



The Planning Inspectorate

Report to Gateshead Council and Newcastle City Council

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an Examiner appointed by the Councils

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PLANNING ACT 2008 (AS AMENDED)

SECTION 212(2)

REPORT ON THE EXAMINATION OF THE GATESHEAD AND NEWCASTLE COMMUNITY INFRASTRUCTURE LEVY (CIL) DRAFT CHARGING SCHEDULES

Charging Schedules submitted for examination on 8 February 2016

Examination hearings held on 21 and 22 April 2016

File Ref: PINS/H4505/429/2 and PINS/M4510/429/6

Non-Technical Summary

This report concludes that, subject to modifications, the Gateshead and Newcastle Charging Schedules provide an appropriate basis for the collection of the levy in the respective charging areas. The Councils have sufficient evidence to support the schedules and can show that the levies are set at a level that will not put the overall development of the areas at risk.

The modifications which are needed to meet the statutory requirements can be summarised as follows:

Gateshead and Newcastle:

- Insert reference to Zone C £0 per square metre (psm) in the Charging Schedule and maps.
- Amend the descriptions of small retail, supermarkets and retail warehousing to clarify that 280 square metres (sqm) relates to net floorspace.

Gateshead:

- Amend the Residential Charging Zone Map to exclude land in the vicinity of Rowlands Gill from Zone B and include it in Zone C.
- Insert clear Ordnance Survey grid lines on the Residential Charging Zone Map.

Newcastle:

- Amend the description of shared/student accommodation to clarify it relates to purpose built student accommodation.
- Amend the Residential CIL Zones Map to exclude 'Interest Area 4' from Zone A and include it in Zone C.

The specified modifications recommended in this report are based on matters discussed during the public hearing sessions and do not significantly alter the basis of the Councils' overall approach or the appropriate balance achieved.

Introduction

1. This report contains my assessment of the Gateshead and Newcastle Community Infrastructure Levy (CIL) Charging Schedules in terms of Section 212 of the Planning Act 2008. It considers whether the schedules are compliant in legal terms and whether they are economically viable as well as reasonable, realistic and consistent with national guidance¹.
2. To comply with the relevant legislation, local charging authorities have to submit a charging schedule which sets an appropriate balance between helping to fund necessary new infrastructure and the potential effects on the economic viability of development across an area.
3. Gateshead Council and Newcastle City Council have produced separate Charging Schedules covering their respective areas. However, the Councils have worked together in preparing the Schedules and have produced a joint CIL evidence base. The Charging Schedules were submitted for joint examination.
4. Consultation on the Draft Charging Schedules (DCSs) took place between 26 October and 7 December 2015 for Gateshead and 30 October and 6 December for Newcastle². In order to correct a mapping error, an updated DCS for Gateshead (document GS02) was published for consultation between 21 December 2015 and 24 January 2016. Statements of Proposed Modifications (GP04 and NP06) were published separately by the Councils for consultation between 8 February and 7 March 2016.
5. Consequently, the basis for the examination is the DCSs as amended by the Statements of Modifications. This is the same as the submission Draft Charging Schedules for each authority (February 2016) (GP01 and NP1-3).
6. Following the hearing, additional evidence and information was produced by the Councils and published for consultation between 6 and 20 May 2016 and 28 June to 12 July 2016 (EX23 and EX30). I have taken the representations received on the Statements of Modifications and the post-hearing work into account in writing this report.
7. The Councils propose three geographical charging zones for residential development. Zones A and B, with rates of £60 and £30 per square metre (psm) respectively are clearly defined in the tables and maps in the submission DCSs. It can logically be deduced that a £0 rate would apply elsewhere, and this is confirmed in other evidence documents. However, this is not clearly explained in the submission DCSs. I therefore recommend modifications (**EM/G1, EM/N1**) to the tables in the Charging Schedules to include an additional column appertaining to 'Residential Zone C' where a £0

¹ CIL section in the National Planning Policy Guidance (NPPG) ID 25.

² Gateshead DCS October 2015 (GS12) and Newcastle DCS October 2015 (NS02).

rate would apply. The residential maps in the submission DCSs should also be modified (**EM/G2, EM/N2**) to identify the £0 'Zone C' within the key.

8. The Councils also propose three different geographical charging zones for commercial development. The zone boundaries are shown in the submission DCS maps. Charges are proposed for hotel, supermarket, small retail, and retail warehousing development in both Gateshead and Newcastle. A charge for shared/student accommodation is proposed for Newcastle only. The commercial charges in the submission DCSs are summarised below:

Development and Use Class	Zone 1	Zone 2	Zone 3
Hotels (C1)	£0	£40 psm	£0
Small retail (A1) units ≤ 280 sqm	£0	£30 psm	£0
Supermarket (A1) > 280 sqm	£10 psm	£10 psm	£10 psm
Retail warehousing (A1) > 280 sqm	£0	£50 psm	£50 psm
Shared/student accommodation (C3, C4, sui generis) – Newcastle only	£50 psm	£50 psm	£0

9. The Councils have confirmed that the category of 'shared/student accommodation' is intended to cover purpose built student accommodation typically provided with some element of shared communal facilities, and is not intended to capture other forms of shared accommodation. Student accommodation is tested in the viability work and is referred to in other supporting evidence. I therefore recommend that a modification (**EM/N3**) is made to the description in the Newcastle Charging Schedule to clarify this position. Consequently, in the remainder of this report I refer to 'student accommodation' in lieu of 'shared/student accommodation'.
10. All other development, including offices, industrial development and other forms of retail development, would be subject to a nil charge.

