

The Home Builders Federation

**PO Box 2512, Cardiff, CF23 0GB**

**Newport Deposit LDP**

**HBF Supplementary Paper for Policy H4**

**1. The results of the viability assessment and relationship to the policy**

In terms of interpreting the results with a view to identifying an appropriate percentage of affordable housing, we are unsure how the assessment actually arrives at the assumption that 30% is a viable policy target across the authority. In this context, it is clear from the assessment that residual values vary widely across the authority, with distinct differences being recorded in areas such as Caerleon and Rural Newport compared to Newport East and Malpas and Bettws. This in itself poses a particular problem for the local authority, given that Newport East (which covers the wards of Llyswerry and Llanwern), proposes to deliver the majority of the housing over the LDP period and therefore, the potential delivery of affordable housing in these areas will be extremely limited.

In light of this, we believe the affordable housing policy as it stands would have a detrimental impact on the delivery of homes in Newport. When our additional representations are considered below, this will become even more of an issue, which could potential extend into the higher value areas.

**1.1 The theory of Section 106 and Land Valuations**

Paragraph 2.5 of the viability assessment states that the existing use value of the site, or a realistic alternative use value for a site (e.g. commercial), will play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing. However, we do not believe that viability can be defined simply in this respect. A residual value falling below the existing use value is a good measure to indicate that a development would definitely not be viable, but it is not a sound indicator of viability itself, particularly when existing use values, such as industrial and commercial, are so far adrift from the actual residential land values experienced within the authority. This would also apply to greenfield and agricultural land values, as these values are even lower again. As the assessment states, a positive residual value is by no means a guarantee to demonstrate viability and as such, when assessing what a suitable residential land value might be, we believe it is important to fully consider the evidence with respect to current land values and the values at which current (or very recent) transactions are taking place, in order to ensure the assessment is sound and robust.

**1.2 Other section 106 (and other) contributions**

Paragraph 3.11 of the viability assessment states that the cost assumed for ‘other section 106 (and other) contributions’ is £5,000 per unit, which is a figure agreed to be appropriate with the local authority. However, the assessment also suggests that such costs could be higher in real terms and in this respect, paragraph 4.6 indicates the potential implications to the assessment if the costs rose to £10,000 per unit.

In term of the general assumption with respect to planning obligations, we are concerned that the £5,000 assumption might represent a severe under estimation of the likely costs levied on development. For instance, the strategy of the LDP relies heavily on the use of planning obligations to rectify the constraints and barriers to development, as well as providing benefits such as education, transport and open space facilities etc. Given that a vast majority of the sites allocated for development within the LDP have many constraints, it is likely that additional costs will be required in order to remedy these constraints, which will either be secured via section 106 contributions, or will impact on the ability to secure such contributions.

In addition to this, we believe it would be rather ineffectual to simply rely on what has been achieved in the past as a marker for the level of planning obligations to be secured in the future. Clearly the LDP will require more subsidies via section 106 in the future, in order to ensure all its requirements can be met. The requirements of National Guidance are also becoming more onerous than in previous times, with the prospect of public funding available to support delivery at record low levels. Therefore, it is highly likely that the level of funding for planning obligations required in the future will be far greater than that which was required in the past. In light of this, we believe the assessment should build in additional flexibility and should assume the £10,000 planning obligations threshold as the minimum default requirement for other section 106 contributions in the future.

**1.3 Relationship of the viability assessment to the LDP Strategy**

We believe it is important for the viability assessment to properly reflect the nature and composition of the LDP strategy if it is going to make a sound assessment of the level of affordable housing that can be delivered on the sites proposed. However, after studying the viability assessment and the LDP strategy, it is clear that the assessment methodology does not bear any relationship to the strategy of the LDP. In this respect, paragraph 3.2 of the viability assessment states that the analysis for the level of affordable housing that can be delivered is based on a notional 1 hectare site. The assessment also assumes that this 1 hectare site is free from constraints and does not provide any latitude to include the potential cost of remediating constraints to development where this might be necessary. However, as we can see from Policy H1, the nature of the test-case site does not correspond in any way to the proposed allocations, with the vast majority of the allocations being brownfield sites with significant constraints to development.

