within this study the results are presented by way of a traffic light system, set out and explained below.

It is important to appreciate that a strategic viability model, such as this, is not designed to test the viability of specific individual sites. One of the features of residential development is that the character of sites and level of costs and revenues that apply to development on a specific site will vary. This should, however, be reflected in the price that is paid for the development land. Even so, costs and revenues are often not predictable, and assumptions about the future change in costs and revenues may be proved wrong, delivering returns which are above or below expectations.

This study cannot seek to encompass all the potential differences in individual site circumstances which affect viability. What it can, and does do, is provide a broad assessment of viability in the study areas, to inform policy.

The agreed valuation date of June 2013 is significant to the viability assessment. Whilst in a state of tentative recovery, the property market is such that residual land values generally remain short of their peak in early 2007 which places substantial pressure on the viability of residential developments. There is an expectation that the market will recover in the longer term but the timescales for recovery remain uncertain. This downturn in residual land value will obviously have a considerable impact on the viability of Local Plan policy. Therefore as part of the viability modelling, two different growth scenarios (see below) have been modelled around the Baseline Position to take account of peaks and troughs in the market which will occur over the life of the Local Plan.

The results of each of the scenarios tested are incorporated in a consideration of each of the application of Core Strategy policies in each of the market areas.

The previous sections have established six market value areas (based on Beacon areas in which market research into property prices have been undertaken (see section 3 and Appendix 2), covering 28 development site archetypes, as a representative sample of sites proposed to come forward through the DPD.

The 28 development site archetypes have been tested for delivery viability against Core Strategy policy – specifically, affordable housing, Section 106 and open space requirements, Code for Sustainable Homes Level requirement, with the variable being Code for Sustainable Homes Compliance Level compliance.

Viability is measured using a traffic light indicator system. Where a site is modelled and it produces a positive return of 20% or above the site is given a green light (wholly viable). Where the assumptions outlined in section 3 above results in a return of 17-19.9% this is given an amber light (marginally

viable<sup>11</sup>). Where the assumptions inputted into the model yield a return of less than 17% then the site is given a red light (unviable). Some archetypes returning an amber result, and all archetypes returning a red result, are representative of sites that the modelling suggests will require negotiation with the developer over contributions within the parameters of the policies i.e. affordable housing contribution (flexibility).

Policy is tested on two levels:-

- A geographical basis (as this forms the basis of affordable housing policy), i.e.
  - Burbage (20% affordable)
  - Hinckley (20% affordable)
  - Rural (40% affordable)
  
- A market basis, within these geographical areas (where applicable), i.e.
  - Rural Prime: Tywcross
  - Rural Secondary: Market Bosworth
  - Rural Tertiary: Groby
  - Hinckley Prime: New Build development in the Hinckley Western Ring<sup>12</sup>
  - Hinckley Secondary: A selection of Small New Build (since 2000) developments in the Coventry Road<sup>13</sup>, North Hinckley<sup>14</sup> and Hinckley Town Centre (South and North)<sup>15</sup> submarket areas
  - Burbage: Brookside

#### 1.4 TESTING

The results are analysed and considered on the geographical and market basis, as set out above (e.g. Rural Prime). Each site archetype is then tested against:

- Code for Sustainable Homes Requirement, from Level 3, Level 4 (Policy now) to Level 6 (Policy from 2016)
- Growth Scenarios (Current, Low Growth and High Growth)

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<sup>11</sup> Archetypes producing an “amber” result, may or may not be viable, depending on the level of return required by the developer / land value by the owner.

<sup>12</sup> Market Area as defined by the Leicester and Leicestershire Housing Market Assessment

<sup>13</sup> *ibid*

<sup>14</sup> *ibid*

<sup>15</sup> *ibid*

## 2 Policy Context & Timing

### 2.1 POLICY

This section provides the context for the assessment of viability.

The Core Strategy sets a number of policy requirements which have financial implications which development in the Borough must accord with. These are as follows:

Policy 14 – Rural Areas: Transport: Sets out transport interventions for the rural areas, Developer contributions toward the initiatives will be requested where they meet the tests set out in national guidance

Policy 15 - Affordable Housing: The following affordable housing requirements apply by site location:

Urban Area and Sustainable Urban Extensions	20% affordable housing on sites of 15 or more dwellings, or 0.5ha or more
Rural areas	40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more

The tenure split sought will be 75% social rented and 25% intermediate housing. This policy is supplemented by the Affordable Housing Supplementary Planning Document (adopted 2011).

Policy 16 – Housing Density, Mix and Design: All developments of 10 or more dwellings are required to meet Building for Life criteria. The Building for Life “12” is a standard for good urban design of developments overall, and does not consider the design of houses.

Policy 19 - Green Space and Play Provision: Sets standards in relation to the Quantity and Accessibility of green space and play provision in the Borough. Where these standards cannot be met by direct provision, planning obligations will be necessary to secure improvements to existing green spaces or to provide new facilities. This policy is supplemented by the Play and Open Space Guide Supplementary Planning Document (adopted 2008).

Policy 21 – National Forest: This policy aims to support the implementation of the National Forest, where planting or landscaping cannot be accommodated on site due to lack of land, a commuted sum will be negotiated.

Policy 24 – Sustainable Design and Technology:

Urban Area and Sustainable Urban Extensions	Residential development should meet a minimum of Code for Sustainable Homes Level 4 from 2013-2016, rising to Code Level 6 from 2016 onwards
Rural areas	Residential development should meet the targets set out in the 2007 ‘Building a Greener Future’ document

The assessment will take into account the cumulative impact of these policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy, alongside the diverse sub-markets within the plan area

## 2.2 TIMING OF THIS STUDY

This report was prepared in Summer 2013, a time when a tentative recovery in the housing market was beginning to emerge. It is inevitable that viability studies have to be undertaken at a particular point in time (in this instance the valuation date of June 2013), and reflect a particular set of market circumstances, but the information they yield on how affordable housing delivery varies by site size, development context, etc. The range of scenarios tested is useful for policy making, even in the current market environment. Planning policies for affordable housing also need to be set for the long term, and should have sufficient flexibility to cope with changes in the market.

This implies that authorities need a degree of flexibility. The existing system allows for developers to make the case to authorities where a policy requirement cannot be delivered on a particular site given the particular circumstances of that site.

However, it is well known that when developers acquire sites in competitive situations they do not always fully allow for the costs of according with planning policy. Similarly, developers will not immediately adjust their bid prices to reflect changes in planning policy. It should not be the role of the planning policy to compensate developers who have overpaid for land or misjudged aspects of developments costs or revenues by simply adjusting the level of affordable housing that should be delivered on sites.

Local authorities need to appreciate how development viability is assessed in order to be in a position to negotiate where necessary over policy requirements, whilst seeking to ensure that policies can be applied for the majority of developments. The balance between being, sufficiently robust to ensure that not every application is subject to negotiation, whilst being sufficiently flexible to recognise special circumstances is a difficult balance to strike, but it is in the interest of both the development industry and local authorities to find the right balance.

## 3 Viability Model Workings and Assumptions

This section of the report provides an overview of the structure of the viability model and the assumptions it uses.

### 3.1 MODEL TARGETS – WHAT DEFINES VIABILITY?

The model is based on the principles of a residual development appraisal.

A model was run for each archetype.

A target developer rate of return of 20% GDV (net) was selected following stakeholder consultation and an assessment of minimum return requirements for the development sector. Net profit is the profit to the developer following any deductions for finance, marketing and overheads which are accounted for separately within the model.

For each site archetype, the model calculates a residual land value (including an allowance for a competitive profit return prerequisite for a willing developer) "to determine whether it is above "threshold" land values deemed sufficient to "provide competitive returns to a willing land owner to enable the development to be deliverable." Competitive landowner returns are benchmarked on the basis of 25% of Gross Development Value in the case of brownfield land archetypes, and £150,000 / gross acre, in the case of agricultural / Greenfield land.

### 3.2 APPROACH

DTZ has adopted a staged approach in assessing the financial viability and impact of different planning policy options.

**Stage 1** involved market research to determine key model inputs. The selection of development scenarios to be examined and selection of hypothetical sites was also undertaken.

**Stage 2** agreed the modelling inputs and scenarios with HBBC and consulted on these with key stakeholders. Following consultation, assumptions were altered, where appropriate, to reflect stakeholders comments (see Appendix A).

**Stage 3** involved modelling to test the viability of development on different hypothetical sites, considering the material viability impacts of policy requirements covering affordable housing and Section 106 contributions, open space and Code for Sustainable Homes requirements.

The study approach is tailored to the specific requirements and circumstances of the Borough of Hinckley and Bosworth. It takes account of a range of circumstances applied across the study areas but does not seek to capture analysis of the specific sites. To do this would have been impossible in practical terms and inappropriate to a strategic study designed to inform policy development in line with the guidance of the NPPF (Paragraph 167) that such assessments should be proportionate.