Are the charging schedules supported by background documents containing appropriate available evidence?

Development plans

11. The Core Strategy and Urban Core Plan for Gateshead and Newcastle upon Tyne 2010-2030 (the 'Core Strategy') was adopted in March 2015 (PO7). It sets out the main elements of growth that will need to be supported by further infrastructure in the charging areas in the period up to 2030. The Core Strategy makes provision for approximately 30,000 new dwellings and at least 150 hectares of additional employment land over the Plan period. It identifies a range of key development opportunity sites and allocations for residential, employment and/or mixed use development across the Plan area, including the Urban Core, Neighbourhood Growth Areas and Village Growth Areas.

12. The Councils are currently preparing separate plans in support of the Core Strategy that will identify additional detailed allocations and policies³. Nevertheless, the Core Strategy sets out the broad quantum of development in Gateshead and Newcastle over the Plan period and identifies key strategic sites for future development. As such I consider it provides an appropriate basis to implement CIL.

Infrastructure planning evidence

13. The Councils have prepared a joint Infrastructure Delivery Plan (IDP) (2014) (PO5) which identifies key infrastructure likely to be required over the Plan period up to 2030. The IDP was updated in February 2016 (PO6) and the latest version outlines local community requirements and infrastructure needs totalling some £236 million (m) for Gateshead and £262 m for Newcastle.
14. Having regard to current known funding sources, a funding gap of about £214 m and £239 m remains for Gateshead and Newcastle respectively. Additional funding may be secured in the future, via infrastructure providers or other sources including Section 106 agreements and Government grant funding. However, there is no evidence before me to indicate that such funding would be sufficient to deliver the necessary infrastructure in either charging areas over the Plan period.
15. Concerns have been raised regarding the accuracy of the updated IDP (2016), in the context of a number of emerging Council studies, omitted projects, and key allocation sites. Infrastructure planning is, by its very nature, an on-going process which is subject to change. Nevertheless, the document covers a wide range of infrastructure requirements, and identifies schemes where firm plans are being progressed. There is also evidence that the Councils have worked closely with key developers and landowners to identify infrastructure requirements arising from allocations. Although some future changes are likely as schemes progress, overall I consider the Councils' CIL infrastructure planning work to be robust and proportionate for the purpose.
16. Gateshead Council estimates that dwellings liable for CIL could generate at least £12.5 m of receipts up to the year 2030. A further £220,900 is anticipated from retail development charges. Newcastle City Council estimates that about £24.5 m could be raised from chargeable residential development, nearly £4 m from student accommodation, and about £277,000 from retail development. As such, CIL could make a useful contribution to the funding gap for infrastructure in both charging areas. The Councils' evidence on infrastructure requirements and funding demonstrates the need to levy CIL in order to help deliver the Core Strategy.

³ Newcastle City Council's 'Development and Allocations Plan' and Gateshead Council's 'Making Spaces for Growing Places Plan'.

17. The Councils have produced Draft Regulation 123 lists (February 2016) (GP05 and NP07) which identify the types of infrastructure to which CIL funds would contribute in each area. Both lists include strategic transport infrastructure, green infrastructure, flood alleviation and primary schools places, and exclude infrastructure required to mitigate the impact of site-specific development. Gateshead Council confirmed at the hearing that there is no identified need for additional secondary school provision in the borough, and accordingly this is omitted.
18. I consider the Draft Regulation 123 lists to be clear regarding the type of infrastructure that would be supported by CIL. There is no evidence before me that 'double-dipping' would occur (e.g. paying for the same infrastructure twice under a Section 106 obligation and CIL). The legislative requirements on the use of planning obligations would, in themselves, help to ensure that planning obligations are appropriately applied. The Councils have provided transparency, and the items in the list should clearly assist the delivery of the adopted Core Strategy, as a whole. Additional information on the operation of Section 106 and CIL is included in the Councils' Supplementary Planning Documents (SPD) on Planning Obligations⁴.
19. In summary, I conclude that the submission DCSs of both Councils are supported by detailed evidence of infrastructure needs, which provides a robust and proportionate basis to inform the Charging Schedules.

Economic viability evidence

20. The Councils commissioned a joint CIL Viability and Deliverability Report (VR) (PO3), dated February 2014, to inform production of the Preliminary Draft Charging Schedules. This built on an earlier joint viability assessment, carried out in 2012 (PDCS1-6). The VR 2014 was updated in October 2015 to accompany publication of the DCS, and again in February 2016 (the 'VR update') (PO4) to accompany submission of the DCSs and publication of the Statements of Modifications. The viability work was undertaken in-house. However, the Councils used a consultant to test the adopted assumptions⁵.
21. Further viability buffer workings for a range of development types are set out in the Councils' Examination Statement (April 2016) (EX09), along with updated viability results relating to sheltered housing. The Councils' post-hearing work (EX23 and EX30) also includes viability buffer workings on retail development, and additional viability appraisals for retail and hotel development and student accommodation, as well as other background data.

⁴ Gateshead Planning Obligations SPD (December 2015) (GP06) and Newcastle Planning Obligations SPD (January 2015) (NP09).

⁵ DTZ, now known as Cushman and Wakefield - Appendix 9 of the Viability and Deliverability Report Annex Update (Feb. 2016) (PO4).

Within this report I refer collectively to this whole body of evidence as 'the Councils' viability work'.

