



AN EXAMINATION UNDER SECTION 212
OF THE PLANNING ACT 2008 (AS AMENDED)

**REPORT ON THE DRAFT FAREHAM BOROUGH COUNCIL
COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE**

Independent Examiner (appointed by the Council):
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Main Findings - Executive Summary

In this report I have concluded that, subject to modifications, the draft Fareham Borough Council Community Infrastructure Levy Charging Schedule provides an appropriate basis for the collection of the levy in the area.

Two modifications are necessary to meet the drafting requirements. These can be summarised as follows:

1. Clarification about the type of sites on which care homes will have a £0 charge (**EM1**).
2. Exclude the allocation site HA55 from the Rest of Fareham Borough charge (**EM2**).

The specified modifications recommended in this report do not alter the basis of Fareham Borough Council's overall approach or the appropriate balance achieved.

Introduction

1. I have been appointed by Fareham Borough Council (the Council), the charging authority, to examine the draft Fareham Community Infrastructure Levy (CIL) Charging Schedule.¹ I am a chartered town planner with more than 20 years' experience inspecting and examining Development Plans and CIL Charging Schedules as a former Government Planning Inspector.
2. This report contains my assessment of the Charging Schedule in terms of compliance with the requirements in Part 11 of the Planning Act 2008 as amended ('the Act') and the Community Infrastructure Regulations 2010 as amended ('the Regulations').² Section 212(4) of the Act terms these collectively as the "drafting requirements". I have also had regard to the National Planning Policy Framework (NPPF)³ and the CIL section of the Planning Practice Guidance (PPG).⁴
3. To comply with the relevant legislation, the submitted Charging Schedule must strike what appears to the charging authority to be an appropriate balance between helping to fund necessary new infrastructure and the

¹ View the examination documents: [Community Infrastructure Levy Charging Schedule \(fareham.gov.uk\)](https://fareham.gov.uk)

² The Regulations have been updated through numerous statutory instruments since 2010, most notably through the Community Infrastructure Levy (Amendment) (England)(No. 2) Regulations 2019, which came into force on 1 September 2019.

³ A new version of the NPPF was published during the examination on 5 September 2023. It sets out focused revisions (to the previously published version of 20 July 2021) only to the extent that it updates national planning policy for onshore wind development. As such, all references in this report read across to the latest 5 September 2023 version.

⁴ The CIL section of the PPG was substantially updated on 1 September 2019 (and last updated on 4 January 2023).

potential effects on the economic viability of development across the district. The PPG states⁵ that the examiner should establish that:

- the charging authority has complied with the legislative requirements set out in the Act and the Regulations;
- the draft charging schedule is supported by background documents containing appropriate available evidence;
- the charging authority has undertaken an appropriate level of consultation;
- the proposed rate or rates are informed by, and consistent with, the evidence on viability across the charging authority's area; and
- evidence has been provided that shows the proposed rate or rates would not undermine the deliverability of the plan (see NPPF paragraph 34).

4. The draft Charging Schedule was consulted on between 17 March 2023 and 1 May 2023. For the sake of clarity, the Council subsequently amended some of the residential development definitions and the areas within which retail development within Class E (with a specified exception) would be charged. The statement of modifications was subject to four weeks consultation in June/July 2023, albeit no representors wished to comment. Accordingly, the basis for the examination, on which a hearing session was held on 6 September 2023, is the submitted schedule⁶ and schedule of modifications⁷ (dated June 2023).⁸
5. The Council propose rates for the area known as Welborne and rates for the Rest of Fareham Borough. All types of development in Welborne would have a zero charge. The Welborne rates were established in 2021 at a partial review of the Council's adopted CIL. The zero Welborne rate is being carried forward unaltered and is not being considered in this examination. Figure 1 in the Charging Schedule defines the two areas. For residential development falling within Class C3 and C4, excepting flats in Fareham Town Centre, (shown in Figure 2) the proposed rate is £195 per square meter (sqm) in the Rest of Fareham Borough. Flats in the Fareham Town Centre would have a zero charge per sqm. Development comprising retirement living (including sheltered housing) on green field sites would be charged at £28 per sqm. All retail falling in Class E, excepting comparison retailing falling in Class E(a) in centres shown in Figure 3 of the Charging Schedule, would be charged at £80 per sqm. Class E(a) retail in the defined centres would have a zero

⁵ See PPG Reference ID: 25-040-20190901.