There will always be a wide range of specific circumstances that will affect viability on particular sites, and developers will assess these in determining whether to proceed. In addition, developers are not homogenous and what this strategic study has to do, in order to produce meaningful results, is to homogenize assumptions across the Borough to enable the variables influenced by Policy to be tested. If

all other variables were not fixed, the impact of policy could not be properly assessed. Developer's appetites for risk vary, and they have different requirements in terms of returns. Abnormal development costs are particularly site and developer specific and a developer's approach to development may change in different market circumstances and different market areas, and it is impossible to capture this level of variance in a strategic policy appraisal.

### 3.3 MODEL INPUTS

As a result of the downturn, residual land values have fallen from their peak in mid 2007 and this places substantial pressure on the viability of residential development. Therefore as part of the viability modelling, different scenarios have been modelled from the Baseline Position to take account of the peaks and troughs in the market that will occur over the life of the Core Strategy. Therefore the following market change scenarios have been tested:

- **BASE:** – assesses the market circumstances at the date of market analysis. (Summer 2013)
- **LOW:** Assumes annual net price growth equivalent to 0.5% /annum, compounded to the reference year, which is 2016 for the introduction of CSH Level 6, and 2019 representing the remainder of the Plan Period (as the approximate mid-point between now (2013) and the end of the local plan period (2026)). This is equivalent of up to 1.5% net price growth up to 2016, and 3% up to 2019.
- **HIGH:** Assumes annual net price growth equivalent to 1.5% /annum, compounded to the reference year, which is 2016 for the introduction of CSH Level 6, and 2019 representing the remainder of the Plan Period (as the approximate mid-point between now (2013) and the end of the local plan period (2026)). This is equivalent of up to 4.6 % net price growth up to 2016, and 9.36% up to 2019.

The key variable assumptions that have been used for testing viability in the model are as follows:

- Market Area
- Site Size
- Density
- Revenues (Relating to market area and affordable housing)
- Costs (Relating to policy)

The assumptions outlined below are the final assumptions inputted into the model which have been altered to reflect stakeholder feedback. For analysis of the movement between the original assumptions and those used for the modelling, please see Appendix A.

The model is structured on the basis of a time series cash flow for a particular development. The main input into the model is the configuration of the scheme, in terms of the number of dwellings, density, tenure and disposal period. The hypothetical schemes which have been selected to reflect a representative range of different sites across the Borough.

A key driver of development viability is the sales values that can be achieved on new schemes. Higher sales values produce greater revenue streams, thus improving margin if costs are a key constant. However, in practice competitive bidding for land means that a development in a high value area is often no more profitable than in a lower value area, as higher revenues are offset by higher land costs (thereby keeping returns at the same level).

An important part of the viability modelling is therefore to capture how sales values (and by implication land values) vary across the Borough. In order to do this we have identified distinct geographies and market areas, which we refer to as 'value geographies'.

Sales values and land values vary substantially across the Borough. The identification of the spatial extent of value geographies has been determined through analysis of HM Land Registry data and interpretation of this by DTZ and HBBC.

It was decided that the Borough would be divided into six market areas:

- Rural Prime: Tywcross
- Rural Secondary: Market Bosworth
- Rural Tertiary: Groby
- Hinckley Prime: New Build development in the Hinckley Western Ring<sup>16</sup>
- Hinckley Secondary: A selection of Small New Build (since 2000) developments in the Coventry Road<sup>17</sup>, North Hinckley<sup>18</sup> and Hinckley Town Centre (South and North)<sup>19</sup> submarket areas
- Burbage: Brookside

Whilst there will always be variations and exceptions within areas, the market areas are considered to be broadly representative of different housing characteristics, land values and house prices within the Borough, and especially those sites contained in the DPD.

For each of the market areas, it was determined that a range of site sizes would be tested in order to ensure that a range of developments are analysed. Based on analysis of the DPD and consultation with HBBC and its stakeholders, the following site sizes, and densities were agreed for each of the market areas.

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<sup>16</sup> Market Area as defined by the Leicester and Leicestershire Housing Market Assessment

<sup>17</sup> *ibid*

<sup>18</sup> *ibid*

<sup>19</sup> *ibid*



**Figure 3.1: Viability Modelling Archetypes**

DPD Area Classification	Market Archetype	Archetype Size	Density
Rural	Prime (All Greenfield)	1ha	20dph
			30dph (Policy)
	Secondary (All Greenfield)	Large - 2ha	20dph
			30dph (Policy)
			35dph
		Mid - 0.5ha	20dph
			30dph (Policy)
			35dph
		Small – 0.25ha	20dph
			30dph (Policy)
			35dph
	Tertiary(All Greenfield)	Large - 2ha	30dph (Policy)
35dph			
Mid - 0.5ha		30dph (Policy)	
		35dph	
Hinckley	Prime Value (All Greenfield)	1.5ha	30dph
			35dph
			40dph (Policy)
	Secondary Value (All Brownfield)	Large – 3ha	35dph
			40dph (Policy)
		Mid – 1.5ha	35dph
			40dph (Policy)
		Small – 0.5ha	60dph
			40dph (Policy)
Burbage	Prime Value & Brownfield	1.5ha	30dph
			35dph
			40dph (Policy)

Taking into account all the above combinations (market, site size and density), a total number of **28** hypothetical sites were tested during this modelling, as set out in the figure above.

Once the hypothetical sites were decided upon, the other major inputs into the model are the assumptions around costs and values. Detailed work has been undertaken in respect of both of these aspects as outlined below

### **Revenue (£ per sqft) by unit type, size and tenure**

For the **market** housing, an average £ per sqft value is calculated. In order to do this, each value area was given Beacon areas, which would be the basis upon which research was undertaken to determine property value.

For each of the Beacon areas a review of Land Registry data was undertaken in order to determine likely values for residential property in the market areas, using modern new build housing as much as possible. DTZ's residential team reviewed this data and adjusted the values according to valuation evidence and their experience of new build prices in each of the market areas. The results of this analysis were then drawn together to produce a list of revenues which were tested with Stakeholders. Property size assumptions were also presented and consulted upon with stakeholders. The Beacon areas chosen for this Study were as follows:

- Rural Prime: Tywcross
- Rural Secondary: Market Bosworth
- Rural Tertiary: Groby
- Hinckley Prime: New Build development in the Hinckley Western Ring<sup>20</sup>
- Hinckley Secondary: A selection of Small New Build (since 2000) developments in the Coventry Road<sup>21</sup>, North Hinckley<sup>22</sup> and Hinckley Town Centre (South and North)<sup>23</sup> submarket areas
- Burbage: Brookside<sup>24</sup>

Following stakeholder consultation, the final values and property sizes used in the modelling were as follows:

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<sup>20</sup> Market Area as defined by the Leicester and Leicestershire Housing Market Assessment

<sup>21</sup> *ibid*

<sup>22</sup> *ibid*

<sup>23</sup> *ibid*

**Figure 3.2: Sales Prices (£/sq.ft)**

£ / sq.ft. by Market Area (Assuming dwelling sizes as set out in Figure 3.3) <sup>4</sup>						
Unit Type	Prime Rural	Secondary Rural	Burbage	Tertiary Rural	Prime Hinckley	Secondary Hinckley
2 Bedroom apartment	-	-	-	-	-	£152
2 Bedroom House	£226	£213	£181	£174	£168	£171
3 Bedroom House	£237	£205	£189	£183	£183	£177
4 Bedroom House	£252	£244	£188	£184	£186	£171
5 Bedroom House	£252	£242	£182	£183	£172	£152

### Affordable Housing

For the revenue streams generated by the **affordable** housing, we have assumed a percentage of market value for each tenure type. We have assumed 40% of Open Market Value across all the market areas, whilst varying that for the shared ownership housing as follows:

- High Value: 55% of OMV
- Mid Value: 60% of OMV
- Low Value: 65% of OMV

The tenure split analysed is 75% Social Rent and 25% Shared Ownership, as outlined in the core strategy.

### Unit Area Assumptions

The £ per square foot values (both market and affordable) are combined with assumptions on unit area sizes to generate total unit prices. The unit area assumptions, based upon DTZ's market knowledge (and subject to consultation) are shown in Figure 3.3 below.

<sup>4</sup> Except for; Hinckley Prime 40dph archetype – 2 bedroom house - £168/sq.ft, 3 bedroom house - £178 sq.ft., 4 bedroom house - £181 sq.ft.

