

For: Tunbridge Wells Borough Council

**Addendum Update Note to
Local Plan Viability Assessment**

**Infrastructure Update
Paddock Wood & East Capel only**

August 2024

DSP24896

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Introduction

- 1.1.1 Tunbridge Wells Borough Council (TWBC) engaged Dixon Searle Partnership (DSP) previously on the initial submission Local Plan (as well as on earlier iterations) to produce a two staged Viability Assessment (VA) which informed the development of the Local Plan:
- Stage one considered whole plan viability by assessing the impact of policy requirements on development viability. This included testing different affordable housing thresholds as well as other standards. Completed August 2019.
 - Stage two considered the viability prospects of development at potential key strategic sites. Completed February 2021.
- 1.1.2 The findings of the VA, together with other evidence, assisted the Council in drawing up a development strategy for the borough as well as detailed allocations, development management policies which were submitted for formal examination in the Submission Local Plan in November 2021.
- 1.1.3 Examination Hearings were held throughout March 2022 – July 2022. The initial findings of the Inspector (received in November 2022) raised a number of matters which needed to be resolved or re-tested by the Council, and as such a significant amount of additional work has been undertaken to review the overall development strategy and growth scenarios of the emerging Local Plan.
- 1.1.4 The Submission Local Plan was supported by a significant body of evidence in addition to the noted VA work. Much of the development strategy for significant growth in the borough was considered reliant on strategic housing growth associated with development at Tudeley Garden Village (TGV) and Paddock Wood / East Capel (PWEC) where a new settlement of 2,800 homes was proposed at TGV, and a town expansion of 3,490-3,590 homes was proposed at PWEC respectively.

- 1.1.5 Given the Inspector's initial findings, the Council re-engaged DSP in January 2023 ready to assess whether a reduced growth scenario for the strategic site at PWEC would remain viable. For the purposes of that review, as per TWBC's instruction we worked on the assumption, consistent with the updated infrastructure information, that no reliance was placed on delivery at TGV.
- 1.1.6 That further VA work was progressed in the Autumn of 2023 and reported in December 2023 in response to the Council having considered a focus on the Paddock Wood and East Capel (PWEC) allocation proposal (only) and a revisit of the dwelling numbers and infrastructure requirements for that.
- 1.1.7 Further Examination Hearings on the revised strategy were held in June and July 2024 following which the Inspector requested that TWBC update their Infrastructure Delivery Plan (IDP) to take account of updates to highways costs (and health facilities) as relate to the proposed allocation at Paddock Wood and East Capel. As a result of this request, TWBC have asked that DSP re-run our modelling to take account of this updated information.
- 1.1.8 Accordingly, this report provides an Addendum Update to the Local Plan Viability Assessment Addendum prepared for TWBC in December 2023, revisiting only the updated infrastructure information, a summary of which is provided in Appendix I, Table 1B.

Methodology and assumptions

1.1 Basis and adjustments – relative to previous exercise

- 1.1.1 This updated VA work is provided as an Addendum Update to the earlier reports which provide the detailed assessment context and methodology, as is relevant to this update too. This note therefore needs to be read in conjunction with reporting carried out in February 2021 and December 2023 – we will not repeat here the detail of the study assessment process.
- 1.1.2 With the exception of the infrastructure cost changes (see Appendix I, Table 1B), all the of assumptions remain as per the December 2023 addendum report including the Submission Local Plan development management policies (those policies that influence viability through additional cost to development). Therefore, it has not been necessary to update the assumptions wholesale – all remain appropriate to continue with for this strategic assessment purpose.
- 1.1.3 This means that the current results provided here can be compared readily with the previous set (as reported February 2021 and again in December 2023) – see Appendix II.

1.2 Presentation of Addendum Results

- 1.2.1 Appendix I provides a summary of the assumptions feeding into the appraisal model. This remains as per the December 2023 Addendum report. Appendix II sets out the results of the Argus Developer software run appraisals as updated to take account of changes in the IDP and Appendix III provides copies of the appraisal summaries (as generated by the software). The appended information follows the same format as shown through the December 2023 Addendum.
- 1.2.2 Although the TWBC sourced list of updated (August 2024) infrastructure requirements and estimated costs of those elements is included within each appraisal (i.e. all appraisals – these elements are not variables tested) and can be seen within the appraisal summaries at Appendix III, a list of those is also included within Appendix I for

ease of reference along with assumed delivery timings based on information provided by TWBC. This has been used as a constant throughout the updated appraisals and is shown at Table 1A of Appendix I.