⁶ View at: <https://www.fareham.gov.uk/pdf/planning/CIL/CILChargingSchedule.pdf>

⁷ View at: <https://www.fareham.gov.uk/pdf/planning/CIL/CILRepresentationAndModificationStatement.pdf>

⁸ This is the combined effect of the process set out in Regulation 19 and the definition of a 'statement of modifications' in Regulation 11.

charge. All other development including extra-care/assisted housing on all types of site, care homes and sheltered housing on brown field sites would have a zero charge.

Has the charging authority complied with the legislative requirements set out in the Act and the Regulations, including undertaking an appropriate level of consultation?

6. Electronic and written notifications were sent to consultees and every organisation and individual on the Council's Planning Strategy consultation data base. Paper copies were deposited in libraries. The CIL proposals were advertised in the Council's "Have Your Say" publication and included on the Planning Strategy website consultation page. Six weeks from 17 March 2023 was allowed for the initial consultation process. This initial consultation stage attracted eight representations. There were no representations to the subsequent modifications consultation.
7. The Charging Schedule complies with the Act and the Regulations, including in respect of the statutory processes and public consultation, consistency with the adopted Local Plan and the Infrastructure Delivery Plan, and is supported by an adequate financial appraisal. I also consider it compliant with the national policy and guidance contained in the NPPF and PPG respectively.

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

Infrastructure planning evidence

8. The Fareham Local Plan 2037 was adopted on 5 April 2023.⁹ This plan sets out the main elements of growth that will need to be supported by further infrastructure in Fareham. The Local Plan provides for at least 9,556 new homes between 2021 and 2037, including some 900 homes to help meet the needs of neighbouring authorities. Provision is made for 122,000 sqm of new employment floor space and a further 77,200 sqm of employment development on a strategic site in the Solent Enterprise Zone.
9. The Infrastructure Delivery Plan (March 2023) identifies a need for funding of more than £122,500,000 to support the anticipated development in the Borough. Significant funding is required for a number of projects including flood defences, education and strategic highway schemes. Taking into account identified sources of funding, the Council estimates a funding gap of about £42,500,000. In the light of the information provided, the proposed charge would make only a modest contribution towards filling the likely funding gap. The figures therefore demonstrate the need for a CIL.

⁹ View at: [Fareham Borough Local Plan](#)

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Economic viability evidence

10. The Council commissioned Three Dragons to undertake a CIL Viability Assessment (VA). The Three Dragons VA is dated November 2022 and draws on policies in the recently adopted Local Plan and also on the viability work done to support the Local Plan. The assessment uses a residual valuation approach and compares the residual values for various types of development to a benchmark land value. A typology approach is used with the typologies selected on the basis of discussions with the Council and a development industry workshop. The typologies selected are those that are expected to be typical of the sort of development that is anticipated in Fareham. The typologies do not represent specific development proposals. There are three broad groups of development types – residential, specialist homes and non-residential. The approach used by Three Dragons is one that is commonly used in CIL viability work.
11. Most of the 22 residential typologies are tested on both brown field and green field sites. Flatted development not exceeding five storeys is only tested on brown field land and the two large site typologies are only tested on green field sites. A town centre build-to-rent (BtR) typology is included, as this form of development may become a feature of the Fareham housing market in the foreseeable future. Three forms of specialist housing are tested - care-homes, extra-care homes and retirement homes. For retail development, convenience and comparison schemes in and out of town centre locations are tested, as are office developments in town centres and in fringe/transport node locations. Industrial and warehouse development on the edge of settlements/transport nodes are included. A 70-room budget hotel is also tested. The approach used in the VA is logical given the nature of the area and the anticipated forms of development.
12. The VA has taken into account tenures and affordable housing requirements based on discussions with the Council and the policy requirements in the Local Plan. In the BtR typology, the affordable housing element is represented by a discounted market rent in accordance with national guidance. Assumptions about the mix of homes in the various typologies are based on the evidence from the Local Plan examination, discussions with the Council, the development industry workshop discussion and current planning applications. Home size assumptions are based on nationally described space standards, averages derived from past transactions and earlier viability work. Where relevant, the assumptions include allowances for considerations such as circulation space, communal areas and service areas.
13. Residential market values were derived from an analysis of new build land registry data for the past five years. Values per sqm was based on a match between Land Registry and Energy Performance Certificates data. Sales data was indexed to build cost data to align the evidence. Information from Right Move (summer 2022) was used to sense check the evidence. For sheltered and extra care values, the Retirement Housing Group guidance was used with selling prices for sheltered schemes based on information from providers and 2022 selling prices. Given a relative lack of active schemes on the