**Figure 3.3 Unit Areas (Net Sales Area)**

High Value Areas (Prime & Secondary Rural, and Burbage)				
Unit Type	Area sq ft: Assuming -			
	20dph	30dph	35dph	40dph
2 Bed House	775	775	775	775
3 Bed House	950	950	950	900
4 Bed House	1250	1250	1250	1100
5 Bed House	1650	1650	1650	-

Mid Value Areas (Prime Hinckley and Tertiary Rural)				
Unit Type	Area sq ft: Assuming -			
	20dph	30dph	35dph	40dph
2 Bed House	-	775	775	775
3 Bed House	-	900	900	900
4 Bed House	-	1250	1250	1100
5 Bed House	-	1450	1450	-

Lower Value Areas (Secondary Hinckley)				
Unit Type	Area sq ft: Assuming -			
	20dph	30dph	35dph	40dph/60dph
2 Bed apartment (60 dph only)	-	-	-	650
2 Bed House	-	-	700	700
3 Bed House	-	-	875	875
4 Bed House	-	-	1050	1050
5 Bed House	-	-	1450	-

The property sizes illustrated above, are not divided into semi detached, detached and terrace stock and whilst it is acknowledge that these property types will vary in size the figures proposed are agreed to be an average area for new build properties across these property types dependent upon bedroom size.

**Development Mix**

Based on the market area values, we have considered a development mix reflective of the markets. For the High Value Areas we have assumed a mix of 30% 2 bedroom housing, 35% 3 bedroom housing, 25% 4 bedroom housing, and 10% 5 bedroom housing (except 40dph archetype for Burbage, where the mix is 11%, 59%, and 3%)

- For the other value areas (except the 60dph Hinckley Secondary archetype) we have assumed a mix of 30% 2 bedroom housing, 45% 3 bedroom housing, 20% 4 bedroom housing, and 5% 5 bedroom housing

- For the Hinckley Secondary, 60dph, archetype we have assumed a mix of 20% 2 bedroom apartments (all affordable), 26% 2 bedroom houses, and 60% 3 bedroom houses

### **Affordable Housing Development Mix**

Following consultation with the Housing Strategy and Enabling Officer, the following profile has been applied for affordable housing within the overall housing mixes for each archetype:

- 8%, 4 bedroom
- 40%, 3 bedroom
- 52%, 2 bedroom

### **Build Costs**

We have obtained data from the Building Cost Information Service (BCIS) on average build costs (£ per sq ft) for the Hinckley and Bosworth area. BCIS provide differential build cost values for new build and conversion and for different gross internal areas (GIA) per unit as calculated below.

BCIS figures do not incorporate an allowance for externals and plot connections; the most recent analysis of evidence is that typically 10-15% is added to make an allowance for this element. We have assumed 15% and a further 5% allowance for fees.

If we take the median value which equates to £68.53 per square feet and add 20% for plot externals, connections and fees, this gives a value of £82.23. For apartments, following the same principles and using the median value of £80.79 per square foot equates for £96.94 per square foot.

Based on DTZ's experience of valuing developments across the Midlands and from the results of consultation, it was determined that build costs of £82 per square foot for houses and £100 per square foot for apartments were appropriate for use throughout this study.

It is acknowledged that for any particular scheme, build costs will be affected by site conditions, the configuration of the scheme and the target market at which it is aimed. Large schemes may achieve significant economies of scale and build costs will also be affected by costs of materials and fuel, and are also likely to reflect the level of the activity in the construction sector. Small schemes, may, conversely be subject to higher average build costs, especially if developed by a small, local builder. However, for the purpose of this strategic assessment, it is necessary to use typical build costs.

### **Code for Sustainable Homes Costs**

The Code for Sustainable Homes uses a one to six star rating system to communicate the overall sustainability performance of a new home. The Code supports the government target that all new homes will be zero carbon from 2016 and the step changes in Building Regulations Part L leading to this.

Related to this, the Buildings Regulations Part L, which addresses the conservation of fuel and power in dwellings and is used to calculate carbon efficiency, will be updated in 2013 and 2016 and it is expected that the energy performance requirements will be made equivalent to the existing Code Levels 4 and 6 respectively.

As of the moment there remains uncertainty, nationally, as to the precise nature and pace of change with regards to the Part L standards.

We estimate that the average, current, extra over cost for achieving Code for Sustainable Homes Level 4 is around £4,000 per dwelling, though this will diminish over time, and especially over the lifetime of the Core Strategy, which this DPD viability testing exercise covers. We anticipate the same to be true regarding future further changes in Part L requirements relating to the Code.

Notwithstanding this, the Core Strategy Policy suggests Code 4 compliance in 2013 and Code 6 compliance by 2016, and this needs to be tested. **On this basis, bearing in mind that the Core Strategy runs until 2026 and over this time the cost of compliance to Codes 4 and 6 should reduce significantly as required changes are embedded in the design and procurement process, we have modelled the following:**

- A **current** extra “over cost” of £4,000 per dwelling to achieve Code for Sustainable Homes Level 4 ,
- CSH Level 4 “Extra Over Cost” diminishing to zero over the lifetime of the Core Strategy from £4,000, to £0 in 2026, and hence an average extra over cost of £2,000 per dwelling to be adopted for the improved market scenarios
- Average extra over cost of achieving Code for Sustainable Homes Level 6 in 2016 - £30,000 per dwelling (and assuming 0.5% annual growth in house prices over the three years from 2013 to 2016). Whilst there may be scope for this figure to reduce over the plan period, the nature of the specification requirements required to achieve the Level 6 rating represent a significant change such that we could not model a reduced allowance over time with any degree of confidence

#### **Site Gross Area to Net Developable Area Ratios**

Alongside the build density, the efficiency at which a site area can be developed governs the overall development amount, and can hence have a key bearing on viability. As a guide, and after consultation, this study has adopted the methodology as set out in Para 3.11.6 of the 2013 SHLAA, which sets out the methodology used to calculate the developable areas used in the SHLAA:

- If a site is up to 0.4 ha then the area calculated [as net developable] will remain unchanged;
- If a site is between 0.4 ha - 2 ha then 82.5% of the site size will be used with the density requirement to establish the residential capacity;
- If a site is between 2 ha – 35ha then 62.5% of the site size will be used with the density requirement to establish the residential capacity;

#### **Other Assumptions**

The model incorporates a number of other assumptions which have been held constant for all aspects of the viability assessment and are based on DTZ’s experience of valuing schemes in the local markets. These additional assumptions are as follows:

- All sites have planning permission and are ready to start on site immediately
- No abnormal development costs are included within the appraisals
- Cost of Finance – 7% interest on debt
- Contingency – 5% of build costs for brownfield sites
- Disposal costs including marketing and sales expenses for private units – 3% of Gross Development

Value

- Site acquisition costs of 8.75%, including stamp duty
- Revenue within the cashflow is net of residential marketing and agents fees
- Model assumes contractors prelims and insurance are accounted for within the residential build cost
- Model assumes affordable revenues are received in parallel with construction expenditure
- Marketing and sales fees are only applied to private residential sales
- Interest is calculated quarterly in arrears. It is assumed that profit is taken from the sites when the cash flow is positive.

### **Sales Rates**

Variations in sales rates impact on scheme viability. The more difficult a market environment, the less supply that can be absorbed and therefore the longer the disposal period. This impacts on scheme finances as a scheme's interest bearing balance takes longer to be offset by revenues streams from disposals (therefore interest payment costs rise and profitability is reduced). In the current market we are assuming sales rates of 2 per month (small sites ), and 3 per month (large sites) (NB: Small Sites less than 50 units, Large Sites more than 50 units).In the improved market scenarios we have modelled sales rates of 3 per month (small sites ) and 4 per month (large sites).

### **Section 106 Costs other than Affordable Housing**

Most residential developments are not only expected to provide affordable housing as part of the Section 106 Agreement, but also to contribute to other costs required by the local planning authority to support community infrastructure.

After consultation with the Local Authority and Stakeholders, an allowance of £4,000 per unit for S106 contributions, other than affordable housing, has been made for the current market scenario, which is based on the average current contribution.

For the two market growth scenarios, based on an analysis of full requirements, we have modelled £9,000/dwelling for the rural archetypes and £10,000/dwelling for the urban archetypes.

## **3.4 VIABILITY TESTING APPROACH**

For each site archetype, a residual development appraisal has been prepared calculating total revenue and deducting from that all costs associated with delivering the development including all costs relating to the policies of the Core Strategy (refer to above sections), plus an element of developer profit (20% on value), in order to determine what value is left to pay for the land.

The residual land value for the residential development, expressed per acre, is then compared with benchmark rates that must be met for the residential development to be considered viable. Within this study the results are presented by way of a traffic light system, set out and explained below.