22. The Council's viability work uses a residual valuation approach. This approach involves estimating the value of a completed development and subtracting development costs (with the exception of land purchase) to obtain a residual value. The price which a landowner would be prepared to sell the land (the 'threshold land value') is then subtracted from the residual value, along with estimated Section 106 costings, to obtain a 'headroom' figure or theoretical maximum CIL charge. The CIL charge may be taken from this figure providing there is an adequate viability buffer.
23. Concerns have been raised that the Councils' method of calculating headroom does not build in finance costs for CIL, Section 106 and specific infrastructure costs, as they are deducted separately from the residual land value. However, there is no substantive evidence before me to indicate that any such costs, where they exist, would be significant enough to affect whether a scheme is viable or not, particularly in the context of other conservative cost estimates and built in-flexibility, as referred to in the section below.
24. The viability work distinguishes between broad value areas and between urban and non-urban sites. Non-urban is defined as land within the Green Belt as set out in the Gateshead Unitary Development Plan (UDP) (2007) and the Newcastle UDP (1998), therefore incorporating the strategic release allocations and other land released from the Green Belt in the Core Strategy (2015). Urban land is defined as land outside the Green Belt, as set out in the aforementioned UDPs.
25. The viability work incorporates modelling of residential development, including sheltered housing. Commercial development is also modelled, including student accommodation, hotels, retail development, industrial development and offices.

Residential viability evidence

26. The assumptions used in the modelling are critical to determining viability and therefore CIL rates. Representations in response to the DCSs and Statements of Modifications raised particular concerns regarding a number of assumptions used in the residential appraisals. This includes site typologies, threshold land values, sales values, build costs, abnormals, externals, Section 106 costs, policy requirements and profit levels. These are addressed in turn below.
27. The viability work includes modelling of hypothetical residential sites, ranging between 1 and 100 units and reflecting different densities and mixes of house types. The typologies are tested across five value zones, for urban and non-urban sites. Specific allocation sites from the Core Strategy have also been tested for viability, ranging from about 40 to 3000 units in size.

28. The viability testing incorporates a policy compliant rate of 15% affordable housing, as defined in Core Strategy Policy CS11. The Councils' evidence indicates a fair degree of success in securing this rate of affordable housing in both areas in recent years⁶. The Councils' threshold of 15 or more units for seeking affordable housing also exceeds the minimum thresholds in the updated NPPG⁷, and on this basis it would appear that no related adjustments to the viability testing are necessary.
29. The size mix in the generic testing reflects Core Strategy requirements for family sized housing (Policy CS11). There is no substantive evidence that the mix would be undeliverable, nor that additional testing on dwelling form (e.g. detached, semi-detached) is necessary in the context of a broad area-wide appraisal. Overall I find that the Councils have tested an appropriate range of residential typologies and specific sites, which relate to the majority of development likely to come forward in the charging area over the Plan period.
30. The threshold land values (TLVs) have been informed by transactional data from Gateshead and Newcastle, and tested against information from other local authority areas. The transactional data is limited due to issues of commercial confidentiality, and shows a range of results. The Councils', however, have taken a cautionary approach by applying a further 50% contingency buffer to the average figures used in the appraisals, in order to ensure that viability is not compromised.
31. Further TLV transactional evidence submitted by one representor includes several higher figures. Nonetheless, this data is primarily taken from other local authority areas, and no information is provided regarding the value profile of the locations. I am also mindful that the TLVs used by the Councils are averages in an area-wide approach, and therefore some sites will have higher or lower values. Overall, I consider that there is no substantive evidence before me that the Councils' TLV figures, including the applied gross to net ratios for developable areas, are unreasonable or that alternative values should apply.
32. Sales values have been informed by an assessment of local property market data from various sources, including Land Registry, Valuation Office, Council transactional data, active house builders, and property websites. The data includes a mix of houses and flats from both Gateshead and Newcastle, mainly relates to prices achieved, and includes some details relating to floorspace and values per square metre. The data has been used to inform value zone maps for each local authority area.
33. The sales values used in the Councils' viability work have been disputed by a number of representors as being too high, both generically and in relation to a number of specific allocation sites including those at Kibblesworth, Ryton and

⁶ Table 1 in the Councils' CIL Background Paper (February 2016) (PO1).

⁷ NPPG paragraph 031, reference ID: 23b-031-20160519.

Callerton. A range of alternative evidence has been submitted by representors, including Land Registry data and assessments focused on specific sites.

34. In relation to Gateshead, the Councils' post-hearing evidence shows that average sales prices in high-mid value areas, including Kibblesworth and Ryton, fall slightly short of the £2,250 psm average value used in the appraisal work. However, the VR update (PO4) highlights a potential upward movement in sales values since 2014 which has not been substantively counteracted by representors, and there is evidence of recent strong market activity and high levels of recent completions⁸. Significant buffers have also been incorporated into the viability work as discussed in the section below. Therefore, having regard to these factors in the round, I consider that the £2,250 psm sales figure for high-mid value areas is broadly reasonable as applied to Gateshead.
35. In reaching this conclusion I have had regard to alternative data on Gateshead submitted by representors. However, overall I consider that the Councils' data is more extensive and provides a reasonable overview of the market across the borough and within specific localities. The Council data on Kibblesworth and Ryton, despite being based on a small sample and including some post-2014 and non-new build data, includes a range of sites within both villages and close to the allocations. The alternative Kibblesworth data appears to focus on a site which involved the part renewal of a local authority housing estate, whilst some of the alternative Ryton data covers a wide postcode area. The average sales figures for other value areas of Gateshead have not been substantially challenged and there is no compelling evidence to suggest they should be altered.
36. The Councils' assessment of Land Registry data for Newcastle, utilising dwelling types and average dwelling sizes, appears to be relatively simplistic. Nevertheless, the average sales values used in the Councils' appraisal work appear to be exceeded in many instances, and are also supported by evidence in the Councils' New Build Sales Survey (EX23). I am also mindful that CIL involves an area-wide approach and as such is a relatively broad assessment. In this context I am therefore satisfied that the sales values in the Councils' viability work are broadly reasonable as they apply to Newcastle.
37. Alternative evidence submitted by representors in relation to Callerton⁹ shows sales values in the locality below the Councils' rate of £2,250 psm. However, given the scale of the scheme and having regard to the pockets of high value in the vicinity, I am of the view that a well-designed Callerton development could create its own value and raise higher values than the surrounding area, including at Upper Callerton. On this basis, and having regard to the modest difference between the Councils and representors values, I consider that an