market, the values were checked against semi-detached values in the area. For care homes, trade press and market commentary data was used resulting in an assumed capital value of £75,000 per bedroom.

14. Build-to-rent values were based on higher quality apartments on the market within a 5 mile radius of Fareham Town Centre. The result is a blended rate of £1,230 per month with a capitalised value of £230,000.
15. For shared ownership homes, transfer values at 70% of market value were used. For affordable rent and social rent units, the figures used were 57.5% and 42.5% of market value.
16. Much of the data and the assumptions relating to residential values took advantage of viability evidence that was presented to the relatively recent Local Plan examination. No convincing contrary evidence has been presented to this examination.
17. Nine non-residential typologies are tested. Values are based on historical comparable evidence provided by trade reports and Three Dragons knowledge of the market. For office, retail, industrial and warehouse development, rents and yields have been capitalised in the standard way to get to Gross Development Value (GDV). For the hotel typology the assumption is a value of £105,000 per room. As is the case with residential values the commercial value assumptions have not been robustly challenged.
18. For benchmark land values, the VA notes that the evidence presented to the Local Plan examination was not challenged and thus this evidence is continued in this assessment. The VA also references work done on land values for the Welborne Garden Village scheme and the residential land values discussed at the June 2019 developer workshop. Three Dragons also undertook a review of market land transactions in Fareham and the wider Hampshire area. The market transactions showed a wide spread of values. Land titles evidence showed that it was not unusual for land to be worth less than the benchmark figures discussed at the developers' workshop. MHCLG¹⁰ land value estimates for the Solent area is also referred to in the VA. On the basis of this range of evidence, the VA concludes that a suitable benchmark for large green field sites is £250,000 per hectare.
19. Benchmark land values for brown field sites is related to the existing use value. Using the results of the developers' workshop, previous evidence and figures from MHCLG, the assumption in the VA is a benchmark figure outside the town centres of £2.25m per hectare on small sites and £1.25m per hectare on large sites. Within town centres, the benchmark value for brown field land is estimated at £2.0m per hectare. A premium of 20% on brown field land for older persons housing is included based on the views of developers working in this field.
20. For non-residential benchmark values, Three Dragons adopt what they call a

¹⁰ The former Ministry of Housing, Communities & Local Government (MHCLG) is now called Department for Levelling Up, Housing and Communities (DLUHC).

pragmatic approach. A pragmatic approach is justified in the VA on the grounds that a wide range of site/owner specific variables affect the benchmark value of any given site. The VA uses the residential values as a starting point, with the qualification that the benchmark for some retail uses is likely to be higher given the shortage of suitable sites for some schemes. The commercial benchmark values per hectare assumed by Three Dragons range from £360,000 to £2,000,000 with the highest being for town centre comparison retail.