**Figure 3.4 Viability Categories**

	<p><b>Not viable</b> – Residual land value allowing for 20% profit on value for the developer, and cost of Core Strategy Policy Requirements does not match the threshold land value / landowner’s target return, required to bring the site forward for development.</p> <ul style="list-style-type: none"> <li>- <b>£150,000 / acre (Greenfield Sites, assuming agricultural existing use value of circa £7,500 / acre)</b></li> <li>- <b>Equivalent to 25% GDV (Brownfield sites), which must be equalled for a site to be considered viable. In cases where the residual land value of the archetype development meets or exceeds £400,000 / acre but not the 25% GDV threshold, the site is considered marginal</b></li> </ul>
	<p><b>Marginal</b> – In instances where between around 17% and 20% Profit on Value is projected as being achievable in the residual development appraisal if the threshold land value is to be achieved</p>
	<p><b>Viable</b> - A Residual land value, which allows for 20% profit on value for the developer, and the cost of Core Strategy Policy Requirements, and matches or exceeds the threshold land value / landowner’s target return, required to bring the site forward for development. i.e.</p> <ul style="list-style-type: none"> <li>- <b>£150,000 / acre (Greenfield Sites, assuming agricultural existing use value of circa £7,500 / acre)</b></li> <li>- <b>Equivalent to 25% GDV (Brownfield sites), which must be equalled for a site to be considered viable. In cases where the residual land value of the archetype development meets or exceeds £400,000 / acre but not the 25% GDV threshold, the site is considered marginal</b></li> </ul>

### 3.5 SCOPE OF THE STUDY

It is important to appreciate that a strategic viability model such as this is not designed to test the viability of specific individual sites. One of the features of residential development is that the character of sites and level of costs and revenues that apply to development on a specific site will vary. This should, however, be reflected in the price that is paid for the development land. Even so, costs and revenues are often not predictable, and assumptions about the future change in costs and revenues may be proved wrong, delivering returns which are above or below expectations.

This study cannot seek to encompass all the potential differences in individual site circumstances which affect viability. What it can, and does do, is provide a broad assessment of viability in the study areas, to inform policy, which is consistent with the NPPF guidance regarding proportionate evidence.

The agreed valuation date of June 2013 is significant to the viability assessment. Whilst in a state of tentative recovery, the property market is such that residual land values generally remain short of their peak in early 2007 which places substantial pressure on the viability of residential developments. There is an expectation that the market will recover in the longer term but the timescales for recovery remain uncertain. This downturn in residual land value will obviously have a considerable impact on the viability of Local Plan policy. Therefore as part of the viability modelling, two different growth scenarios (see above) have been modelled around the Baseline Position to take account of peaks and troughs in the market which will occur over the life of the policy and core strategy.

The results of each of the scenarios tested are incorporated in a consideration of each of the application of Core Strategy policy in each of the market areas.



## 4 Viability Testing

### 4.1 INTRODUCTION

The previous sections have established six market value areas based on Beacon areas in which market research into property prices have been undertaken (see section 3), covering 28 development site archetypes, as a representative sample of sites proposed to come forward through the DPD.

The 34 development site archetypes have been tested for delivery viability against Local Plan policies – specifically, affordable housing, Section 106 and open space requirements, Code for Sustainable Homes Level requirement, with the variable being Code for Sustainable Homes Level compliance.

Viability is measured using a traffic light indicator system. Where a site is modelled and it produces a positive return of 20% or above the site is given a green light (wholly viable). Where the assumptions outlined in section 3 above result in a return of 17-19.9% this is given an amber light (marginally viable). Where the assumptions inputted into the model yield a return of less than 17% then the site is given a red light (unviable).

Policy is tested on two levels:-

- A geographical basis (as this forms the basis of affordable housing policy), i.e.
  - Burbage (20% affordable)
  - Hinckley (20% affordable)
  - Rural (40% affordable)
- A market basis, within these geographical areas (where applicable), i.e.
  - Hinckley Prime
  - Hinckley Secondary
  - Rural Prime
  - Rural Secondary
  - Rural Tertiary
  - Burbage (all DPD sites considered Prime)

Figure 4.1, below outlines the overall approach with regard to the two levels of testing.

**Figure 4.1 Viability Testing Variables**

HBBC Core Strategy Policy Scenario	CSH3	CSH4 (Assuming Flexible Affordable Housing Provision consistent with Policy 15)		CSH4 (Assuming Affordable Housing Fixed at Policy Target )		CSH Level 6 by 2016	CSH6 beyond 2016
		2013	Growth Scenario (High/Low)	2013	Growth Scenario (High/Low)		
Growth Scenario	2013	2013	Growth Scenario (High/Low)	2013	Growth Scenario (High/Low)	Growth Scenario (High/Low)	Growth Scenario (High/Low)

## 4.2 TESTING

The results are analysed and considered on the geographical and market basis, as set out above (e.g. Rural Prime). Each site archetype is then tested against:

- Code for Sustainable Homes Requirement, from Level 3, Level 4 (Policy now) to Level 6 (Policy from 2016)<sup>25</sup>
- Growth Scenarios (Current, Low Growth and High Growth)
- For each archetype, achievement of each of the policy aspirational Code for Sustainable Homes ratings (Level 4 and Level 6) is tested against growth scenarios to consider the possible timing of viable delivery, so, for each archetype, the following is tested,
  - Delivery assuming current Part L Building Regulations (equivalent to Code for Sustainable Homes Level 3), assuming the current market (2013), and the broad level of affordable housing (up to policy) that is deliverable
  - Delivery assuming Code for Sustainable Homes Level 4, on the basis of:
    - Testing the level of affordable housing (up to policy) that could be delivered assuming this Code requirement, and,
      - the current market (2013), and,
      - the two growth scenarios
    - Testing viability assuming the affordable housing requirement is fixed as policy (40% Rural; 20% Urban)
  - Delivery assuming Code for Sustainable Homes Level 6,
    - As at 2016 (the policy implementation date), based on net housing price growth assuming
      - the low price growth scenario
      - the high price growth scenario
    - At a point (taken to be 2019 as the mid point between 2013 and the end of the Plan Period in 2026) beyond 2016, assuming
      - the low price growth scenario
      - the high price growth scenario

### 4.2.1 Rural

We have previously set out how, what is classified in the Core Strategy as the rural part of the Borough, covers a range of housing markets that can broadly be classified as Rural Prime, Rural Secondary, and Rural Tertiary, and our modelling and analysis of the soundness of the Core Strategy Policy is based around these market classifications as well as a consideration on the soundness of the Core Strategy policy when considered against the Rural area in the round.

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<sup>25</sup> Whilst Policy 24 states that these, date specific targets as regards CSH Levels, only applies to urban areas and the SUEs, it is the case that progressive tightening of the requirements of Building Regulations Part L (which will apply everywhere) will occur during the plan period, though the pace of such change remains uncertain

#### 4.2.2 Rural Prime (i.e. Twycross)

The results of the modelling are set out below.

HBBC Core Strategy Policy Scenario				CSH3	CSH4 (Flexible Affordable)				CSH4 (Fixed Affordable)			CSH Level 6 by 2016		CSH6 beyond 2016	
Growth Scenario				2013	2013	Growth Scenario		2013	Growth Scenario		Growth Scenario		Growth Scenario		
						Low	High		Low	High	Low	High	Low	High	
Rural (40% affordable)	Prime (All Greenfield)	1ha	20dph	40%	40%	40%	40%								
			30dph	40%	40%	40%	40%								

With all scenarios being modelled as being viable, including in the current market, the modelling suggests that there is good scope for CSH4 to be achieved now, and then CSH6 by 2016, without necessarily compromising on affordable housing.

One must bear in mind, however, that the rural prime archetype, the smallest of all the “Prime” Archetypes, is the most likely to consist of smaller builders, which may have build costs higher than the BCIS median used in the modelling, and so the achievement of CSH6 may not be as straightforward as it might seem. Nevertheless, the results are encouraging.

### 4.2.3 Rural Secondary (i.e. Market Bosworth)

The results of the modelling are set out below.

HB BC Core Strategy Policy Scenario				CSH3	CSH4 (Flexible Affordable)		CSH4 (Fixed Affordable )		CSH Level 6 by 2016		CSH6 beyond 2016	
Growth Scenario				2013	2013	Growth Scenario		2013	Growth Scenario		Growth Scenario	
						Low	High		Low	High	Low	High
Rural (40% affordable)	Secondary (All Greenfield)	2ha	20dph	40%	40%	40%	40%					
			30dph	40%	40%	40%	40%					
			35dph	40%	40%	40%	40%					
		0.5ha	20dph	40%	40%	40%	40%					
			30dph	40%	40%	40%	40%					
			35dph	40%	40%	40%	40%					
		0.25ha	20dph	40%	40%	40%	40%					
			30dph	40%	40%	40%	40%					
			35dph	40%	40%	40%	40%					

With all CSH4 scenarios being modelled as being viable, including in the current market, the modelling suggests that there is good scope for CSH4 to be achieved now, without necessarily comprising on affordable housing delivery.

The results suggest greater difficulty in achieving CSH 6 by 2016 (though not a policy aim in the rural areas), with the largest and lowest density (20dph) archetype only showing viability within the Plan Period on the basis of the high growth scenario. Whilst the 20dph density is contrary to Core Strategy policy, the NPPF allows this density.

Smaller and higher density site archetypes (including the Core Strategy Policy archetype of 30dph) suggest increasing chance of deliverability of CSH6, by 2016 being possible in a low growth scenario according to the modelling, assuming low growth by 2016 for all these archetypes except for the 0.5 hectare – 20dph archetype.

