PLANNING ACT 2008 (AS AMENDED)
SECTION 212(2)

REPORT ON THE EXAMINATION OF THE DRAFT READING COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE

Charging Schedule submitted for examination on 7 August 2014
The Examination was dealt with by written representations.

File Ref: PINS/E0345/429/10
Non Technical Summary

This report concludes that the Draft Reading Community Infrastructure Levy Charging Schedule provides an appropriate basis for the collection of the levy in the area. The Council has sufficient evidence to support the schedule and can show that the levy is set at a level that will not put the overall development of the area at risk.

I have recommended that the schedule should be approved in its published form, without changes.

Introduction

1. This report contains my assessment of the Draft Reading Community Infrastructure Levy (CIL) Charging Schedule (Submission Version) in terms of Section 212 of the Planning Act 2008. It considers whether the schedule is compliant in legal terms and whether it is economically viable as well as reasonable, realistic and consistent with national guidance (Community Infrastructure Levy Practice Guidance – February 2014).

2. To comply with the relevant legislation Reading Borough Council (the Council), as local charging authority, has to submit a charging schedule which strikes an appropriate balance between the desirability of funding infrastructure from the levy and the potential impact upon the economic viability of development across its area. The basis for the examination, which was dealt with by written representations, is the submitted schedule of August 2014 which is effectively the same as the document consulted upon between March and May 2014.

3. For the purposes of the CIL the Council divide the Borough into 4 areas. These are; firstly, the Borough as a whole; secondly, Reading Central Area; thirdly the remainder of the Borough (which is everything outside the Reading Central Area); and fourthly the Central Core (which is defined as the walk time catchment of Reading rail station).

4. The following rates are proposed in the Draft Charging Schedule.

   - A Borough wide rate of £120/m² for residential use, hotels, sheltered housing and private rented hostels including student accommodation.

   - A1 retail uses are to be charged at a nil rate in Central Reading; larger A1 retail units (2000m² and over) are to be charged at £150/m² in the remainder of the Borough while smaller such units (under 2000m²) are to be charged at a nil rate.

   - Offices are to be charged at a rate of £30/m² in the Central Core.

   - Care homes and all other developments are to be charged at a nil rate Borough wide.
Preamble

5. The Council should set a rate which does not threaten the sites and scale of development identified in the relevant plan. For the purposes of CIL the relevant plan for the area comprises the Reading Core Strategy adopted in 2008, the Reading Central Area Action Plan adopted in 2009 and the Sites and Detailed Policies Document adopted in 2012.

6. Policy CS16 of the Reading Core Strategy sets an affordable housing target of 50% while Policy DM6 of the Sites and Detailed Policies Document specifies a particular tenure mix. The Council now accepts that this target and this tenure mix are not viable and in its emerging Affordable Housing Provision Plan proposes to reduce the target to 30% and delete reference to a particular tenure mix. Having conducted the examination into this plan I have concluded that these alterations are sound and I will, therefore, take account of them in this report.

Is the charging schedule supported by background documents containing appropriate available evidence?

Infrastructure planning evidence

7. The relevant plan sets out: the main elements of growth that will take place in the Borough; the infrastructure necessary to support that growth; and the policy approach that will be taken to infrastructure provision. Further details of the additional infrastructure that will be necessary to support growth are contained in the Infrastructure Delivery Plan 2011 and the Revised Infrastructure Delivery Schedule 2014. As would be expected there is a close correlation between those schemes identified in the latter document as using CIL as a funding source and the schemes that appear in the Draft Regulation 123 List in which the Council sets out what it will be spending its CIL receipts on.

8. The estimated cost of funding the schemes identified in the Revised Infrastructure Delivery Schedule is £387.4 million while the estimated level of secured and anticipated funding from other sources is some 70.2 million. This leaves a funding gap of between £317.2 million and £160.8 million depending on the availability of further funding. It is estimated that CIL could contribute something in the order of £2.3 million per annum. In the light of the information provided the proposed charge would make only a modest contribution towards filling the likely funding gap. The figures demonstrate the need to levy CIL.

Economic viability evidence

9. The Council commissioned a CIL Economic Viability Assessment, dated

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1 LP/SDPD. Sites and Detailed Policy Document. Fig 12. Infrastructure Delivery Schedule.
5 INFR/REG123. Draft Regulation 123 List.
February 2013. Subsequently an updated Economic Viability Assessment was commissioned in 2014 which took account of factors such as increasing sales values, land prices and construction costs. These assessments adopt a residual valuation approach and employ reasonable standard assumptions for a range of factors such as profit levels, fees and contingency costs. These assessments have been carried out on a worst case scenario in that it has been assumed that there will be no reduction in the gross internal area of new development to allow for existing floorspace – even though in practice it is likely that such a reduction will be made frequently in an urban area such as Reading.

10. The assessments are based on a number of hypothetical sites intended to mirror the size, location and type of development taking place across the Borough. These sites have been chosen having considered evidence drawn from allocations in the relevant plan and sites that have been granted planning permission. The land values used in these assessments are based on open market values that have been achieved on equivalent sites in the area. Information on local sales prices, rental values and investment yields has also been fed into the assessments.

11. In order to test the cumulative effect on viability of CIL and other charges the assessments have taken account of a range of affordable housing targets and tenure mixes – indeed this testing led to the Council to alter its policies on affordable housing targets and tenure mixes (see paragraph 7 of this report). Apart from this no allowance has been made in these assessments for s106 and s278 costs. Such costs will be site specific. In the sort of high level viability assessment which it is appropriate to carry out when considering CIL charges it is not possible to arrive at a general figure for such costs which would apply across the Borough. The Council’s approach to seeking planning obligations alongside CIL is set out in an emerging Supplementary Planning Document.