⁸ Housing trajectories in the Councils' Examination Statement (April 2016) (EX09).

⁹ Hearing Statement EX10 Appendix 3 and Report of Representations (Regulation 19(c) (February 2016) (NP05) – Taylor Wimpey.

average sales value of £2,250 psm applied to Callerton is broadly reasonable. I also note that this rate has been applied in the alternative viability appraisal submitted by representors (Appendix 2 in EX10).

38. The Councils have confirmed that an incorrect build cost figure was applied in the workings for the Upper Callerton appraisal. However, although the application of the correct rate would decrease the amount of available headroom, there is no firm evidence before me that it would render the Callerton scheme unviable. Accordingly, this matter does not alter my conclusion above.
39. Representors have questioned whether the Councils' sales data takes account of incentives that may be offered for new build properties. However, such incentives may not apply in all cases. Furthermore, Land Registry data is based on net prices paid, and accordingly should capture some of the incentive discounts. There is also no firm evidence before me to suggest that the Councils' data is overly focused on 'premium' new built dwellings, nor contains significant numbers of errors to the extent that overall conclusions would be substantially altered.
40. Representors have suggested that the value maps are too simplistic and the number of areas should be increased to more closely reflect the different sale prices across Gateshead and Newcastle. However, I deem the Councils' proposed approach, which is based on extensive evidence and purports a fairly simple pattern of value areas, to be suitable and proportionate, and to avoid undue complexity. A number of minor changes were made to the value maps at submission stage, and these are discussed in the section below on Charging Zone boundaries.
41. Affordable housing revenues of about 59% of market value are used in the Councils' viability work. Whilst I note the recent Government rent regime changes, there is no substantive evidence before me to suggest that alternative figures should apply.
42. Residential build costs are based on RICS¹⁰ Building Cost Information Service (BCIS) localised figures, rebased to the fourth quarter 2014. The Councils have taken a tapered approach, with median costs applied to high value areas, and lower quartile costs applied to low value zones.
43. There was some challenge to the tapering approach, as well as to the use of a 15 year sampling period, with views expressed that build costs were consequentially too low. However, in other respects I note the Council has adopted a cautious approach; for example, through the use of higher 'Housing Mixed Development' BCIS costs, by not applying the BCIS reduction rate for large contracts, and by increasing the rates for the Newcastle Central Area to reflect particular costs of developing in a historic urban location. Taking

¹⁰ Royal Institution of Chartered Surveyors.

account of these factors in the round, and the high level nature of the assessment, I am satisfied that the build cost figures in the Councils' viability work are reasonable and represent a proportionate approach.

44. One representor has suggested that the most up to date build costs should be used. However, other variables, including house prices, are likely to have changed. It would skew the findings of the viability work if certain data only were to be updated, and it therefore makes sense to have a common base date for all assumptions made.
45. The Councils have made additional cost allowances for abnormals, externals and contingencies. The abnormals and externals rates have been challenged as being too low, with representors indicating that the existence of old mine workings in the local area can lead to higher abnormal costs. However, many of the alternative abnormals examples submitted by representors relate to sites outside Newcastle and Gateshead, whilst the list of abnormals supplied by a representor in relation to the Ryton allocation appears to include CIL and Section 106 costs (EX11). I also note that the representor's alternative viability appraisal for Ryton retains the Councils abnormals and contingencies rates, stating that *'whilst arguably one could include a high abnormal allowance, these are both within the acceptable ranges I would adopt for a viability of this nature.'*
46. Overall, I consider there is no compelling evidence before me that the Councils' abnormals, externals and contingency cost allowances are inappropriate, or that alternative rates should apply. In reaching this conclusion I have taken into account that significant abnormals costs, where they exist, may potentially be reflected in a lower land price, and that cumulatively the abnormals, externals and contingency rates are equivalent to an additional 20% of build costs.
47. The VR update includes a Section 106 assumption of £2,000 per dwelling for urban sites. This rate has been informed by requirements in the Councils' SPDs on Planning Obligations and in the context of the Councils' draft Regulation 123 lists, and appears to be reasonable.
48. A base Section 106 rate of £8,740 per dwelling has been applied to non-urban sites, with individual costings applied where known for specific sites. In relation to the Callerton allocation, interim total Section 106 costings of £36 m have been broadly agreed by the main parties, notwithstanding the potential additional cost of £656,240 to refurbish the Parkway Medical Centre¹¹. This total is less than the £40 m figure included in the Councils' appraisal. In the case of Ryton, representors have suggested that a rate of £0 should apply. However, having regard to scale of the scheme and the Council's SPD on Planning Obligations, I consider that this would be unrealistically low. For other sites it appears that infrastructure planning work is on-going. In

¹¹ See documents EX23 and EX25.

summary, there is no firm evidence before me that the Councils' Section 106 base rate or estimates for specific sites are wholly inaccurate or unreasonable.