Notwithstanding this, the modelling results must be considered in the round. The “marginal” viability projected for the 20dph variants for CSH 6 by 2016 on all but the 0.25ha archetypes, suggest caution, for even though 30dph is policy, on many sites we must allow that this might not always occur.

On this basis, we would suggest that achievement of CSH6 by 2016, on the Rural Secondary sites is likely to be intermittent (as our view is that rural densities will veer more below 30dph than above), with the chances of achievement steadily improving over the plan period, at a rate depending on the market growth, though we would only be confident of majority conformity during the plan period across the overall Rural Secondary Market archetype under the high market growth scenario.

Overall, the modelling suggests that the Rural Secondary sites stand up to testing against Core Strategy policy on the basis of a flexible approach being taken by the local planning authority on the pace of implementation of Policy 24 concerning CSH requirements beyond Level 4. Encouragingly, achieving up

to CSH6 remains reasonable as it is potentially deliverable on a number of site archetypes within the plan period, even assuming the low growth scenario.

#### 4.2.4 Rural Tertiary (i.e. Groby)

The results of the modelling are set out below.

HB BC Core Strategy Policy Scenario				CSH3	CSH4 (Flexible Affordable)				CSH4 (Fixed Affordable)				CSH Level 6 by 2016		CSH6 beyond 2016		
Growth Scenario				2013	2013	Growth Scenario		2013	Growth Scenario		Growth Scenario		Growth Scenario				
						Low	High		Low	High	Low	High	Low	High			
Rural (40% affordable)	Tertiary (All Greenfield)	2ha	30dph	40%	35%	35%	40%										
			35dph	40%	40%	40%	40%										
		0.5ha	30dph	40%	40%	40%	40%										
			35dph	40%	40%	40%	40%										

The modelling suggests there may be a requirement, at least in the current and low growth market scenarios, for a trade off with Section 106 requirements (including affordable housing) if the CSH Level 4 is to be achieved; our analysis suggests a deviation of at least 5% from the 40% policy requirement, assuming no abnormal costs, for larger sites built out at 30dph, which is a Core Strategy policy requirement.

Viability ostensibly improves with the smaller sites archetype (with potentially no offsetting with affordable housing required), though this should be interpreted with caution, on the basis that the 0.5 ha archetype is one of the smaller of the archetypes and is most likely to be developed by smaller builders, which may have build costs higher than the BCIS median used in the modelling, and so the achievement of CSH4 may not be as straightforward as it might seem.

Nevertheless, the results are encouraging, in the round, regarding the achievement of CSH4, not least on the basis that an increase in density to 35dph on the 2ha archetypes is shown to enhance viability and suggests CSH4 is deliverable in the current market for the 2ha archetype. We consider 35dph a realistic density for a 2 ha site, even in a rural area, in situations where the market warrants building smaller housing in order to maintain viable sales rates (£/sq.ft).

Arguably, densities generally are likely to err on the side of around 30-35dph, and on this basis, and considering other factors considered above, we would suggest that achievement of CSH4 in the current market is likely to be patchy unless offset by reductions in Section 106 requirements (including affordable housing) beyond those modelled, though with compliance improving in achievement with market improvement, such that compliance across the market area may be possible in the high growth scenario.

The situation as regards achievement of CSH standards beyond CSH4 on the rural tertiary sites, without compromising other Core Strategy requirements, especially affordable housing, is notably different, in that the modelling suggests that even in the high growth scenario, achievement of CSH6 during the plan period is unlikely. Whilst the achievement of CSH Level targets on rural sites is not Core Strategy policy, the achievement of Part L of Building Regulations will be a critical legal requirement, and whilst

the pace of change as regards the modernising of Part L is uncertain, the requirements are likely to increase at some point in the Plan Period, with a proportionate implication for build costs, and, potentially viability.

Overall, the modelling suggests that Core Strategy policy as applied to Rural Tertiary sites in the DPD, is sound, on the basis of a flexible approach being taken by the local planning authority on the pace of implementation of Policy 24 concerning CSH requirements to Level 4.

#### 4.2.5 Rural Generally

Overall, the modelling suggests that rural sites generally are sound when Core Strategy Policies are applied. The rural definition covers a wide range of market areas, and it is that in the highest value (Rural Prime) areas, Core Strategy Policy up to Code for Sustainable Homes Level 4 is possible now, with achievement of Level 6 being a realistic possibility on sites in the plan period; likewise CSH4 is achievable in the Rural Secondary Value areas, but with achievement of Level 6 in the plan period likely being the exception rather than the rule. It is only in the lowest value (tertiary) rural market areas, where more notable difficulties may be encountered in achieving CSH4 without offsetting Section 106 (including affordable housing) requirements, depending on the pace of market growth, and where any achievement of CSH6 in the plan period would seem unlikely.

In the highest or primary value areas, values are such that there is good scope to achieve the Policy requirement of Code for Sustainable Homes Level 4 in the current market environment, whilst progress to Code Level 6 is also possible over the Plan Period. Notwithstanding this, we could caution that the primary value rural areas are characterised by generally smaller sites, which tend to attract local and regional builders, who face costs at the higher end of the BCIS range, and especially with regard to assimilating new technologies involved in progressive Code for Sustainable Homes. This may have a bearing on the pace of compliance with levels over CSH4 over the Plan Period.

Likewise the modelling suggests that Rural Secondary sites in the DPD are sound when Core Strategy policies are applied, again on the basis of a flexible approach being taken by the local planning authority on the pace of implementation of Policy 24 concerning CSH requirements beyond Level 4. The policy aim of achieving up to CSH6 remains reasonable as it is potentially deliverable on a number of sites within the plan period, even assuming a low growth scenario.

With regard to the lowest or tertiary value rural areas, we would suggest that achievement of CSH4 in the current market is likely to be patchy unless offset by additional reductions in Section 106 (including affordable housing) requirements, though with compliance improving in achievement with market improvement, such that compliance across the market value area may be possible in the high growth scenario.

#### 4.2.6 Burbage

The key DPD allocation for Burbage is likely to be a medium sized brownfield site, and on this basis we have considered the Burbage allocations under one market archetype.

The results of the modelling are set out below.

HBBC Core Strategy Policy Scenario				CSH3	CSH4 (Flexible Affordable)				CSH4 (Fixed Affordable)			CSH Level 6 by 2016		CSH6 beyond 2016	
Growth Scenario				2013	2013	Growth Scenario		2013	Growth Scenario		Growth Scenario		Growth Scenario		
						Low	High		Low	High	Low	High	Low	High	
Burbage (20% affordable)	Prime Value Brownfield	1.5ha	30dph	20%	10-15%	10-15%	20%								
			35dph	20%	15-20%	15-20%	20%								
			40dph	20%	15-20%	15-20%	20%								

The modelling suggests there may be a requirement, at least in the current and low growth market scenarios, for a trade off with Section 106 requirements (including affordable housing) if the CSH Level 4 is to be achieved; our analysis suggests a deviation of at least 5% from the 20% policy requirement, assuming no abnormal costs. Full affordable housing compliance may be possible in the high growth scenario.

The situation as regards achievement of CSH standards beyond CSH4 without compromising other Core Strategy requirements, especially affordable housing, is notably different, in that the modelling suggests that even in the high growth scenario, achievement of CSH6 during the plan period is unlikely.

Overall, the modelling suggests that the DPD allocation, in relation to Core Strategy policy requirements, is sound, on the basis of a flexible approach being taken by the local planning authority on the pace of implementation of Policy 24 concerning CSH requirements to Level 4.

#### 4.2.7 Hinckley

What is classified in the Core Strategy as the Urban Area of Hinckley covers a wide range of housing market areas, as was considered in detail in the Leicester and Leicestershire Housing Market Assessment. In view of this complexity, and cross referencing with the distribution of sites within the DPD in relation to these market areas, we have modelled Hinckley based on two market classifications – Prime and Secondary.

#### 4.2.8 Hinckley Prime

The results of the modelling are set out below.

HBBC Core Strategy Policy Scenario				CSH3		CSH4 (Flexible Affordable)		CSH4 (Fixed Affordable )			CSH Level 6 by 2016		CSH6 beyond 2016	
Growth Scenario				2013	2013	Growth Scenario		2013	Growth Scenario		Growth Scenario		Growth Scenario	
						Low	High		Low	High	Low	High	Low	High
Hinckley (20% affordable)	Prime Value (All Greenfield)	1.5ha	30dph	20%	20%	20%	20%							
			35dph	20%	20%	20%	20%							
			40dph	20%	20%	20%	20%							

With all CSH4 scenarios being modelled as being viable, including in the current market, the modelling suggests that there is good scope for CSH4 to be achieved now, without necessarily comprising on the affordable housing delivery requirements of 20% for the Hinckley Urban Area.