12. The sensitivity of each appraisal has also been tested by re-running it in the light of an assumed reduction in value; a reduction in profit; and a combined growth in value and reduction in profit.

Conclusion

13. The Draft Charging Schedule is supported by detailed evidence of community infrastructure needs and by a thorough appraisal of the viability of a range of possible developments that would typically be expected to take place in the Borough. On this basis, the evidence which has been used to inform the Draft Charging Schedule is robust, proportionate and appropriate.

Is the charging rate informed by and consistent with the evidence?

CIL rates for residential development

14. The 2013 Economic Viability Assessment, having modelled a range of types

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8 INFR/S106/SPD. Section 106 Planning Obligations. Supplementary Planning Document.
and sizes of residential sites, concluded that it would be viable to charge a rate of £140/m² for residential uses. The 2014 Economic Viability Assessment took account of later evidence which indicated that while house prices had risen, build costs and land costs had also risen.

15. Consequently it sought to test the effect of these changes on the viability of a range of residential scenarios and concluded that of the 93 such scenarios modelled only 12 were non-viable with a CIL rate of £120/m². Moreover, 8 of these non-viable scenarios assumed an affordable housing target of 50% - which is above the target the Council now proposes to seek. If these are taken out of the equation only 4 scenarios would be unviable at a CIL rate of £120/m² - a figure that equates to some 4% or 5% of the total number of scenarios assessed. The fact that such a significant majority of sites are assessed as being viable at a CIL rate of £120/m² indicates that this rate has not been set up against the margins of viability.

CIL rates for retail development

16. Having assessed a number of commercial development scenarios the conclusion of the Economic Viability Assessment 2013 was that retail developments in Central Reading could not viably support a CIL charge but that in the rest of the Borough they could support a charge of £200/m². However, the updated Economic Viability Assessment 2014 revisited the evidence and took into account the fact that there has been a significant change in emphasis in the retail sector from the development of large convenience stores towards the development of smaller, local, convenience stores. This change has been driven by the impact of internet shopping. Internet shopping has also had an impact on comparison shopping but in this instance it has caused retailers to focus on fewer, larger stores which benefit from good accessibility, free parking and the presence of a range of other retailers.

17. The net effect of these changes is that there is less competition for retail sites and hence the viability of such sites has reduced. In recognition of this the Economic Viability Assessment 2014 concludes that the levy on retail sites in the rest of the Borough outside Central Reading should be reduced to £150/m² on developments of 2,000m² or more while retail developments of less than 2,000m² outside Central Reading should be charged at a zero rate. This size distinction has been drawn on the basis that small supermarkets, which would typically have a floorspace of more than 2,000m², are generally more viable than smaller convenience stores with a floorspace of less than 2,000m².

CIL rates for office development

18. The 2013 Economic Viability Assessment establishes that demand for office accommodation is focussed on the Central Core, namely the area within a short walk of Reading rail station. Recent letting of office accommodation shows a similar concentration on this area. The development scenarios
examined indicate that office development is only viable in the Central Core\textsuperscript{11}. In other words this is the only area within the Borough which has an active market for office accommodation. The supply of offices could run out much sooner in this core area than in the town centre as a whole and it is likely that rental rates will increase as demand begins to outstrip supply. There is, therefore, scope for a low CIL tariff within the Central Core. It is on the basis of this evidence that a rate of £30/m\textsuperscript{2} has been chosen for office development within the Central Core.

\textit{Conclusion}

19. The CIL rates proposed in the Draft Charging Schedule for residential, retail and office uses are informed by and consistent with the viability evidence contained in the 2013 and 2014 versions of the Economic Viability Assessment. Where the later version of this document indicates that the evidence has changed then the CIL rates have been changed accordingly.

\textit{Does the evidence demonstrate that the proposed charge rate would not put the overall development of the area at serious risk?}

20. The Council’s decision to set the CIL charges itemised in paragraph 4 above is based on reasonable assumptions about development values and likely costs. The charges would typically amount to only 5% or 6% of the total development costs of a scheme and so would have only a relatively borderline impact on viability. The evidence suggests that residential, retail and office development as a whole would remain viable across most of the area if these charges were applied and they would not threaten the development of the sites, or the scale of development, identified in the relevant plan.

\textit{Conclusion}

21. In setting the CIL charging rate the Council has had regard to detailed evidence on infrastructure planning and the economic viability evidence of the development market in Reading. The Council has tried to be realistic in terms of achieving a reasonable level of income to address an acknowledged gap in infrastructure funding, while ensuring that a range of development remains viable across the authority area. The Council has indicated that it will review its CIL charges on a regular basis.

\textbf{LEGAL REQUIREMENTS}

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<td>2008 Planning Act and 2010 Regulations (as amended)</td>
<td>The Charging Schedule complies with the Act and the Regulations, including in respect of the statutory processes and public consultation, consistency with the relevant plan (the adopted Reading Core</td>
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\textsuperscript{11} EVA/2013. Economic Viability Assessment 2013. Table 8, page 42.
Strategy, the adopted Reading Central Area Action Plan and the adopted Sites and Detailed Policies Document) and the Revised Infrastructure Delivery Schedule and is supported by an adequate financial appraisal.

22. I conclude that the Reading Community Infrastructure Levy Charging Schedule satisfies the requirements of Section 212 of the 2008 Act and meets the criteria for viability in the 2010 Regulations (as amended). I therefore recommend that the Charging Schedule be approved.

RJ Yuille
Examiner