- 1.2.3 To the rear of each appraisal summary (numbered 1 to 16 being the 'Appraisal No.' listed in the results – Table 2, Appendix II) again is a grid described by the Argus software as a '*Table of Profit Amount and Land Cost*'.
- 1.2.4 For each new appraisal this further table provides wider information for TWBC, enabling review of high-level indications as to how robust (or sensitive in a way that indicates reduced viability prospects) the results are in each case, and (as with the main results in Table 2) a review of different assumptions combinations that might produce similar results overall. Generally this considers the sensitivity of results to further changes in cost and value assumptions.
- 1.2.5 Each of these further tables, included as the final page for each appraisal summary, sets out the further indicative sensitivity test outcomes which are seen when adjusting the housing sale values and construction costs. The construction costs are sensitivity tested (in 2% steps up and down to + / - 8% from the current base assumption) in combination with adjusting the assumed values up and down (in £100/sq. m steps up and down to + / - £400/sq. m from the assumed base level) in each case. The base result can be seen in the centre of the grid, where a combination of '0.00/m²' adjustment to housing sale value and '0.000%' adjustment to base build cost assumption is applied. The bracketed sensitivity results figures represent negatives (deficit results). The constant element of the BLV £ assumption (per appraisal) is also shown bracketed as a cost – latter at either c. £59.8m (base assumption at £250,000/Ha) or c. £88.5m (at the higher sensitivity test of £370,000/Ha - again as per the previous VA review).

Updated findings

3.1. Overview of Addendum Results – PWEC only

- 3.1.1 The updated results are, overall, very similar to those presented in the December 2023 Viability Assessment Addendum.
- 3.1.2 Purely as a general / visual aid to the results, those shown using green shading – as both indicative overall surpluses and with those surpluses then expressed in approximate £/dwelling amounts - clearly indicate positive viability at this still early stage of review. Using a ‘traffic light’ type approach again as a general aid to trends, the orange shaded results indicate marginal outcomes either side of a nil surplus. Those results that suggest a clear deficit using the current assumptions are shaded in red.
- 3.1.3 Accordingly, the Council and other stakeholders will be able to see the viability indications that result from this addendum update – 2,532 dwellings assumed at PWEC based on the updated infrastructure schedule estimates and all other assumptions as set out.
- 3.1.4 For the scale of development proposed and therefore the size of the numbers involved throughout, there has also been very little real variation seen between the results indicated to the Council in December 2023 and those now presented – August 2024 – a difference of around £1.5m in the output surplus / deficit results set against a gross development value of around £850m – so around 0.2% of GDV. Therefore the adjusted IDP costing have been seen to have a minor effect overall – no material change to findings during this updated exercise.
- 3.1.5 We will therefore provide a brief overview only of the updated results, below, which continue to reflect a very similar overall picture to that seen previously when looking at Paddock Wood and land at East Capel.

- 3.1.6 The updated results indicate scope for the provision of 40% affordable housing alongside other infrastructure and policy requirements across a range of scenarios. This includes significant surpluses at the £5,100/m² value level tested both at the mid-point PPG developer profit level (17.5%) and higher (20% of GDV) level when tested against the base BLV. Positive results are also shown at the lower (£4,900/m²) value level tested when assuming a reasonable developer profit and benchmark land value (17.5% on GDV and £250,000 per ha respectively)
- 3.1.7 Deficit outcomes are confined to the use of the higher sensitivity test BLV level, which is not the base assumption that DSP considers appropriate. However, even that tested with the mid-range PPG profit level for plan making purposes produces a marginal rather than significant deficit result in the scheme context. 40% AH continues to be shown as within the realms of viability overall when assessed using the latest available information reflected as assumptions within the updated appraisals.
- 3.1.8 There is therefore no overall change in the viability assessment findings, now viewed here in respect of Paddock Wood and East Capel (only) with commensurate infrastructure provision envisaged.
- 3.1.9 The 30% AH tests are provided for wider information. Broad interpolation can also be used to consider the areas in which results would fall if using intermediate assumptions on AH.
- 3.1.10 In providing the further sensitivity tests it is acknowledged that additional costs (any not currently directly reflected through assumptions) could come into play, although contingency allowances have been made. The economic scenario and property market conditions could be variable across the course of the LP and the same relevant overall delivery period for this allocation proposal.
- 3.1.11 However, at this stage, the ability of TWBC and the developer parties to adapt the details of delivery at various points throughout its long timeline if / as may be appropriate also appears worth noting. That type of approach is not unusual in large strategic site circumstances. It has the capacity to act as a further security layer for delivery according to evolving circumstances. Along with the positive current stage

review indications, this means that the scope to achieve the crucial AH delivery aims and other policy objectives over the long run of the Plan and across this type of scheme should not be diluted at the outset and certainly not ruled out. This Addendum Update continues to show that the emerging policies can be further supported as a continued key theme for the new LP.