The results suggest that the Prime Hinckley sites will unlikely be able to achieve CSH 6 by the policy target date of 2016, even assuming a high growth scenario over the next two and a half years. Notwithstanding this, the “amber” result, indicating marginal viability for the 35dph archetype, suggests that CSH Level 6 may be achievable later in the plan period, assuming a high market growth scenario. This result for the 35dph archetype is significant in that we would suggest developments at around this density will be the most commonplace in the Prime Hinckley over the rest of the plan period; lower densities tend to be more typical of higher value areas that can support larger dwellings, whilst higher densities require a notable proportion of 2.5 and even 3 storey, and terrace housing, which are formats that developers have generally moved away from for most sites (Notably the modelling shows the 40dph archetype as being unviable, which derives from our discounting of the values of 3 bedroom and larger housing for the 40dph density archetype).

Overall, the modelling suggests that the DPD site allocations stand up to Core Strategy policy requirements; there is good scope for CSH4 to be achieved now, without necessarily comprising on the affordable housing delivery requirements of 20%, whilst there is a reasonable possibility of CSH Level 6 being delivered on a minority of sites towards the end of the plan period, assuming a high market growth scenario.



## 4.2.9 Hinckley Secondary

The results of the modelling are set out below.

HBBC Core Strategy Policy Scenario				CSH3	CSH4 (Flexible Affordable)				CSH4 (Fixed Affordable @ 20%)			CSH Level 6 by 2016		CSH6 beyond 2016	
Growth Scenario				2013	2013	Growth Scenario		2013	Growth Scenario		Growth Scenario		Growth Scenario		
						Low	High		Low	High	Low	High	Low	High	
Hinckley (20% affordable)	Secondary Value (All brownfield)	3ha	35dph	<5%	<5%	<5%	5%								
			40dph	15%	5%	5%	15-20%								
		1.5ha	35dph	<5%	<5%	<5%	<5%								
			40dph	15%	5%	5%	15-20%								
	60dph		10-15%	5%	5%	15%									
	0.5ha	40dph	15%	5-10%	5%	15-20%									
		60dph	15%	5-10%	5%	10-15%									

No archetype is projected as being ostensibly viable.

Notwithstanding this, the brownfield sites within Hinckley cover a considerable range of sizes, use and overall quality, and so the requirements and aspirations regarding sale price of landowners are likely to vary considerably by site. To reflect this, on this basis, in cases where residual land value of the archetype development meets £400,000 / acre but not the 25% GDV threshold, and achieves between 17% and 19.9% profit on value for the developer, the site is considered marginally viable (shown by an amber classification).

To aid interpretation, we have modelled affordable housing provision (to the nearest 5%) that may be deliverable (marginally) by each archetype. Care should be taken in the interpretation of these results on the basis that the Secondary Hinckley Market Archetype covers a heterogeneous range of sites, from small garage sites, to larger development opportunities in locations where there is the potential, by way of development scale, to push values on from those being achieved in the surrounding areas. An attempt has not been made to make the archetypes any more fine grained on the basis that, given the relatively small proportion of brownfield sites within Hinckley, any further attempt to grade the site archetypes beyond development density and size, risks an archetype becoming a de-facto representation of one particular site, rather than a site typology.

On this basis, the modelling suggests there may be a requirement, at least in the current and low growth market scenarios, for a significant trade off with affordable housing requirements (which Core Strategy Policy 15 allows), if the CSH Level 4 is to be achieved; our analysis suggests a deviation of around 10%. (Comparing the approximate affordable housing achievable under current building regulations standards (Code for Sustainable Homes Level 3) with the approximation of affordable housing achievable in the current market when applying CSH Level 4).

Notably, the archetypes are shown to perform worse in the low growth scenario under CSH4 than the current market scenario – showing around 5% affordable housing as being deliverable rather than up to around 10% in the current market scenario. This is on the basis that the growth scenarios assume a return to full Section 106 payments, whilst the current market scenario takes the lower, current

average payment figure. From this it can be drawn that both in the current and low growth scenarios a balance will require to be struck between affordable housing, the policy aim to achieve CSH Level 4, and Section 106 payments.

The “amber” results for the modelling for the High Growth Scenario with Fixed 20% affordable housing, suggests CSH Level 4 may be achievable on some sites, alongside full Section 106 contributions and 20% affordable housing. The flexible affordable modelling under this growth scenario and assuming CSH Level 4, suggests that affordable housing achieved is more likely to be around 15%, alongside full Section 106 payments. This balancing of contributions and requirements is required on a site by site basis.

The situation as regards achievement of CSH standards beyond CSH4 on the Hinckley Secondary sites, without compromising other Core Strategy requirements, especially affordable housing, is notably different, in that the modelling suggests that even in the high growth scenario, achievement of CSH6 during the plan period will not be possible.

Overall, the modelling suggests that the DPD site allocations in the Hinckley Secondary market area, stand up to Core Strategy policy requirements; on the basis of a flexible approach being taken by the local planning authority on the pace of implementation of Policy 24 concerning CSH requirements to Level 4 and beyond.

### 4.3 OVERALL POLICY SOUNDNESS

Having modelled the deliverability of the site archetypes of the DPD on a market geography basis, against the policy requirements of the Core Strategy, this section draws on the modelling results to consider the robustness of the DPD site allocations against Core Strategy policies in the round.

To recap, each site archetype is modelled assuming the following base criteria, drawn from the Core Strategy:

Policy	Modelling Assumption						
<p><u>Policy 14 – Rural Areas: Transport:</u> Sets out transport interventions for the rural areas, Developer contributions toward the initiatives will be requested where they meet the tests set out in national guidance.</p>	<p>Factored into Section 106 allowance</p>						
<p><u>Policy 15 - Affordable Housing</u> The following affordable housing requirements apply by site location:</p> <table border="0" data-bbox="316 824 1061 1003"> <tr> <td>- Urban Area and Sustainable</td> <td>20% affordable housing on sites of 15 or more dwellings, or 0.5ha or more</td> </tr> <tr> <td>- Urban Extensions</td> <td>40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more</td> </tr> <tr> <td>- Rural areas</td> <td>40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more</td> </tr> </table> <p>The tenure split sought will be 75% social rented and 25% intermediate housing. This policy is supplemented by the Affordable Housing Supplementary Planning Document (adopted 2011).</p>	- Urban Area and Sustainable	20% affordable housing on sites of 15 or more dwellings, or 0.5ha or more	- Urban Extensions	40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more	- Rural areas	40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more	<p>Factored into housing tenure blends in viability modelling</p>
- Urban Area and Sustainable	20% affordable housing on sites of 15 or more dwellings, or 0.5ha or more						
- Urban Extensions	40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more						
- Rural areas	40% affordable housing on sites of 4 or more dwellings, or 0.13ha or more						
<p><u>Policy 16 – Housing Density, Mix and Design:</u> All developments of 10 or more dwellings are required to meet Building for Life criteria, with a target of 40 dwellings per hectare in Urban areas, and 30 dwellings per hectare in rural areas.</p>	<p>The Building for Life 12 is a standard for good urban design of developments overall (and so may have a bearing on build density), and does not consider the design, and of houses (and hence not an impact on cost)</p>						
<p><u>Policy 19 - Green Space and Play Provision:</u> Sets standards in relation to the Quantity and Accessibility of green space and play provision in the Borough. Where these standards cannot be met by direct provision, planning obligations will be necessary to secure improvements to existing green spaces or to provide new facilities. This policy is supplemented by the Play and Open Space Guide Supplementary Planning Document (adopted 2008).</p>	<p>Costs of off-site provision are factored into Section 106 allowance</p> <p>Effects of on-site provision are featured in the net development area assumptions</p>						
<p><u>Policy 21 – National Forest:</u> This policy aims to support the implementation of the National Forest, where planting or landscaping cannot be accommodated on site due to lack of land, a commuted sum will be negotiated.</p>	<p>Costs of off-site provision are factored into Section 106 allowance regarding public open space</p>						
<p><u>Policy 24 – Sustainable Design and Technology:</u></p> <table border="0" data-bbox="263 1691 1061 1863"> <tr> <td>Urban Areas</td> <td>Residential development should meet a minimum of Code for Sustainable Homes Level 4 from 2013-2016, rising to Code Level 6 from 2016 onwards</td> </tr> <tr> <td>Rural areas</td> <td>Residential development should meet the targets set out in the 2007 ‘Building a Greener Future’ document</td> </tr> </table>	Urban Areas	Residential development should meet a minimum of Code for Sustainable Homes Level 4 from 2013-2016, rising to Code Level 6 from 2016 onwards	Rural areas	Residential development should meet the targets set out in the 2007 ‘Building a Greener Future’ document	<p>Extra over costs of enhanced provision is factored into viability modelling.</p>		
Urban Areas	Residential development should meet a minimum of Code for Sustainable Homes Level 4 from 2013-2016, rising to Code Level 6 from 2016 onwards						
Rural areas	Residential development should meet the targets set out in the 2007 ‘Building a Greener Future’ document						

The assessment has taken into account the cumulative impact of these policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy.