21. The validity of the green field benchmark values has been challenged on the grounds that the figures are dated and that there has been a material increase in farmland prices since 2019. Three Dragons contend that even if farmland prices have increased by over 30% between 2019 and mid 2022, the figures they have used still allow for a reasonable premium. I agree with this contention.
22. Residential development costs in the VA include build costs and a range of other standard costs. Build costs derive largely from data from the RICS¹¹ Build Cost Information Service adjusted for the location, and for residential development tender prices for new build over a 5 year period rebased to Q2 of 2022. Adjustments have been made for higher build costs for smaller housing schemes that do not benefit from economies of scale and for the variation in build costs for flats depending on height. The VA includes allowances for external works and contingencies and for site infrastructure costs on larger schemes. An allowance for garages is included for 3 and 4 bedroom houses and for the cost of podium parking spaces in some flat developments.
23. A standard range of cost for fees and finance is included. Given the current trend in interest rates, the VA has included a sensitivity test based on a finance rate of 10% for the typologies with the longest build out rates.
24. A range of additional costs flowing from national and local policy requirements is included. These costs include biodiversity net gain, Part S EV charging, Part M Accessibility, custom/self-build policy requirements, Solent Habitat mitigation, nitrate neutrality and Part L Building standards. A cost of £274 per dwelling to meet the requirement of Natural England in relation to the New Forest protected sites is not included as this is a short-term interim measure set to apply until March 2025. The VA deals with this matter by including it in a sensitivity test. Non-affordable housing s106 costs are allowed for based on evidence of past s106 agreements presented to the Local Plan examination.
25. The residential sales and cash-flow evidence is the same as that presented unchallenged to the Local Plan examination.
26. For non-residential development costs, information from the RICS Build Cost Information Service is used together with a range of other costs including professional/agent fees, external costs, biodiversity net gain, stamp duty and

¹¹ Royal Institution of Chartered Surveyors (RICS).

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s106. Allowance is made for voids and rent free periods. A developer's return of 15% of GDV is assumed.

27. The draft Charging Schedule is supported by detailed evidence of community infrastructure needs. On this basis, the evidence which has been used to inform the Charging Schedule is robust, proportionate and appropriate.

Are the proposed rates informed by and consistent with the evidence on viability across the charging authority's area?

Residential development

28. Conventional residential schemes on both green field and brown field sites outside the town centres show headroom for CIL of between £465 and £1,619 per sqm. The smallest headroom applies to a 3 dwelling scheme on a brown field site and the largest to a 120 dwelling mixed scheme on a green field site. Within town centres, the 80 flats typology has the highest headroom (£514 per sqm) and the BtR scheme the lowest (£0 per sqm). For older persons housing, the only typology that has any headroom (£55 per sqm) is the 60 unit retirement scheme on a green field site.

29. For residential development, four sensitivity tests are provided by Three Dragons. The first shows the effect of a rise in the cost of finance from 6% to 10% for typologies with the longest build out rates. The resultant reduction in CIL headroom is relatively small in all instances. The second test shows the impact of the First Homes policy. As with finance costs, there is only a limited impact on viability. Future Homes 2025 is the third test. Requirements of the Future Homes Standard 2025 have yet to be finalised by the Government, but Three Dragons have assumed that the costs will amount to £12,000 per house and £8,000 per flat. On the basis of current knowledge, these figures do not suggest that the VA is under-estimating Future Homes costs. Other authorities' estimates are referred to in the VA. These range from about £4,000 to £16,000 per house. Increased costs at the scale proposed for Fareham would have a more significant impact on viability, especially in the town centre. CIL headroom in the town centre for the 20 unit flat scheme would, for example, fall from £268 to £157 per sqm. Sensitivity test four relates to open space mitigation and recreation including New Forest Mitigation. As exact figures are not certain, a broad allowance of £6,400 per house and £5,600 per flat is provided by Three Dragons. This represents roughly a doubling of the open space and recreation costs used in the base case testing. The consequence for CIL headroom is not as significant as the Future Homes scenario. For comparison purposes, the reduction in CIL headroom for the 20 unit town centre flat scheme would be from £268 to £216 per sqm.