3.1.12 In carrying out this updated assessment of the viability prospects, DSP also considered the use of an appraisal iteration that builds in implicit values growth and costs inflation assumptions, applied year on year throughout the assumed development period cashflow. While that approach can be seen to greatly enhance the viability indications overall and can be useful to view where viability early on may be particularly challenged, for example, it is dependent on the predictions assumed (forecast levels of values growth and costs inflation applied). Arguably it comes with greater uncertainty, therefore. In our view such an approach need not be relied upon at this stage in any event here. Although inevitably the exercise that has been run is again highly assumptions based in any event and, as the results set shows overall, the current viability indications are again unavoidably subject to variation, there are fewer key assumptions needing to be fixed within the approach used here.

3.1.13 DSP will be happy to advise further should TWBC require.

Addendum Update Note text ends.

Notes and limitations follow.

Appendices (I, II and III) provided in separate documents.

Notes and Limitations

- i. The purpose of the additional viability assessment (VA) addendum update reported in this document (as conducted in August 2024) has been to further inform and subsequently support the Tunbridge Local Plan (LP) to 2038, which is currently undergoing examination; and in particular to consider the viability prospects for large scale housing led development at Paddock Wood and East Capel (PWEC) – updated review.
- ii. This has been a desk-top exercise based on updated indicative dwelling numbers and infrastructure information provided by Tunbridge Wells BC (TWBC) supplemented with information gathered by and assumptions made by DSP, once again as appropriate in the context of Local Plan development ('plan making'). We have noted that the scope of assumptions updating since the previous equivalent work reported in December 2023, is appropriately limited.
- iii. This review has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan viability, affordable housing and CIL economic viability as well as providing site-specific viability reviews and advice. In order to carry out this type of assessment many assumptions are required alongside the consideration of a range of a large quantity of information which rarely fits all eventualities.
- iv. It should be noted that every scheme is different, and no review of this nature can reflect all the variances seen in site specific cases. Accordingly, this assessment (as with similar studies of its type) is not intended to directly prescribe assumptions in a necessarily fixed way. Assumptions applied for our test scenarios are unlikely to be appropriate for all developments and, ultimately, may well not directly reflect the specifics of this proposal and site as more information becomes known. A degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and further informing and supporting the Council's approach to and proposals for a robust and viable Local Plan.

- v. Small changes in assumptions can have a significant individual or cumulative effect on the residual land value (RLV) or other surplus / deficit output generated – the indications generated by the development appraisals for this strategic purpose will not necessarily reflect site specific circumstances. Nevertheless, the assumptions used within this study inform and then reflect the policy requirements and strategy of the Council and therefore take into account the cumulative cost effects of policies.
- vi. The research, review work and reporting for this assessment has been assembled at a time when there remain economic uncertainties associated with the after effects of Brexit, the COVID-19 (Coronavirus) pandemic situation, more latterly the war in Ukraine, other conflicts. Challenging economic circumstances in general have been a theme, and continue to be, coming to the fore as this assessment got underway and was progressed during a period of high inflation, with living costs and high borrowing and now causing some downward pressure on house prices and a significant slowing of the market while costs continue to rise (albeit in the very latest period with inflation now easing back).
- vii. This may run through into many potential areas affecting development viability or deliverability, particularly in the short term. However, there could be a range of influences and effects, not necessarily all negative in their impact on viability. It is of course only possible to work with available information at the point of carrying out the assessment. At this stage it appears that it will be for Local Authorities and others to consider how this picture may change – monitor it as best possible and consider any necessary updating of the evidence and local response in due course.
- viii. This is consistent with the approach that typically is taken already when either a significant amount of time passes, or other circumstances change during the period of Plan preparation/review and potentially pending or during examination. In the meantime, this work contains information on the impact of varied assumptions applied within a wide range of sensitivity tests. Run in this way and supported through regular dialogue with the Council while in progress, this has helped inform the Council's consideration of development viability in the wider plan delivery context - and continues to.

- ix. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership Ltd (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
- x. To the extent that the document is based on information supplied by others, Dixon Searle Partnership Ltd (DSP) accepts no liability for any loss or damage suffered by the client or others who choose to rely on it.
- xi. In no way does this study provide formal valuation advice; it provides an overview not intended for other purposes nor to over-ride particular site considerations as the Council's policies will be applied from case to case.
- xii. DSP conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have undertaken and from time to time undertake other viability assessment work in the Council's area, including review of some viability assessments (on an ad hoc basis) submitted to the Council at decision making (development management) stage. We conduct similar work for other authorities in the region.
- xiii. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment. Our project costs are simply built-up in advance, based on hourly/day rates and estimates of involved time. In the preparation of this assessment DSP has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

Addendum Update ends.