The financial impact of Core Strategy Policies 14, 16, 19, and 21 are factored in as constants in the modelling. For the most part (except where highlighted, in order to aid understanding through sensitivity testing, specifically with regard to the Secondary Hinckley market), Policy 15 (Affordable Housing) is also a constant (% applied to the modelling as geographically appropriate).

The key policy variable in the modelling relates to Policy 24 – Sustainable Urban Design and Technology, where we have tested viability in relation to: -

- Current building regulations (equivalent to Code for Sustainable Homes Level 3),
- Code for Sustainable Homes Level 4, tested for viability with regard to:
  - the policy aim of implementation from 2013, and,
  - over the plan period generally (applying growth to the mid point between 2013 and 2026, taken to be 2019)
- Code for Sustainable Homes Level 6, tested for viability with regard to:
  - the policy aim of implementation from 2016 (applying the low growth and high growth scenarios), and,
  - over the plan period generally (applying growth to the mid point between 2013 and 2026, taken to be 2019)

On this basis, we present an analysis of policy and viability, by Code for Sustainable Homes Level (Levels 3 (Current Building Regulations), 4 and 6), broken down by Affordable Housing Policy requirement (Urban Areas 20% and Rural Areas, 40%).

### 4.3.1 Code for Sustainable Homes Level 3

This is integrated under Part L of the current building regulations.

#### 4.3.1.1 Urban Areas (20% Affordable Housing)

The DPD site allocations are shown to stand up to the policy requirement of 20% affordable housing, site archetypes across Burbage and the prime value areas (generally Greenfield sites on the edges of the urban area) of Hinckley showing viable achievement of this requirement in the current market environment.

The situation for secondary value sites in Hinckley (generally brownfield sites within the current urban area) is more challenging. Potentially up to 15% affordable housing may be achievable on some sites (around half of the Secondary Hinckley archetypes), these showing a marginal viability at this affordable housing level.

The situation for the secondary value sites is a concern, but is not unduly so, given the relatively small shortfall in affordable housing that is shown to be achievable. One must also consider that the quantum of housing relating to the DPD sites in Hinckley that might be considered as of secondary value is likely to be considerably less than the potential quantum that could be accommodated at the prime value sites in Hinckley, and Burbage.

#### 4.3.1.2 Rural Areas (40% Affordable Housing)

The DPD site allocations are shown to stand up to the policy requirement of 40% affordable housing, all site archetypes across show viable achievement of this requirement in the current market environment.

Notwithstanding this, one must consider the results in the round, especially the difference a modest change in build costs can make. For example, the Code for Sustainable Homes Level 4 modelling was shown to make some Rural Tertiary site archetypes marginal at 40% affordable housing, and it is not unlikely that a higher build cost than the median BCIS linked rate we have used for CSH Level 3, may occur at sites developed by some smaller builders.

This leads us to suggest that in sites in Rural Tertiary market areas, a figure between that we have modelled for CSH Level 4 , i.e. c 35% (for the 30dph, 2ha, archetype) affordable housing and 40% may be deliverable (assuming the current average S106 requirement of c £4,000) in the market baseline scenario.

One must also consider the distribution of rural sites within the DPD, we would suggest that the allocations are concentrated roughly equally between the Rural Secondary and Rural Tertiary market areas, with a number of small number of allocations in the Rural Prime market area. Given these considerations, the Rural DPD site allocations perform well.

#### 4.3.2 Code for Sustainable Homes Level 4

The aim of Policy 24 is that the CSH Level 4 standard would be required of new residential development from 2013; complying with this standard will require additional extra over costs to the environmental performance standards featured in Part L of Building Regulations.

##### 4.3.2.1 Urban Areas (20% Affordable Housing)

The modelling suggests that the DPD site allocations stand up, in the round to the progressive requirement of Policy 24, whereby Code for Sustainable Homes Level 4 is required from 2013; site archetypes across the prime value areas (generally Greenfield sites on the edges of the urban area) of Hinckley showing viable achievement of this requirement in the current market environment.

The situation for Burbage, and the secondary value sites in Hinckley (all brownfield sites within the urban area) is more challenging.

For the Secondary Hinckley sites, up to between 5% and 10% affordable housing (compared to the Policy 15 target of 20%) may be achievable on some sites (around half of the Secondary Hinckley archetypes) in the current market environment, these showing a marginal viability with CSH Level 4, with the other “half” of the group of archetypes suggesting 5% or under.

Reflecting the higher values in Burbage, the Burbage archetype performs better, being shown to be able to achieve between 10% and 15% affordable housing in the current market environment, assuming Code for Sustainable Homes Level 4. Whilst house sales values in Burbage are superior to those modelled in Prime Hinckley, overall site viability is less on the basis of the archetype assuming a “brownfield” development scenario, and hence carrying greater development costs, and a higher “base” land value to be met.

Under the high market growth scenario, it is shown the level of affordable housing that is compatible with CSH4 may increase; around 15%-20% affordable housing may be achievable on the majority of sites (around half of the Secondary Hinckley archetypes showing achievement of CSH4 and 15% affordable housing under this scenario, and the Burbage site archetype suggesting up to 20% may be possible) alongside CSH Level 4.

The situation for the secondary value Hinckley sites is a concern, but the modelling suggests that around 15% affordable housing may be achievable on many sites within the plan period (possibly from 2019 onwards, depending on the rate of market growth).

One must also consider that the quantum of housing relating to the DPD sites in Hinckley that might be considered as of secondary value is likely to be considerably less than the potential quantum that could be accommodated at the prime value sites in Hinckley and Burbage.

#### 4.3.2.2 Rural Areas (40% Affordable Housing)

The DPD site allocations stand up to Core Strategy policy; site archetypes in the Prime Rural and Secondary Rural market areas showing viable achievement of the CSH Level 4 requirement in the current market environment.

It is in the lowest value (tertiary) rural market areas, where more notable difficulties may be encountered in achieving CSH4 without offsetting affordable housing requirements (to around 30-35%), depending on the pace of market growth (which Policy 15 allows for). In these areas CSH4; and 40% affordable housing may be achievable later (2019 onwards) within the Plan Period under the high market growth scenario (or under the lower market growth scenario if there is a “trade off” with other Section 106 requirements).

One must also consider the distribution of Rural sites within the DPD, we would suggest that the allocations are concentrated roughly equally between the Rural Secondary and Rural Tertiary market areas, with a number of small number of allocations in the Rural Prime market area. Given these considerations, the policy requirement of 40% affordable housing for rural areas generally, remains deliverable considering the rural DPD sites in the round. Comparing the results of the modelling with the distribution of DPD sites, suggests that just over half of development in rural areas having a reasonable prospect of delivering CSH 4 and 40% affordable housing during the early part of the remaining plan period, with this position a possibility in the later half of the plan period at DPD sites in lower value market areas, pending a high growth scenario, with 30% plus affordable housing being a possibility otherwise.

#### 4.3.3 Code for Sustainable Homes Level 6

The aim of Policy 24 is that the CSH Level 6 standard would be required of new residential development from 2016; complying with this standard will require significant additional extra over costs to the environmental performance standards featured in Part L of Building Regulations.

##### 4.3.3.1 Urban Areas (20% Affordable Housing)

The modelling suggests that there are no DPD sites where CSH Level 6 may be achievable (without compromising affordable housing delivery) by the Policy target date of 2016.

Beyond the target date of 2016, but within the Plan Period (up to 2026), the modelling suggests a slight chance of achieving CSH Level 6 at a minority of sites in the Prime Hinckley market area; one

development archetype shows a “marginal” viability result in the “High” market growth scenario. Given this combination of factors, and that we are of the view there is a significant margin for cost error in calculating the costs of such advanced volume house building technologies this far off from the implementation period, and the sensitivity to site specific circumstances achievement of Level 6 may present, we would suggest the possibility of CSH Level 6 being achieved within the Plan Period in the DPD sites in the Urban area are slim.

Notwithstanding this, additional sensitivity modelling, applying the two growth scenarios (low and high) suggests that the Prime Hinckley and Burbage DPD site archetypes, may be able to absorb extra over costs relating to Code for Sustainable Homes of between £3,500 - £10,000 per dwelling. Whilst falling short of current estimates<sup>26</sup> of the extra over costs of Code for Sustainable Homes Levels 5 and 6 (between circa £20,000 and £35,000 per dwelling), there is at least some scope for the sites to deliver progressive improvements in statutory Part L Building Regulations (which are currently accepted as being a good proxy to Code for Sustainable Homes Level 3, with the pace of change to other CSH levels currently uncertain<sup>27</sup>), without seriously compromising other Core Strategy policy aims.