30. To test the cumulative impact of the sensitivity scenarios, a situation that Three Dragons considers unlikely to occur, three typologies are selected by Three Dragons. For a brown field 50 unit mixed scheme outside the town centre, the CIL headroom reduces from £817 to £500 per sqm. Within the town centre, for a 20 unit flat scheme it reduces the headroom to £74 per

sqm from £268. For a green field large mixed scheme of 1000 units, it reduces the headroom from £1,326 per sqm to £988.

Commercial rate

31. For commercial rates, the VA notes that development cost rises have not been matched by increases in value. Consequently, Three Dragons note that it is unlikely that a current proposed rate would be as high as the present rate. The VA concludes that the majority of non-residential forms of development would be unable to support a CIL. Three types of retail have headroom for a CIL charge – small local convenience stores, supermarkets, and out of centre comparison stores.

Has evidence been provided that shows the proposed rate or rates would not undermine the deliverability of the plan (see National Planning Policy Framework paragraph 34)?

32. There is a representation arguing that, in general terms, the proposed residential charge is too high as it is an 85% increase from the current charge. This is a misleading claim as the proposed rate for conventional residential development (excluding flats in the Fareham Town Centre) is just over 16% higher than the current charge of £167.50, once indexing of the original base charge of £105 is taken into account. The proposed charge of £195 for all residential typologies outside the town centre would be less than 5% of GDV and the smallest viability buffer would be 58% for a small three house brown field scheme. In most cases the viability buffer would be over 70%. Using a weighted average of 5% of GDV, the residential charge for all development would be £198 per sqm. Using this level of charge, the VA shows that the viability buffer would still be well above 50% for most typologies other than two of the town centre typologies.
33. For town centre typologies, the evidence is that there is less scope for CIL to be charged, particularly if the results of the sensitivity tests are taken into account. The town centre BtR typology has no scope for a CIL even without the inclusion of the cumulative sensitivity test results. Three Dragons note that town centre regeneration is an important policy aim for the Council and recommend a zero charge for flat led sites in Fareham Town Centre. This cautious approach, accepted by the Council, is justified given the reduced viability headroom identified for town centre flat-led schemes.
34. For retirement living (sheltered) on green field sites, there is limited scope for CIL and the modest proposed charge of £28 per sqm would allow for a 50% buffer. This level of charge would represent less than 1% of the GDV of the tested scheme. The evidence justifies the proposed charge and does not point to any problems with delivery with this form of development. The modifications proposed by the Council in relation to care homes/extra-care/assisted housing on all types of site and sheltered housing on brown field sites, meet the request from a specialist housing provider although improved clarity should be provided in relation to the types of site on which

care homes would attract a nil charge. This point is clarified in a recommendation **(EM1)**.

35. An argument is advanced by a representor that in assessing build costs, Three Dragons have not taken into account the point that large sites may be developed by more than one developer thereby eliminating the assumed economies of scale. This contention is not supported as, even if a large site is built out by more than one developer, it is unlikely that participating developers would be the sort of small scale developers who are unable to benefit from economies of scale. On the basis of their experience, Three Dragons confirmed at the hearing that this is a reasonable counter to the argument advanced.
36. An argument is made by some objecting to the proposed residential rate on the grounds that the viability of development has changed significantly because of cumulative changes in circumstances, including increased construction/finance costs and uncertainty in the current property market. Three Dragons accept that what some refer to as a "perfect storm" has recently had a negative impact on the viability of development. However, Three Dragons point to the substantial viability buffers that they have used and the low percentage of GDV that would be represented by the proposed CIL. The concept of a viability buffer is contained in the CIL PPG and is intended to allow for changes in economic circumstances. In my view, the buffer levels proposed in the draft CIL Charging Schedule are substantial enough to accommodate the changed economic circumstances relating to the viability of development.
37. The question of whether site allocation HA55 should, like Welborne, be treated as a strategic site which is excluded from the CIL is strongly made on behalf of Hallam Land Management. The contention is that HA55 is materially different from other allocated sites and is subject to a number of bespoke mitigation or infrastructure measures which mean that the required s106 for HA55, in addition to the proposed CIL, would threaten the delivery of this large development site. The representor points out that in the VA Three Dragons recommends that the Council considers this point in relation to what Three Dragons describe as "very large sites". Three Dragons note that there is uncertainty regarding the s106 requirements on very large sites and that the s106 package could be higher than the one used in their viability testing. No detailed viability evidence was provided or considered in relation to any other level of charge, including a zero charge.
38. The Council counters the case made by Hallam Land Management on the grounds that it is clear that within the viability assessment that HA55 is considered a 'large site', as per the R14 typology, and that the VA has tested a large site and any material deviations from the standard assumptions can be considered through the planning application process. In addition, the Council point to the substantial 85% buffer and the 3.1% of GDV calculated in the VA on the basis of a £195 per sqm charge.
39. The Council's points are noted, but there is substantial uncertainty about the quantum of the anticipated s106 charges that will need to be imposed if the