49. The VR update includes cost allowances for other elements, including legal fees, professional fees, marketing and NHBC¹² warranty costs. The applied rates appear to accord with industry norms, and capture national and local policy costs where relevant. No substantive evidence has been submitted to justify alternative figures.
50. The VR update assumes a 20% profit on Gross Development Value (GDV) for private housing and 6% profit on GDV for affordable housing. The affordable housing rate has been disputed as being too low. However, the profit figures in the VR update conform with industry standards, and there is no substantive evidence to suggest that alternative figures should apply.
51. The viability work also includes modelling of assisted living housing. One sheltered housing provider has queried several inputs, including build costs and sales values. The Councils' build cost of £984 psm is lower than the BCIS rate for 'sheltered housing general', but between the BCIS rates for 'sheltered housing 2 storey' and 'general sheltered housing'. Nevertheless, in the context that the Councils anticipate that most future development in Zone B will be in the latter two forms, I consider that the applied figures are broadly appropriate. There is also no firm evidence before me to suggest a contrary figure to the Councils' 30% uplift above market value. In many respects I note that the Councils have taken a cautious approach, with the application of unit sizes which exceed those recommended in the Retirement Housing Group Guidance, and further refinement regarding estimated Section 106 costs¹³.
52. In summary, in relation to residential development, I conclude that the submitted DCSs are supported by detailed evidence relating to economic viability from a wide range of sources. There are some different views on particular assumptions, and I recognise that small variations could cumulatively have an effect on overall viability. Nevertheless, viability testing does not involve absolute answers, and the assumptions made by the Councils in the main reflect appropriate industry standards and are not set significantly low or high. Furthermore, the inclusion of abnormals and contingency rates in the Councils work, along with viability buffers, should help to provide additional capacity to absorb any variations in costs or revenues.

Commercial viability evidence - general

53. The viability work incorporates modelling of various types of commercial development schemes, including student accommodation, hotels, retail

¹² National House Building Council.

¹³ Table 4 in Appendix 3 in the Councils' Examination Statement (April 2016) (EX09).

development, industrial development and offices. The submitted evidence indicates that these uses represent the types of schemes most likely to come forward over the Plan period. The viability evidence for each is addressed in turn below.

54. The value zone maps and the threshold land values used in the commercial viability work are based on a range of data sources, and have not been significantly challenged.

Student accommodation viability evidence

55. A range of typologies are tested in the VR update, incorporating a different mix and number of cluster and studio flats. The range appears to be broadly appropriate, taking account of the type and location of new build student accommodation schemes which have recently come forward in Newcastle and Gateshead.
56. The Councils' use of a 51 week tenancy period in the revenue assumptions is based on recent private sector schemes in the city and appears to be broadly proportionate. It contrasts with the 38 week period which Newcastle University indicate is typically provided in University owned accommodation. Nonetheless, at the hearing Newcastle City Council indicated that University accommodation may also be rented out during holiday periods, which would increase revenues. Furthermore, on the basis of recent market activity it appears likely that the majority of CIL-liable student accommodation over the Plan period will be provided by the private sector, although some refurbishment and demolition and rebuild University schemes are anticipated by the City Council.
57. The sensitivity testing in the VR update applies lower yields and higher build costs based on the fourth quarter 2015. It has not been significantly challenged, and represents an up to date position on costs and revenues. There is also no firm evidence before me that the Councils' use of established and industry standard BCIS build costs is inappropriate.
58. Overall, in relation to student accommodation, I conclude that the submission DCSs are supported by viability work that is reasonable, proportionate and appropriate.

Hotel viability evidence

59. The Councils' viability work includes testing of a budget hotel across the value zones, and a larger more upmarket hotel typology in the city centre. Increased build costs and space standards have been applied to the upmarket hotel typology, reflecting its higher specification. Based on the Councils' evidence of historical supply and future demand, the typology testing appears to be appropriate.

60. The assumptions in the hotel viability work, including rental income, yields, build costs, fees and profit levels have not been significantly challenged, and appear to be reasonable. The Councils have also adopted a cautious approach by including a further abnormal rate in the city centre to reflect the particular costs of constructing in a historic urban environment. Overall, I consider the Councils' hotel viability work provides an appropriate evidence base for the Charging Schedules.

Retail viability evidence

61. Viability testing has been undertaken for a range of retail formats, including supermarkets, discount supermarkets, retail warehousing, small retail units, and larger scale comparison development.
62. A number of concerns have been raised in terms of the typologies tested and the general suitability of the proposed charging rates. The Councils sought to address many of these issues at modification stage by undertaking further modelling and sensitivity testing on supermarkets and retail warehousing in the VR update. This included adjustments to yields and profits, and testing of smaller retail warehousing typologies.
63. Overall, taking account of the Councils' updated viability work, I consider the testing covers a reasonable range of typologies, which broadly reflect the type of recent retail development in Gateshead and Newcastle. The individual assumptions in the modelling, including rents, yields, build costs and profit levels also appear reasonable and have not in themselves been significantly challenged. Overall, I am satisfied that the retail modelling provides a reasonable basis to inform the Charging Schedules.

Industrial and office viability evidence

64. The typologies and assumptions used in the Councils' industrial and office modelling work have not been significantly challenged, and appear to be reasonable.

