

**RUGBY BOROUGH COUNCIL
CONSULTATION
REVIEW OF THE VIABILITY
EVIDENCE BASE SUPPORTING
THE PROPOSED COMMUNITY
INFRASTRUCTURE LEVY**

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1.0 Introduction

- 1.1 Bidwells is instructed by Karenor Partners Limited to review the document titled "Rugby Borough Council Community Infrastructure Levy Viability Assessment Review." This report was prepared by BNP Paribas ("BNPP") on behalf of the Council and is dated January 2022. We refer to this report as "the BNPP Review" throughout.
- 1.2 The BNPP Review forms part of the evidence base for the proposed Community Infrastructure Levy ("CIL") that Rugby Borough Council is considering introducing.
- 1.3 Bidwells has recently advised Karenor Partners Limited on the viability of their proposed regeneration of Rugby Central shopping centre, and over the past six months has worked with the Council and their consultants BNP Paribas to reach an agreed position on scheme viability in relation to that planning application. We are therefore familiar with the challenges of delivering large, urban regeneration schemes in Rugby.
- 1.4 Bidwells' comments on the BNPP Review are set out below.

2.0 General Comments

- 2.1 The BNPP Review follows a conventional methodology for assessing scheme viability. It analyses the Residual Land Value that would be capable of being generated by series of conceptual development typologies. It then compares these residual land values to a series of Benchmark Land Values ("BLV") for each typology site. If the RLV exceeds the BLV then the scheme can be considered viable and therefore to be capable of sustaining additional planning gain such as CIL
- 2.2 As the BNPP Review is an area-wide study it is by definition generic. BNPP acknowledges that some sites may require a more detailed and site-specific viability analysis when they come through the development management process.
- 2.3 if a CIL is adopted then it must be levied on qualifying developments. Therefore, in practical terms if CIL is adopted, it may render specific development schemes unviable. It is for this reason that rates that are set for CIL should give some 'headroom' to allow for scheme specific viability issues, a fact which BNPP acknowledges and considers when they are making their recommendations.
- 2.4 We note that the date of the BNPP Review is January 2022 and since that date many global macroeconomic events have occurred including the war in Ukraine contributing to much higher inflation and interest rates. These factors are not considered in the report and therefore the issue of sufficient headroom becomes extremely important.

3.0 Proposed CIL Rates

- 3.1 We note that the BNPP Review advocates a charge level for all types of residential property, with the exception of older persons' accommodation. With regards to residential rates, Bidwells notes that differential CIL levels are proposed for rural and urban areas and for major and minor development schemes. We agree that this is a sensible approach.
- 3.2 In recognition of the high infrastructure burden of strategic sites including South-West Rugby and Coton Park West the report proposes that development on these sites is nil rated. Bidwells notes that this approach has been followed by other local planning authorities in relation to large strategic sites and is on that is supported.
- 3.3 The BNPP Review recommends that new office development is nil rated due to the lack of speculative office development coming forward due to a failure to generate positive land values. A nil rating is also advocated for industrial and warehousing development due to the volume of allocated sites yet to be built out and the economic effect that the imposition of CIL may have on these sites.
- 3.4 The BNPP Review proposes a nil CIL rate for comparison retail but advocates a rate of £100 per sqm for convenience retail. The report does note however, that as convenience retail is controlled through six main operators that these parties are unlikely to have significant expansion plans at the time and therefore the CIL contribution from convenience retail may be limited.

4.0 Consideration of Residential Development of Previously Developed Land

- 4.1 Bidwells agrees with BNPP that most residential development within Rugby Borough is likely to come in the form of houses built on greenfield sites. This is therefore in our view rightly where the focus of the CIL analysis should take place.
- 4.2 Notwithstanding the above, it is also important to recognise that development is also likely to happen on Previously Developed Land ("PDL") which by virtue of their historic uses may have higher infrastructure or abnormal costs, such as demolition of existing structures, or remediation land to remove contamination. These factors are particularly prevalent in regeneration schemes such as Rugby Central.
- 4.3 Bidwells has sympathy with BNPP regarding their ability to analyse these sites in the context of an area-wide study as by definition they are all different. However, Bidwells does not consider that sufficient analysis has been done of schemes on PDL to support the levying of a CIL charge on these sites.

