

Shropshire Council

Viability Note – June 2024

- 1.1 HDH Planning & Development Ltd (HDH) produced the *Local Plan Delivery & Viability Study* (HDH, July 2020) (**EV115.01**) (2020 LPDVS) for Shropshire Council. This has three main elements:
- Review of affordable housing policy (including tenure split).
 - Whole plan viability to consider all other standards and policy requirements.
 - Consideration of the Community Infrastructure Levy (CIL).
- 1.2 The report was carried out as per the requirements of the NPPF and in accordance with the PPG and RICS Guidance. It was subject to a technical consultation with the development industry.
- 1.3 Since 2020 the costs and the values, being the main inputs into a viability assessment, have changed and several changes have been made to national policy. This note considers how these changes may impact on viability. If build costs increase more than values, then viability will become less good. If values increase more quickly than build costs, then viability will improve.
- 1.4 The Inspector’s MIQs, Stage 1 Matter 8, Questions 14 to 19, covered Viability and reference was made to the 2020 LPDVS. HDH assisted the Council in drafting the response to these questions. HDH then attended the *Stage 1 Matter 8 - Infrastructure and Delivery, Monitoring and Viability* hearing session (Friday 15th June 2022) when viability was discussed.
- 1.5 This viability note further considers whether or not the Council can continue to rely on the 2020 LPDVS. In particular the changes in residential values, residential development costs, and changes in national standards are considered. Brief consideration is also given to changes in the costs / values of development land.

Changes in Residential Values

- 2.1 The assumptions in the 2020 LPDVS were based in May 2020 (Table 4.9 and Table 4.10). Since then, house prices have increased. There are a range of data sources that can be referenced, however the Land Registry is the most complete.

Table 2.1 Change in Average House Prices

	Shropshire	West Midlands	England & Wales
2020-05	£211,760	£200,156	£242,637
2024-03	£274,748	£246,298	£294,696
Change (£)	£62,988	£46,142	£52,059
Change (%)	29.7%	23.1%	21.5%

Source: Land Registry (June 2024)

- 2.2 This data shows that average prices have increased by about 30% in Shropshire, which is somewhat more than in the region or nationally. This data can be disaggregated and newbuild sales separated out.

Table 2.2 Change in Average Newbuild House Prices - Shropshire

	Newbuild	Existing
2020-05	£253,037	£208,816
2024-03	£346,903	£268,294
Change (£)	£93,866	£59,478
Change (%)	37.1%	28.5%

Source: Land Registry (June 2024)

- 2.3 The Land Registry’s latest data suggests that the average newbuild sale price has increased by about 37% since the 2020 LPDVS was undertaken. This is substantially more than the average increase for existing homes.
- 2.4 The 2020 LPDVS was completed during the COVID-19 pandemic and there remains uncertainty in the property markets due to the ongoing global uncertainty around the war in Ukraine and the more recent troubles in the Middle East, both of which have impacted on oil and energy prices and inflation. In an effort to control inflation, the Bank of England has raised the Bank Base Rate, which has led to a fall in inflation. It is important to note that whilst interest rates are substantially greater than they were, when considered over the long term, they remain relatively low.
- 2.5 The uncertainty in the housing market is reflected in the April 2024 RICS UK Residential Market Survey¹:

Recovery in buyer demand falters slightly amid interest rate uncertainty

- *New buyer enquiries see a modest dip alongside a general softening in momentum reported across the sales market*
- *National house price indicator slips back into slightly negative territory*
- *Near-term expectations still point to the recovery getting back on track in the months ahead*

The May 2024 RICS UK Residential Survey results are symptomatic of a slight setback for the sales market over the month, with most of the indicators tracked deteriorating to a certain extent. This appears to be linked to the recent scaling back in expectations around the degree of monetary policy loosening likely to be pushed through by the Bank of England during the second half this year. Nevertheless, respondents still foresee a modest recovery in residential sales volumes getting back on track over the months ahead.

For the aggregate new buyer enquiries series, the latest net balance reading of -8% is down from a figure of -1% beforehand. As such, this is consistent with a modest drop-off in demand over the month. Furthermore, the latest return marks the softest reading for this metric since November of last year. When viewed at the regional level, the most noticeable decline in buyer enquiries came in the South East and South West of England (exhibiting net balances of -27% and -23% respectively).

¹ <https://www.rics.org/uk/news-insight/research/market-surveys/uk-residential-market-survey/>

At the same time, respondents also reported a fall in the number of sales agreed during May, evidenced by a net balance reading of -13% being recorded for this month (down from +4% last time). Going forward, despite the recent stumble, near-term expectations point to sales volumes picking up modestly over the coming three months (posting a net balance of +6% compared to zero previously). Moreover, the outlook for twelve-months ahead remains relatively upbeat, with a net balance of +43% of survey participants anticipating an uplift in sales activity (an increase from a figure of +33% in April).