Are the charging rates informed by and consistent with the evidence? Would they put the overall development of the area at serious risk?

CIL rates for residential development

65. The submission DCSs recommend that three residential charging rates (£60, £30 and £0 psm) should apply in Gateshead and Newcastle, differentiated in terms of geographical zones.

Charging zone boundaries

66. The Councils' evidence shows clear viability differences between residential schemes on a geographical basis across the charging areas. Schemes within

high-mid value non-urban areas and high value urban areas have been assigned charges of £60 psm and £30 psm respectively, with a £0 charge applying elsewhere.

67. As set out in the above section, a number of representors have questioned the inclusion of several sites in high-mid value non-urban areas and therefore within Charging Zone A, including strategic allocations at Callerton, Kibblesworth, Ryton and Dunston Hill. Some have suggested that a £0 rate should apply to particular sites, whilst others have indicated that the rate should be lower than £60 psm. However, as previously established, the Councils' viability work supports the inclusion of these sites in high-mid value areas and therefore Charging Zone A, and no compelling alternative evidence has been submitted to the contrary.
68. The boundaries of the £60 and £30 psm charging zones broadly accord with those of the aforementioned value areas. There are some small differences where areas of public open space or golf courses have been excluded from the charging zones, on the basis that development is unlikely to be appropriate in these localities.
69. The Councils have highlighted a small number of cartographic errors in the charging zone boundaries, where pockets of land have been incorrectly included in Zones A/B. In Newcastle this concerns 'Interest Area 4'¹⁴ which is identified as a mid value area on the residential value areas map. Accordingly, I recommend a modification to the Newcastle Residential CIL Zones Map **(EM/N4)** to remove the area from Zone A, and include it in the £0 Zone C.
70. In Gateshead a number of boundary errors have been identified on land west of Rowlands Gill, as shown on Map 2A in the Councils' Response to Post-Hearing Note (EX23). One of the sites is within a mid value area on the value zone map, but is incorrectly shown on the Residential Charging Zone Map within Zone B. Two further areas are identified as high value on the value zone maps but post-hearing evidence submitted by the Councils suggest the boundaries do not relate to physical features on the ground, and should logically be identified as mid value areas. Accordingly, I recommend modifications to the Gateshead Residential Charging Zone Map **(EM/G3)** to remove the areas from Zone B and include in the £0 charge zone. I am satisfied that the recommended Newcastle and Gateshead map changes would not adversely affect the viability of housing schemes or prejudice interests, as they would involve reducing the CIL charge.
71. Gateshead Council has also highlighted some minor errors in the value zone map in the vicinity of Birtley. This involves two small areas that should have been included in high-mid value zones, in order to reflect urban/non-urban characteristics and existing physical boundaries. However, the proposed changes to the values areas do not affect the boundaries of the charging

¹⁴ Map 3, Appendix 4 of the Councils' Examination Statement (April 2016) (EX09).

zones. One of the value zone map errors was made at submission stage only and was not reflected in the submission DCS maps. The other site comprises an embankment which the Council state would not be developable.

Overall viability and deliverability

72. The Councils' updated headroom workings¹⁵ show sizable buffers for most residential typologies and specific sites in high-mid value non-urban areas and high value urban areas, ranging predominantly from about 45% to 90%. In relation to Callerton the revised total Section 106 costings discussed above could potentially have a further positive impact on scheme viability. Smaller buffers are recorded for sheltered housing schemes in high-mid non-urban areas, and the Wideopen site, although still at reasonable rates of 20-21%.
73. The appraisal evidence also shows that 1 unit schemes in both areas, and schemes of 100 units in high value urban areas may not have sufficient headroom to support the proposed CIL charge. However, the Councils' evidence indicates that this type/location of development will provide a modest source of future housing supply. Overall I therefore consider the proposed £60/30 psm residential charges in Zones A and B appear to be justified, and would not significantly affect overall housing supply.
74. The Councils' updated viability work also shows that some schemes may be viable in other value areas. However, in most cases this is modest and relates to a limited range of typologies which are not anticipated to form the bulk of development in these locations. In the case of high value non-urban areas there are no strategic releases proposed from the Green Belt. Accordingly, I consider that the proposed £0 charge outside Zones A and B is justified.
75. In summary, I conclude that the proposed residential rates of £60 psm and £30 psm, when applied to much of the qualifying development that is likely to come forward, incorporate a significant margin or viability buffer. This would allow for potential variations in the costs and value of particular developments, or changes in the market over time, whilst making a useful contribution towards infrastructure needed to support development. On this basis the proposed residential charging rates of £60 psm and £30 psm are reasonable and would not put residential development required by the Plan at serious risk.
76. This conclusion is supported by evidence that the proposed £60 psm CIL charge would represent an average of about only 2.5% of gross development value (GDV), as applied to the Plan allocation sites¹⁶. Although this represents a modest proportion of overall costs, it is still an additional cost for developers to bear. Nevertheless, there are signs that the housing market in Newcastle and Gateshead is relatively strong, with reasonable levels of recent completions against targets in the Core Strategy, and no substantive evidence of significant problems with the delivery of strategic sites or the identification of a five year housing land supply. Furthermore, I note that the proposed charges would apply to only about 31% and 22% of the total housing to be

¹⁵ See document EX09.

¹⁶ Table 5 in the Councils' CIL Background Paper Appendices (February 2016) (PO2).

delivered in Newcastle and Gateshead respectively over the Plan period¹⁷.