5.0 Consideration of Urban Flatted Schemes

- 5.1 Bidwells notes that the BNPP Review considers only two scheme typologies containing flats (typology 45 and 46). Furthermore, it is noted that both typologies analysed relate to older

peoples housing only. BNPP's conclusion is that typologies 45 & 46 would both be unviable, and on this basis recommend that housing for older people is subject to a nil CIL levy.

- 5.2 None of the typologies analysed by BNPP are for flatted schemes for market sale which are often developed on Previously Developed Land in an urban regeneration context. Bidwells considers this to be an omission, as this type of scheme is likely to have very different development economics (particularly around build costs and Benchmark Land Values) than for the housing schemes on greenfield land which form the vast majority of development that is envisaged within Rugby Borough.
- 5.3 Accordingly, the BNPP Review presents no analysis to support the recommendation that urban, flatted schemes for sale should be subject to the same levels of CIL as the greenfield housing development that is comprehensively analysed within the typologies.
- 5.4 Indeed, as above the only evidence presented in the BNPP Review for flatted schemes is for older peoples' accommodation and this evidence demonstrates that a CIL charge would render these types of schemes unviable and therefore BNPP's recommendation is that those schemes should be nil rated.
- 5.5 Bidwells therefore considers that the conclusion that CIL is viable to be charged on all private residential development to be unsupported by evidence specifically with regard to urban flatted schemes.

6.0 Benchmark Land Value for Brownfield Sites

- 6.1 As noted above, Bidwells agrees with BNPP that as the viability assessment is an area wide assessment it cannot deal with the specifics of particular sites. Nevertheless, when considering Previously Developed Land, BNPP has applied a single Benchmark Land Value of £800,000 per gross hectare (£324,000 per gross acre) for their analysis of this type of site.
- 6.2 It is not clear on what basis this Benchmark Land Value has been derived. It is noted that PDL sites vary considerably in terms of their Existing Use Value. Many sites that are on PDL may contain buildings and other assets which present a higher current use value than the rate adopted by BNPP in its analysis.
- 6.3 The consequence of this is that the Benchmark Land Value for a PDL site could be substantially higher than that assumed by BNPP. The implication of a substantially higher Benchmark Land Value by virtue of a strong existing use would materially impact the ability of the scheme to maintain viability if a CIL payment were to be charged and the BNPP report has not considered this.

7.0 Conclusions

- 7.1 In conclusion, Bidwells supports much of the analysis contained in the BNPP report. We agree with BNPP that the vast majority of residential development in Rugby Borough is likely to be new

housing on greenfield sites and that this type of scheme is where much of the CIL revenue that is received will come from.

- 7.2 We do not agree however with the proposal to charge CIL on all residential schemes because no analysis of conventional flatted schemes has been carried out to determine whether they would be viable or not. The CIL charging level proposed for urban flatted schemes is therefore unsupported by evidence
- 7.3 Bidwells also considers that the BNPP Review does not consider adequately the varying Benchmark Land Values that may be applicable to Previously Developed Land. A substantially higher Benchmark Land Value by virtue of a high current use value has the potential to erode the viability headroom that is proposed by BNPP in their suggested charge level to a point where a scheme that is proposed on Previously Developed Sites may become unviable and therefore undeliverable. These circumstances may apply to regeneration schemes in particular.
- 7.4 Given the lack of analysis of flatted schemes on Previously Developed Land we consider that the imposition of a CIL levy on these sites is unfounded and may render many proposed schemes unviable.
- 7.5 We would therefore suggest that flatted development in the urban area should also be rated as nil CIL to ensure that the councils regeneration objectives can be achieved.



BIDWELLS