Alongside this, the flow of sales instructions coming onto the market continues to rise, with the new listings indicator registering a net balance of +16% in May. As a result, the volume of fresh instructions coming onto agents books has now improved for six consecutive months. Painting a similarly positive picture for changes in supply on the second hand market, a net balance of +17% of respondents report that the number of market appraisals undertaken of late is higher than a year ago (representing the fifth reading in expansionary territory for this metric).

Looking at the most recent trend in house prices, the headline series retreated in May, posting a net balance of -17% compared to -7% in the previous iteration of the survey. Consequently, having held broadly steady in both March and April, the latest reading (being the most negative return since January) suggests that house prices fell slightly during the month. That said, while prices pulled back to a certain degree in virtually all regions of England during the latest survey period, Scotland and Northern Ireland continue to see a very different picture, with prices remaining on an upward trajectory in both cases.

With respect to the near-term outlook for prices at the national level, expectations suggest that some further downward pressure could be seen in the coming three-months, albeit the net balance of -12% is only very marginally negative. At a slightly longer timeframe however, contributors remain firmly of the view that house prices will move higher over the next twelve months. In fact, the latest net balance of +41% for the year-ahead price expectations indicator is the most elevated reading since April 2022 (up from +38% last time).

In the lettings market, tenant demand appeared to regain some momentum over the month, with the May net balance climbing to +35% compared to a reading of +10% previously (part of the non-seasonally adjusted monthly lettings dataset). Alongside this, landlord instructions were more or less flat (net balance -3%), marking the first occasion since August 2022 in which this measure has moved into neutral territory. Going forward, near-term expectations point to rental prices continuing to move higher, even if the pace of growth is likely to be more modest than that seen during much of the last eighteen months (the current net balance of +35% is noticeably more moderate than the +53% average reported throughout 2023).

- 2.6 HM Treasury brings together some of the forecasts in its regular *Forecasts for the UK economy: a comparison of independent forecasts* report.

Table 2.3 Consolidated House Price Forecasts

Table 2 - 2024: Growth in prices and monetary indicators (% change)									
Forecasters and dates of forecasts		CPI (Q4 on Q4 year ago, %)	RPI (Q4 on Q4 year ago, %)	Average earnings (Q4 on Q4 year ago, %)	Sterling index (Jan 2005=100)	Official Bank rate (level in Q4, %)	Oil price (Brent, \$/bbl)	Nominal GDP	House price inflation (Q4 on Q4 year ago, %)
City forecasters									
Barclays Capital	May *	2.2	3.8	-	-	4.25	90.0	-	-
Bloomberg Economics	Mar	2.2	-	-	-	4.00	-	-	-
Capital Economics	May *	0.8	1.1	4.3	79.8	4.00	75.0	2.8	3.0
Citigroup	Aug	1.7	3.1	2.5	-	3.75	-	-	1.8
Deutsche Bank	Feb'23	1.7	3.6	-	-	3.25	-	-	-
Goldman Sachs	Feb'23	1.7	-	-	-	3.75	100.0	-	-
HSBC	May *	2.4	3.3	4.2	-	4.50	-	-	-
JP Morgan	May *	2.4	-	-	-	4.75	-	-	-
KPMG	May *	2.0	-	-	-	4.25	82.5	-	-
Morgan Stanley	Dec	2.4	3.7	3.1	-	-	-	-	-
Natwest Markets	May *	1.8	3.3	4.8	-	4.25	85.0	2.6	-0.5
Nomura	Mar	1.6	-	-	-	4.25	-	-	-
Pantheon	Mar	2.2	3.5	-	-	4.50	-	-	-
Schroders Investment Management	Mar'23	3.7	4.1	-	-	2.00	-	3.0	-2.8
Societe Generale	Sep	3.3	3.8	4.5	-	4.00	97.3	4.2	-
UBS	May *	2.4	3.4	2.8	-	4.50	-	2.5	-
Non-City forecasters									
British Chambers of Commerce	May *	2.3	-	3.0	-	4.50	-	-	-
Beacon Economic Forecasting	May *	2.7	2.6	4.3	83.5	4.75	83.3	4.1	-9.5
CBI	Apr	2.5	3.2	4.9	80.9	-	84.6	3.7	-4.5
CEBR	May *	2.2	3.0	5.6	82.2	4.83	-	-	-2.0
Economic Perspectives	Apr'23	4.3	5.4	-	75.0	3.00	80.0	5.5	-6.0
Experian Economics	May *	2.3	3.0	3.9	84.1	4.92	86.1	0.4	-0.4
EIU	Oct	-	-	-	-	5.25	81.5	-	-
Heteronomics	May *	2.6	3.6	4.0	81.0	4.75	83.0	-	1.5
ICAEW	Mar	2.0	-	-	-	4.50	-	-	-
ITEM Club	Feb	2.0	1.4	2.8	81.7	4.25	-	-	-0.2
Kern Consulting	Apr'23	3.8	-	-	-	-	80.0	-	-
Liverpool Macro Research	May *	2.0	3.0	3.6	81.5	4.00	-	-	-
NIESR	May *	2.2	5.0	5.4	-	4.88	-	-	-2.5
Oxford Economics	May *	2.1	3.4	3.6	82.7	4.50	83.7	3.1	0.6
OECD	May *	2.8	-	3.1	-	4.75	84.6	-	-
IMF	Jan	-	-	-	-	-	-	-	-
Average of forecasts made in the last 3 months (excludes OBR forecasts)									
Independent		2.1	3.2	4.2	82.0	4.47	83.7	2.7	-1.6
New (marked *)		2.2	3.2	4.0	82.1	4.52	83.7	2.6	-1.2
City		2.0	3.1	4.0	79.8	4.33	83.1	2.6	1.3
Range of forecasts made in the last 3 months (excludes OBR forecasts)									
Highest		2.7	5.0	5.6	84.1	4.92	90.0	4.1	3.0
Lowest		0.8	1.1	2.8	79.8	4.00	75.0	0.4	-9.5
Median		2.2	3.3	4.2	81.8	4.50	83.7	2.8	-0.5
OBR	Mar	1.4	2.1	3.4	-	4.15	77.0	2.3	-2.7