Clearly if the cost of remediating constrained sites is to be borne by land values, reference to this must be included within the viability assessment in order to ensure the level of affordable housing assumed to be viable is sound and robust. The Council might argue that it would be difficult to include such site specifics in a high level assessment, however, what use is an assessment to inform the delivery of affordable housing, which is based on a type of development that is not proposed to be delivered in Newport?

In our view, it the assessment relates directly to the delivery of affordable housing on the allocated sites within Policy H1 and existing commitments, and these sites require significant financial contributions in order to remediate the constraints to delivery, the viability assessment has a clear obligation to take this into account.

In light of the above, we believe the viability assessment has been undertaken without due consideration of the LDP strategy and as such, the level of affordable housing suggested by the assessment is highly questionable, given the difference between nature of development proposed within the LDP and the nature of development assumed by the assessment.

**2. The additional requirements of development**

In the context of delivering housing development on the ground, it is clear there will be requirements of any development that will need to be satisfied to ensure it can be physically delivered. In most cases these requirements come in two forms, the physical constraints of a development that need to be resolved, and planning obligations or regulatory requirements that are essential and must be adhered to (e.g. the requirement for physical infrastructure such as roads, sewers and the requirements of building regulations etc). In terms of delivering housing, the LDP specifically allocates constrained land for development, which essentially means the additional costs incurred when delivering these sites will also have to be prioritised, over and above those costs associated with delivering planning obligations and other regulatory requirements (where possible). Therefore, when considering the delivery of affordable housing, there will clearly be many planning, regulatory and other development requirements that will need to be prioritised, before any priority is given to the delivery of affordable housing, despite the assertion within the assessment that the Council could simply renegotiate all other requirements to make developments viable.

In terms of the above, these principles for prioritisation are completely missing from the affordable housing viability assessment, which we believe leaves a considerable hole in the soundness of the assessment and its recommendations.

Firstly, it is clear that the assessment has been undertaken on a notional one hectare site, which is free from any development constraints and therefore, if the LDP prioritises the delivery of constrained sites, it seems logical that the assessment should recognise this and provide some leeway in the assessment to allow for such costs.

Examples of the types of works experienced are:-

* Ground contamination/consolidation/demolition,
* If there is a need for the ground to be remediated/consolidated, this will necessitate a raft foundation, which is a significant additional cost, and very common on development sites in Wales.
* If ground has been remediated, then a capping layer of inert safe material will need to be applied, which has to be imported in.
* If gas pipes are present at the site, then gas membranes will be required at significant cost
* Drainage and onsite attenuation – attenuation tanks are now required on all sites with a rough cost of £80k for one tank. One of our members reported that on a 250 unit greenfield site, they were required to install 9 tanks, which resulted in a cost of nearly 3k per home or £750,000 for the whole development.
* Land profiling, particularly on hilly areas will attract extra costs for cut and fill to ensure the foundations can be accommodated. Again raft foundation will be required here.

The list above is just a short list of the additional works that our members stipulate are becoming the norm on nearly all sites (both greenfield and brownfield) they develop in Wales. However, given that the vast majority of the land being proposed for housing development in the LDP is brownfield and has significant constraints, it is likely that the list above would be more extensive and significantly costly. In addition to this, and crucially with respect to the affordable housing viability assessment, these costs are not picked up by the BCIS, as they would be dealt with under a completely separate contract. As such, it is clear that the current build costs within the affordable housing viability assessment, will not allow any flexibility to account for these requirements.

As we have stated above, we are concerned with the lack of consideration given to the additional works and extra costs that will be required on developments. As such, we believe it will be necessary to include sufficient flexibility in the affordable housing viability assessment to ensure these costs can be dealt with.

In order to inform the likely cost of these works, we recently undertook a consultation exercise with our membership to try and ascertain the appropriate cost to assume. From this consultation exercise, we received a number of examples of the costs associated with these extra works, some of which were estimates, whilst others were actual costs taken from recently developed sites in Wales.