Commercial charging rates - general

77. A number of CIL charges are proposed for commercial development in Gateshead and Newcastle, within three separate charging zones.
78. The boundaries of the charging zones broadly correspond with the value areas identified in the Councils' viability work, with low and medium value areas classified as Zone 3, high value as Zone 2, and central areas as Zone 1. The two exceptions are Gateshead Quays and industrial land at Follingsby, which although falling within high value areas, are included in Zone 3. The Councils' have indicated that Gateshead Quays is excluded due to particular constraints including contamination and topography, whilst the latter site is an industrial area where there is potential for industrial growth. Based on the evidence before me I consider these differences, and the general charging zone boundaries, to be broadly reasonable.

CIL rate for student accommodation

79. The viability evidence shows clear differentials in student accommodation viability across Newcastle, with a sizable headroom of about 70% for the updated base typology in the Newcastle Central Area and high value areas. Elsewhere in Newcastle the workings show insufficient viability to accommodate a CIL charge.
80. Representors have indicated that the proposed CIL charge of £50 psm in Zones 1 and 2 would represent a significant increase above Section 106 rates which have recently been secured in association with Newcastle schemes. However, the proposed charge is supported by the viability evidence, and there is no compelling evidence before me that it would threaten the delivery of the majority of future student accommodation development. There is evidence of strong on-going demand for accommodation in the city, and significant recent market activity. The Council has also responded to the latest costs and revenues evidence by reducing the rate from £80 psm, as set out in the DCS. The proposed £0 charge in Zone 3 in Newcastle is also supported by the Councils' viability evidence.
81. The Gateshead submission DCS proposes a £0 charge for student accommodation. The viability work shows insufficient headroom in the Gateshead Central Area, and there appears to be low market demand for such schemes in the borough. Overall I consider the Council has adopted a suitably cautious approach with the setting of a nil CIL charge.

¹⁷ Paragraph 4.17 in the Councils' Examination Statement (April 2016) (EX09).

CIL rate for hotel development

82. The Councils' viability work shows that hotel development is viable in high value areas in Newcastle and Gateshead, with reasonable buffers of 79%. The proposed charge of £40 psm in Zone 2 in both charging areas therefore appears to be reasonable, and on this basis would not put the delivery of future development at serious risk.
83. The modelling in Newcastle Central Area provides mixed results, with viability shown for budget hotels but not for upmarket hotels. However, the City Council has highlighted a particular need for additional upmarket 4 star hotels, and suggest this will form the majority of new future build schemes in Newcastle City Centre. In relation to the Gateshead Central Area, the Councils' evidence highlights potential delivery issues, with only one recent hotel scheme progressing successfully without public sector intervention. Accordingly, on the basis of viability and market evidence before me, I consider the proposed £0 charge in the Newcastle and Gateshead Central Areas is reasonable. The £0 charge for hotel development in Zone 3 is also supported by the modelling work, which shows insufficient headroom to support a CIL charge.

CIL rates for retail development

84. The submission DCSs propose a rate of £50 psm for retail warehousing in Zones 2 and 3, £30 psm for small retail development in Zone 2, and £10 psm for supermarket development across all zones. Other forms/locations would be subject to a £0 charge.

Retail differentiation and definitions

85. The Councils' viability work shows clear differences between the viability of various types and scales of retail development, in different geographical locations. For example, small retail development shows viability of about 94% in Zone 2, and supermarket development in general has some form of viability across all zones, whilst large scale comparison development shows a lack of viability. I therefore consider that the use of differentiated charges based upon the type, size and location of retail use to be appropriate.
86. Small retail, supermarket and retail warehousing development is defined in the submission DCSs with reference to a floorspace threshold of 280 square metres (sqm). The Councils have confirmed that this is a net figure relating to the sale or display of goods, as derived from thresholds established in Sunday Trading Act. Accordingly, for the purposes of clarity, I recommend that the retail descriptions in the tables in the Charging Schedules are altered to include reference to net floorspace **(EM/G4, EM/N5)**.

Retail viability and deliverability

87. The retail warehousing charge in Zones 2 and 3 appears to be reasonable and justified by the Councils' viability work, which shows viability buffers of 22% and 87% respectively. Retail warehousing does not appear to be a typical form of development in Zone 1, and there is no evidence that it could viably pay a CIL charge in this location. Thus a zero rate in Zone 1 appears to be proportionate and appropriate.
88. The Councils' modelling shows that small A1 retail schemes below a threshold of 280 sqm have a sizeable viability buffer of about 94% in Zone 2. The modelling indicates that larger comparison schemes are not viable, and this is supported by market evidence which indicates a lack of schemes above 280 sqm coming forward. In contrast, there appear to have been a significant number of recent completions of small scale convenience stores below the size threshold, albeit in some cases involving conversion rather than new build development. Having regard to the submitted evidence, and the differences in operating models arising from the Sunday Trading Act, I am satisfied that the proposed £30 psm CIL charge in Zone 2 and the £0 charge elsewhere is broadly reasonable.
89. The Councils' modelling work shows that different forms of supermarket development are viable in different parts of the charging areas. General supermarkets show sizable viability buffers of 57% to 98% across all areas with the exception of low value areas, whilst, conversely, discount supermarkets show viability in low value zones only. In relation to discount supermarkets, the market evidence lends some support to this position, with recent completions in low and medium value areas. However, few general supermarket schemes appear to be coming forward across the charging areas, although there is no firm evidence to suggest that this will continue over the Plan period. Taking account of both the viability and market evidence I consider the Councils have taken a suitably cautious approach to supermarket rate setting, with a rate of £10 psm across all zones.
90. In summary, based on the evidence before me I conclude that the proposed retail rates for both Gateshead and Newcastle appear to be reasonable and proportionate. The charging rates incorporate a reasonable viability buffer to allow for uncertainties relating to development costs and values and variations associated with specific schemes. The supermarket and retail warehousing charges have also been markedly reduced from those put forward in the DCSs following a review of the evidence base. Overall, there is no substantive evidence that the proposed charges in the submission DCSs would put the delivery of supermarket, retail warehousing and small retail development at risk overall or on key strategic sites.