#### 4.3.3.2 Rural Areas (40% Affordable Housing)

In the highest or primary value areas progress to Code Level 6<sup>28</sup> is possible over the period 2016 and beyond during the Plan Period. Notwithstanding this, we could caution that the primary value rural areas are characterised by generally smaller sites, which tend to attract local and regional builders, who face costs at the higher end of the BCIS range, and especially with regard to assimilating new technologies involved in progressive Code for Sustainable Homes. This may have a bearing on the pace of compliance.

With regard to the Rural Secondary sites in the DPD, the archetype modelling suggests a lesser resilience to progressive increases in that Part L Building Regulations<sup>29</sup>, achieving the equivalent of CSH Level 6 is potentially achievable within the plan period on a number (if only a minority) of sites within the plan period, even assuming a low growth scenario.

One must also consider the distribution of Rural sites within the DPD, we would suggest that the allocations are concentrated roughly equally between the Rural Secondary and Rural Tertiary market areas, with a number of small number of allocations in the Rural Prime market area. This will have a bearing on the degree of possible implementation of CSH Level 6 in the rural areas, for whilst compliance with Part L building regulations equivalent to CSH 6 (without compromising other Core Strategy aims relating to Affordable Housing and Section 106) is most likely, of the rural areas generally, in the Rural Prime area, this represents only a minority of allocations in the DPD.

The DPD allocations are broadly split between the Secondary and Tertiary market areas, and, whilst there may be the possibility of adherence to Part L Building Regulations equivalent to CSH Level 6 in

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<sup>26</sup> Cost of building to the Code for Sustainable Homes: Updated cost review, DCLG, Davis Langdon (2011)

<sup>27</sup> Housing Standards Review Consultation , DCLG (2013)

<sup>28</sup> Whilst not Core Strategy policy in rural areas, testing against possible future extra over costs required to achieve potentially higher statutory Building Regulations Part L standards remains an important consideration

<sup>29</sup> Whilst CSH is not Core Strategy policy in rural areas, testing against possible future extra over costs required to achieve potentially higher statutory Building Regulations Part L standards remains an important consideration

the plan period at some secondary sites, the modelling suggests that achievement of the equivalent CSH Level 6 at the DPD sites in the Rural Tertiary Market is highly unlikely, without compromising other Core Strategy policy aims. As such it is likely that CSH Level 6 will only be deliverable on a minority of the rural housing quantum delivered at DPD sites during the Plan Period.



## 5 Conclusion and Recommendations

Hinckley and Bosworth Borough Council appointed DTZ to assess the viability of a variety of sites that are being considered for allocation in the forthcoming Site Allocations and Development Management Policies Development Plan Document (the DPD).

The study has assessed the viability of a sample set of site archetypes, reflective of the sites that the Council are considering allocating for development through the DPD process. This is in order to satisfy the requirements of the NPPF in relation to viability, and to ensure that the proposed allocations are deliverable in respect of the policies, contained in the Core Strategy.

The assessment has taken into account the cumulative impact of these policies in the Hinckley and Bosworth Local Plan 2006-2026, including those in the adopted Core Strategy.

The financial impact of most of the Policies (Core Strategy Policies 14, 16, 19, and 21) are factored in as constants in the modelling. For the most part (except where highlighted, in order to aid understanding through sensitivity testing, specifically with regard to the Secondary Hinckley market), Policy 15 (Affordable Housing) is also a constant (% applied to the modelling as geographically appropriate).

The key policy variable in the modelling relates to Policy 24 – Sustainable Urban Design and Technology, where we have tested viability in relation to: -

- Current building regulations (equivalent to Code for Sustainable Homes Level 3),
- Code for Sustainable Homes Level 4, tested for viability with regard to:
  - the policy aim of implementation from 2013, and,
  - over the plan period generally (applying growth to the mid point between 2013 and 2026, taken to be 2019)
- Code for Sustainable Homes Level 6, tested for viability with regard to:
  - the policy aim of implementation from 2016 (applying the low growth and high growth scenarios), and,
  - over the plan period generally (applying growth to the mid point between 2013 and 2026, taken to be 2019)

On this basis, we have analysed policy and viability, by Code for Sustainable Homes Level (Levels 3 (Current Building Regulations), 4 and 6), broken down by Affordable Housing Policy requirement (Urban Areas 20% and Rural Areas, 40%).

The policy aim of Policy 24 is for homes to be delivered to Code for Sustainable Homes Level 4 as of 2013. The modelling suggests that the DPD sites are viable and deliverable on the basis that:

- **with regard to the urban area:** the archetype modelling suggests that it is deliverable now in the Prime Hinckley market area (all Greenfield sites), and also in Burbage now with further offsetting against other Section 106 contributions (for example the reduction of affordable housing to between 10% and 15%, alongside average other Section 106 payments per dwelling of £4,000), or later within the plan period with no additional Section 106 offsetting (c. 2019 onwards), and assuming high growth. Delivery in the Secondary Hinckley market area, alongside a reasonable affordable housing quantum depend on a reasonable degree of market growth (no more than 5% less than the 20% Policy target) are slimmer (will depend on the high market growth scenario). Notably, the capacity of DPD sites in the

Secondary Hinckley market area represents a smaller proportion of the DPD housing quantum in the Urban area

- **with regard to the rural area:** the archetype modelling suggests that it is deliverable now in the Prime and Secondary Rural market areas. Whilst delivery (without significant offsetting against affordable housing provision) in the Tertiary Rural Market area may only be possible in the later half of the Plan Period, assuming the high growth scenario, it should be borne in mind that DPD sites in the Prime and Secondary Rural markets represent just over quarter of potential development of the DPD sites

The further policy aim of Policy 24 is for homes to be delivered to Code for Sustainable Homes Level 6 as of 2016. Beyond the Rural Prime DPD sites (where it is not actually policy) the modelling reveals that CSH Level 6 is not likely to be achievable in any of other the sites within the Plan Period, even beyond 2016, without significantly compromising the delivery of other Core Strategy policy aims on the sites.

Notwithstanding this, additional sensitivity modelling, applying the two growth scenarios (low and high) suggests that the Burbage DPD site archetypes, may be able to absorb extra over costs relating to Code for Sustainable Homes of between £3,500 - £10,000 per dwelling. Whilst falling short of current estimates<sup>30</sup> of the extra over costs of Code for Sustainable Homes Levels 5 and 6 (between circa £20,000 and £35,000 per dwelling), there is at least some scope for the sites to deliver progressive improvements in statutory Part L Building Regulations (which are currently accepted as being a good proxy to Code for Sustainable Homes Level 3, with the pace of change to other CSH levels currently uncertain<sup>31</sup>), without seriously compromising other Core Strategy policy aims.

The study has assessed the viability of a sample set of site archetypes, reflective of the sites that the Council are considering allocating for development through the DPD process. This is in order to satisfy the requirements of the NPPF in relation to viability, and to ensure that the proposed allocations are deliverable in respect of the policies, contained in the Core Strategy.

The assessment has taken into account the cumulative impact of these policies in the Hinckley and Bosworth Local Plan 2006-2026.

***Having tested the viability of a sample set of site archetypes, reflective of the sites that the Council are considering allocating for development through the DPD process, this study concludes (notwithstanding site specific abnormal costs) that the residential allocations are deliverable in the context of reasonable flexibility in the interpretation and application of Core Strategy Policies.***

***Most of the sites will be able to achieve Code for Sustainable Homes Level 4 at various points over the plan period without seriously compromising other Core Strategy policy requirements.***

***Whilst delivery of sites to Code for Sustainable Homes Level 6 over the Plan Period (based on current estimates of extra over costs), in accordance with Policy 24 may be limited to certain rural sites (where Policy 24 does not actually apply), the modelling does suggest that within the Urban area (where Policy 24 does apply) that there is a capacity for Prime Hinckley and Burbage DPD site archetypes, to absorb***

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<sup>30</sup> Cost of building to the Code for Sustainable Homes: Updated cost review, DCLG, Davis Langdon (2011)

<sup>31</sup> Housing Standards Review Consultation , DCLG (2013)

*extra over costs relating to Code for Sustainable Homes of between £3,500 - £10,000 per dwelling. Whilst falling short of current estimates<sup>32</sup> of the extra over costs of Code for Sustainable Homes Levels 5 and 6 (between circa £20,000 and £35,000 per dwelling), there is at least some scope for the sites to deliver progressive improvements in statutory Part L Building Regulations (which are currently accepted as being a good proxy to Code for Sustainable Homes Level 3, with the pace of change to other CSH levels currently uncertain<sup>33</sup>), without seriously compromising other Core Strategy policy aims. This is a very important consideration in concluding that the DPD site allocations are deliverable against the Core Strategy policies.*

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<sup>32</sup> Cost of building to the Code for Sustainable Homes: Updated cost review, DCLG, Davis Langdon (2011)

<sup>33</sup> Housing Standards Review Consultation , DCLG (2013)

## **Appendix One: Statement of Common Ground (including schedule of consultees approached)**



## Appendix Two: Market Comparables