In terms of figures, the costs ranged from £115k per acre (£285k per hectare) for more straightforward sites, to over £400k per acre (nearly £1m per hectare) for more difficult sites. On average however, from the list of sample sites that were provided and from the comments we received, the average cost of these additional works was considered to be approximately £220k per acre or £543,400 per hectare. A list of the sample sites and costs received as a result of our exercise is provided within Appendix 1 below.

Further to the above, we also received reports from Intégral Géotechnique and Arup outlining a summary of the typical costs of remediating sites in Wales. We enclose a copy of both reports in Appendices 2 and 3 below. As you can see from these reports, the organisations are professional consultancies that specialise in site remediation and the redevelopment of housing sites. Both organisations have extensive experience and expertise in developing land in many areas of Wales for a variety of different clients and therefore, we have no doubt that the cost estimates provided within these reports are robust and accurate.

In terms of figures, as you can see from the reports the typical costs provided for site remediation and addressing constraints ranged from between £175k per acre and £325k per acre, which on average works out at £250k per acre or £617,500 per hectare. However, it is evident from the advice given within the reports that due to topography and the general nature of development sites in Wales, the actual costs could be well in excess of the figures quoted. As such, and given the nature of the sites proposed in the LDP, we believe assuming a cost of £250k per acre (or £617,500 per hectare) for addressing the extra works and site remediation/constraints required on developments would be entirely reasonable.

Further to the above, as part of our work on the Community Infrastructure Levy, we are beginning to gather specific market intelligence on the additional costs of developing sites in particular areas of Wales. In this respect, as part of our work on the RCT CIL, our members have provided us with five recently constructed housing sites, along with the ‘additional costs’ that were experienced on these sites. This information is set out below.

The sites provided to us were as follows:-

* Brownfield sites for 49 dwellings
* Brownfield site for 72 dwellings
* Brownfield site for 137 dwellings
* Greenfield site for 88 dwellings
* Greenfield site for 97 dwellings.

In terms of the sites above, none of the three brownfield sites suffered significant contamination but required (in part) demolition, some remediation, service diversions, on-site attenuation, pumping stations, raft foundations, asbestos removal, importation of clean capping layer and raising levels for flood mitigation. In this respect the level of extra costs were £193,000 per net hectare, £326,040 per net hectare and £333,450 per net hectare respectively.

Interestingly, the two Greenfield sites provided required much higher levels of extra works and costs, which amounted to £449,450 per net hectare and £1,217,710 per net hectare respectively.

It should also be noted that the costs described above are **in addition** to the standard infrastructure and utilities works required (often referred to as ‘external works’) in general housing development.

As you can see from the information above, the average cost of extra additional works on the brownfield sites amounted to £284,150 per hectare. However, for the greenfield sites the average cost was £833,580 per hectare. This, we believe, not only supports our suggestion for the assessment to include an allowance for the extra additional costs of development, but also demonstrates that such costs can be experienced despite the nature of the development site i.e. brownfield or greenfield.

In light of the above, we believe it is unreasonable and inappropriate for the viability assessment not to recognise that there will be extra works and additional costs required on all developments in Newport. Our members are clear that in the vast majority of cases, the existence of additional works is now very much the norm with respect to development in Wales. It is now virtually unheard of that a site (both in terms of greenfield or brownfield) is able to be developed without the requirement for significant additional works and hence, significant additional costs. However, given the nature of the sites proposed in the LDP, it is clear that these works will be required in all cases and will generate considerable additional costs. As such, given the affordable housing viability assessment is based on a site that ignores these costs, we do not believe it provides a sound basis with which to assess the potential viability of the affordable housing targets chosen.

Given our evidence above, we believe the affordable housing viability assessment should include additional flexibility to ensure the requirement for these additional costs can be addressed, alongside any affordable housing requirements, when delivering development on the ground. In light of our evidence above, it is clear this cost varies widely depending on the site in question, however, we believe as an average, including a cost of £617,500 per hectare would be entirely appropriate.

Therefore, in light of the evidence above, we believe the affordable housing viability assessment should allow a **minimum** viability buffer of £617,500k per hectare. Provided the affordable housing policy itself is sufficiently flexible, this should help to provide increased flexibility to mitigate the cost of these essential additional works.