site specific requirements set out in the adopted Local Plan are to be met in full. Based on current knowledge, it is likely that some of the broad cost assumptions used by Three Dragons to test the large green field site typology do not adequately reflect what the Council will require through the s106 mechanism. For example, the £5,500 per dwelling allowance used in the VA for what is described as "education and transport etc" does not reflect the education mitigation package being sought by Hampshire County Council. The developer of HA55 puts the education figure at £15,000, excluding the cost of local cycling and walking infrastructure being sought by the County Council. The developer also points to Local Plan policy requirements, for example community and health facilities, that are not included in the cost assumptions shown in Table 4.9 of the VA.

40. It is noted that HA55 is the subject of a live planning application which is proposing a policy compliant level of affordable housing, alongside a CIL liability at the current rate. However, s106 is still being negotiated. At the hearing, the vulnerability of affordable housing policy in the context of the s106 negotiations was discussed. There was agreement that if viability becomes an issue, the casualty was likely to be affordable housing. Therefore, even if the application is affordable housing policy compliant, given a CIL charge would be non-negotiable there is a danger that policy requirements, particularly affordable housing, could be compromised in circumstances where the developer is able to demonstrate that the delivery of the site is threatened by the level of the s106 charges. On the other hand, adopting a zero CIL for HA55, as has been done for the other large strategic site in the Borough at Welborne, should considerably strengthen the Council's hand in the s106 negotiations and could go some way to eliminating the danger to the delivery of HA55. Three Dragons were mindful of this issue when alerting the Council to the need to consider whether it would be appropriate to require CIL to be paid on strategic sites. I consider that if CIL is charged on the development of HA55, there is a material danger to the delivery of HA55 in a form that fully meets the Council's policy requirements. If no CIL is charged on HA55, the Council would be in a stronger position to negotiate a s106 agreement based on the full range of policy requirements that apply to HA55. It is therefore recommended that the draft Charging Schedule be amended to apply a zero charge to HA55 **(EM2)**.

41. For retail development, excluding comparison retail in town centres, the proposed rate would represent three or less percent of GDV. The evidence does not point to the proposed charge threatening the delivery of retail development, especially as comparison retail in town centres would have a nil charge.

42. In setting the CIL charging rates, the Council has had regard to detailed evidence on infrastructure planning and the economic viability evidence of the development market in Fareham. 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.

43. I consider the viability assessment to be robust and conclude that, other than in the case of HA55, the residential and retail rates proposed would not threaten delivery of the recently adopted Local Plan.

Overall Conclusion

44. I conclude that the draft Fareham Community Infrastructure Levy Charging Schedule, subject to the making of the modifications set out in **EM1** and **EM2** satisfies the drafting requirements. I therefore recommend that with the recommended modifications the draft Charging Schedule be approved.

Keith Holland

Examiner

Appendix Modifications

Examiner Modifications (EM) recommended in order that the charging schedule may be approved.

Examiner Modification (EM)	Document/other reference	Modification
EM1	Statement of Modifications Mod id. M1c	Add: "on all sites" after "care homes".
EM2	Statement of Modifications Charging Rates table	Add: "and allocation site HA55" to the Welborne (fourth) column. Amend footnote 3 to include the words "site HA55 as shown in the adopted Local Plan".