Other development

91. The Councils' viability testing of industrial development and offices demonstrates that these uses would be unable to support CIL charges. The proposed nil CIL charges for these development types therefore appears to be justified.

Other Matters

92. A number of representations were made on the Councils' use of Exceptional Circumstances Relief, and how the spending of CIL monies would be prioritised between different projects or localities. However, these matters are within the Councils' discretion, and it is not the role of the examination to appraise them.
93. A number of representors have raised concerns about different CIL rates in adjoining authorities and elsewhere. However, in terms of the proposed rates before me, I am satisfied that these are justified by the viability evidence, as it applies to Gateshead and Newcastle.
94. One representor has expressed concern that the draft Gateshead instalments policy would have significant cash flow implications for large sites where schemes may take a number of years to build out. However, large schemes may come forward in separate phases, and there is no compelling evidence before me to indicate that the viability of large schemes would be significantly affected. Furthermore, the instalments policy is in draft form only, and the Council has indicated it welcomes receipt of specific concerns from developers.
95. The submission DCSs show grid numbers and lines on the charging zone maps, in accordance with Regulation (2)(c)(iii). However, in the Gateshead document the grid lines on the Residential Charging Zone Map are obscured by the Zone A shading. Accordingly, I recommend that the map is redrafted to clearly show the grid lines **(EM/G5)**.

Conclusion

96. Gateshead and Newcastle Councils have worked constructively together in the production of Charging Schedules for their respective areas, building on the work undertaken on the recently adopted Core Strategy. Both Councils have a positive growth agenda, and in setting the CIL rates have had regard to detailed evidence on infrastructure planning and the economic viability of the development market.
97. The proposed rates will not put the development of the area at risk, but will help to fund new infrastructure required to support growth. Overall, I conclude that, subject to the modifications, an appropriate balance will be achieved between the desirability of funding infrastructure whilst ensuring that a range of development remains viable across the charging areas.

98. Nevertheless it would be prudent for the Councils to review the schedules within 2 years of adoption to ensure that overall approaches taken remain valid, that development remains viable, and that an appropriate balance is being struck.

LEGAL REQUIREMENTS	
National Policy/Guidance	Subject to the recommended modifications the Charging Schedules comply with national policy/guidance.
2008 Planning Act and 2010 Regulations (as amended)	The Charging Schedules comply with the Act and the Regulations, including in respect of the statutory processes and public consultation, consistency with the Core Strategy and Infrastructure Delivery Plan and are supported by an adequate financial appraisal.

99. I conclude that, subject to the modifications set out in Appendix A, the Gateshead and Newcastle submission Draft Charging Schedules satisfy the requirements of Section 212 of the 2008 Act and meet the criteria for viability in the 2010 Regulations (as amended). I therefore recommend that the Charging Schedules be approved.

Katie Child

Examiner

Appendix A (attached) – Examiner's Recommended Modifications

Appendix A – Examiner's Recommended Modifications

These are the modifications recommended by the Examiner so that the Gateshead and Newcastle Charging Schedules may be approved. In some cases the modifications relate to both Charging Schedules, in other cases one only. This is indicated by the reference numbers in the first column below, where EM/G relates to Gateshead and EM/N relates to Newcastle.

Where relevant, additional text is shown in bold, and deleted text is shown using strikethrough.

Reference number	Modification
EM/G1 & EM/N1 Gateshead & Newcastle	Insert new column in the table in the Charging Schedules after 'Residential Zone B', entitled 'Residential Zone C' with a rate of £0 psm.
EM/G2 & EM/N2 Gateshead & Newcastle	Amend the key in the Charging Schedule residential zone maps, using appropriate shading, to refer to the £0 psm 'Zone C'.
EM/N3 Newcastle	Delete the word 'shared' from the description of development in the third row of the table in the Newcastle Charging Schedule, as follows: ' Shared /student accommodation (C3, C4, Sui Generis)' Insert associated new footnote as follows: ' Purpose built student accommodation which usually has an element of communal facilities '.
EM/N4 Newcastle	Amend the Newcastle Residential CIL Zones Map by deleting 'Interest Area 4' (as identified in Map 3, Appendix 4 of the Council's Examination Statement EX09) from Zone A and including it in the £0 psm Zone C.
EM/G3 Gateshead	Amend the Gateshead Residential Charging Zone Map by deleting the area bounded in red on Map 2A of the Councils' Response to Post-Hearing Note (EX23) from Zone B, and including it in the £0 psm Zone C.

EM/G4 & EM/N5 Gateshead & Newcastle	<p>Insert reference to net floorspace in the description of small retail, supermarket and retail warehousing development in the table in the Charging Schedules, as follows:</p> <p>'Small retail (A1) units \leq 280 sqm net floorspace' 'Supermarket (A1) ** $>$ 280 sqm net floorspace' 'Retail warehousing (A1) *** $>$ 280 sqm net floorspace'</p>
EM/G5 Gateshead	<p>Insert clear OS grid lines in the Gateshead Residential Charging Zone Map.</p>