**3. Changes to Part L of Building Regulations and Fire Sprinklers**

Further to the above, the assessment has also omitted two substantial costs to development of housing in Wales, which are required as a result of national guidance; namely the proposed changes to Part L of Building regulations and the requirement for fire sprinklers in all new homes.

In terms of these two issues, the Minister recently released a statement on house building in Wales (17th July 2013). Through this statement the Minister stated that the proposed change to Part L of Building Regulations will require an 8% improvement over Part L 2010. The Welsh Government has stated that this requirement is still being considered with respect to its cost on development and therefore, we believe it is prudent to leave sufficient flexibility in the land value of the viability assessment to ensure this requirement can be accounted for.

In terms of the requirement for sprinklers, the Ministerial Statement stated that this requirement will be introduced for all new homes in Jan 2016. The Welsh Government’s evidence on this requirement demonstrates that this could cost (on average) £3,075 per plot. However, given the requirements of the British Standard, we believe the actual cost could be well in excess of £5,000 per plot. The Welsh Government are also currently considering this requirement and its impact on land values and therefore, we believe the viability assessment should also leave sufficient flexibility to ensure this requirement can be delivered.

**4. Summary of additional costs omitted from the assessment**

Considering the issues above, it is evident that the assessment has potentially omitted the following costs on housing development:-

* Cost of site remediation works = £617,500 per hectare
* The potential cost of future planning obligations = an additional £5,000 per plot or £150,000 over a 30 unit development
* The cost of achieving the proposed changes to Part L of building regulations = as yet unknown
* The cost of installing fire sprinklers = £5000 per plot or £150,000 over a 30 unit development

**Total cost = £917,500 per hectare (assuming 30 units per hectare and not including the potential cost of Part L changes)**

**5. The potential impact of these omitted costs on development viability**

In terms of the above, it is evident that the assessment has potentially underestimated the cost of developing land in Newport by potentially more than £1m. This will clearly have a major impact on the viability of development in many areas of the authority, particularly in areas such as Newport West and Newport East, which have some of the lowest land values, yet are expected to deliver the greatest volume of development.

For example, if you consider Newport East which is the area containing the wards of LLanwern and Llyswerry, and you subtract the figures above from the residual land value at 30% affordable housing and 30 DPH provided for Newport East within the viability assessment (£60,000 per hectare), the resultant land value is £-857,500. To further highlight this point, if you also subtract the value from residual land values in Caerleon (£1,080,000), the resultant land value would be £162,500. Again, we must stress that this calculation does not take account of the potential cost of the Part L changes.

Therefore, it is clear that development in many areas of Newport would be completely unviable at 30% affordable housing if all these costs are accounted for, given that land values would fall into negative territory. In fact, when these costs are included, land values fall into negative values in the areas that are proposed to deliver the majority of development, which is clearly a major issue that has not been addressed by the assessment.

In light of the above, we believe the affordable housing viability assessment is not based on up to date and robust evidence. We believe assessment has omitted a number of key requirements that will impact on the cost and viability of developing homes in Newport, particularly in the areas that are proposed to deliver the majority of the housing over the LDP period.

**6. Conclusion**

In light of the evidence above, we do not believe the affordable housing viability assessment has properly considered the cumulative impact of the cost of the physical requirements of development housing, in addition to the requirements of essential planning obligations and the imminent changes to building regulations. It is clear from our evidence that the impact on land values would be witnessed more acutely in the areas where the majority of housing is proposed, which would therefore have a detrimental impact on the delivery of affordable housing in those areas and also on the delivery of any overall housing strategy of the LDP.

In light of the above, we believe Policy H4 is not based on robust and credible evidence and is not sufficiently flexible in order to ensure it can be delivered on the ground. Therefore, Policy H4 contravenes Soundness Tests CE2, CE3 and CE4 and implementing the changes set out below would help to satisfy these soundness tests.

**7. Suggested Changes**

7.1 In light of the evidence above, we do not believe the affordable housing Policy H4 should be adopted in its current form. We believe it will have a detrimental impact on development viability and hence the delivery of housing in key areas of Newport. This will also impact on the overall target for affordable housing delivery set by the LDP. The evidence for the policy should be revisited and the issues within our representation above should be taken into account when undertaking the affordable housing viability assessment. The policy should then be re-drafted when this work has been completed.

**7.2 Finally, given our concerns above, and the likelihood of additional evidence to justify our concerns being made available in the run up to the LDP examination (particularly on the impact of Part L changes and sprinklers on land values) we respectfully reserve the right to comment further on this policy and the viability assessment through the Examination process.**

**Appendix 1**

**Evidence from HBF members on the average cost of remediating sites and addressing abnormal constraints**

**Developer no.1**

* Site 1 - A former steelworks - £263k per acre.
* Site 2 – Industrial site without contamination - £130 per acre.
* Site 3 - Site in Aberdare including raising site - £205k per acre.
* Site 4 - Site in the Vale of Glamorgan - approx £400k per acre.
* **Average £250k per acre**

**Developer no.2**

**Sites are relatively straightforward and some have benefited from prior remediation**

* Site 1 - Park Road - £115k per acre
* Site 2 - Bagworth - £134k per acre
* Site 3 - Cleobury Mortimer - £147k per acre
* Site 4 - Yately - £169k per acre
* Site 5 - Humberstone - £227k per acre
* **Average - £159 per acre**

**Developer no.3**

* £250k per acre is reasonable

**Developer no.4**

* Site 1 – Former factory, contaminated site - £439335 per acre
* Site 2 – Sloping site, largely made ground - £192908 per acre
* Site 3 – Sloping greenfield site - £164500 per acre
* **Average - £265581 per acre**

**Appendix 2**

**Evidence to support the estimated cost of remediating sites and addressing abnormal constraints**

**Report from Arup**

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| Your ref Our ref File ref  |  |
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| Planning & Policy Advisor - WalesHouse Builders FederationPO Box 2512CardiffCF23 0GBFor the attention of Richard Price |
|   |
| Dear Sir |
| upper_report_frame_3#218F98 |
| Brownfield Sites - Remediation/Reclamation Cost Estimates |
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Along with Integrale Geotechnique we have been approached by a number of major house builders in South Wales to confirm to you typical costs for the remediation/reclamation works on brownfield sites.

Arup has been involved in the remediation and redevelopment of many of the brownfield sites in South Wales. We have assisted a number of clients e.g. BP, ABP, Welsh Development Agency, in the investigation and development of remediation strategies for approval by the relevant Authorities; subsequently the detailed design, construction supervision and validation of the remediation works. Many of these sites have been or will be developed for housing such as Rhoose Point, Waterfront, Barry, Coed D’Arcy, Maesteg Washery and Llanilid.

We have successfully developed remediation proposals to address various types and quantities of contamination using appropriate methods agreed with the regulatory authorities.

Due to this variation in the nature of the contamination methods used the consequent cost varied from site to site. This cost was also affected by the size of the site (smaller the site, the higher the cost per acre), the historic use of the site and the risk posed to the environment. Reclamation/remediation costs for sites where residential development was proposed were generally higher than for other uses, particularly where domestic gardens were proposed.

As such, from our experience, the reclamation/remediation costs, including demolition of disused buildings varied between typically £100K to £250K per acre. In exceptional circumstances with highly contaminated sites the remediation costs could exceed £250K/acre.

The above costs do not include for special measures to be incorporated by the developer to address the specific ground conditions. Based on an average of 15 units per acre, a typical cost per acre for these abnormals would be circa £75K. This covers raft foundations at £2,500 per unit extra over normal strips, £750 per unit for gas barrier in the slab and importation of 600mm thick clean subsoil/topsoil in the gardens.

Therefore, the total cost of remediation/reclamation works and developers abnormals for development of brownfield sites for housing would be circa £175K to £325K per acre.

If you require further clarification or information please contact us. Hopefully the above provides a reasonable guide.

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| Yours faithfully |
| Bob IrvineDirector |

**Appendix 3**

**Evidence to support the estimated cost of remediating sites and addressing abnormal constraints**

**Report from Integrale Geotechnique**

**Provided separately as a PDF**