Source: Forecasts for the UK economy: a comparison of independent forecasts No 442 (HM Treasury, May 2024).

2.7 Property agents Savills are forecasting the following changes in house prices, suggesting a return to growth in the coming years:

Table 2.4 Savills Property Price Forecasts

	2024	2025	2026	2027	2028	5 Year
Mainstream UK	2.5%	3.5%	4.5%	5.0%	4.5%	21.6%
West Midlands	2.0%	4.0%	5.0%	6.0%	4.5%	23.4%
Outer Commute	-1.5%	3.0%	4.5%	6.0%	5.5%	18.6%
Prime Midlands / North	-1.0%	4.0%	5.5%	7.0%	4.5%	21.5%
Mainstream UK Rents	6.0%	3.5%	3.0%	2.5%	2.0%	18.1%

Source: Savills Mainstream House Price Forecasts and Savills Prime Residential Property Forecasts^{2 3}

2.8 In this context, it is relevant to note that the Nationwide Building Society reported in May 2024⁴:





Modest rebound in house price growth in May as market shows resilience

- UK house prices rose 0.4% month on month in May
- Annual growth rate picked up to 1.3%, from 0.6% in April

Headlines	May-24	Apr-24
Monthly Index*	523.7	521.4
Monthly Change*	0.4%	-0.4%
Annual Change	1.3%	0.6%
Average Price (not seasonally adjusted)	£264,249	£261,962

* Seasonally adjusted figure (note that monthly % changes are revised when seasonal adjustment factors are re-estimated)

2.9 Halifax Building Society reported a similar situation in May 2024:

 Average house price £288,688	 Monthly change -0.1%	 Quarterly change -0.3%	 Annual change +1.5%
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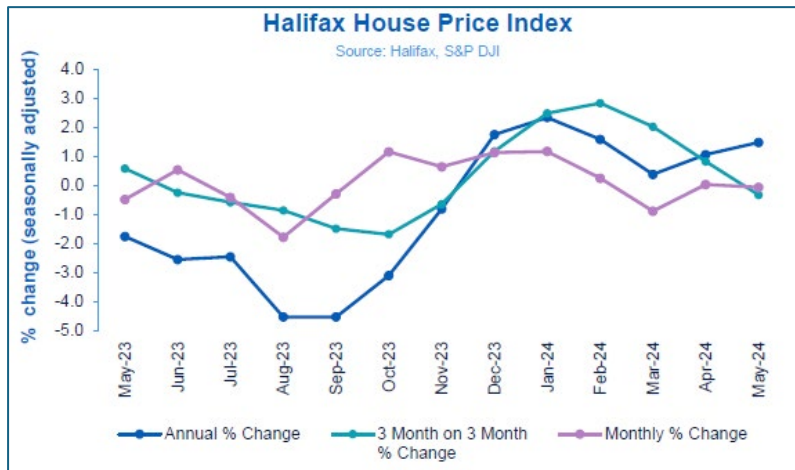
UK house prices static in May

- Average house prices stable in May, down just -0.1% a monthly basis
- Annual rate of house price growth up +1.5% last month, from +1.1% in April
- Typical UK home now costs £288,688 (compared to £288,862 in April)
- The North West has the strongest price growth of nation or region in the UK

² [Savills UK | Revised Mainstream House Price Forecasts: 2024–2028](#)

³ [Savills UK | Residential Property Market Forecasts](#)

⁴ [Modest rebound in house price growth in May as market shows resilience \(nationwidehousepriceindex.co.uk\)](#)



2.10 There is clearly continued uncertainty in the market, and the substantial growth reported over the last few years seems unlikely to continue, nevertheless, there is no current suggestion that house prices are about to fall.

Changes in Development Costs

3.1 The build costs in the 2020 LPDVS as suggested in the PPG, were derived from BCIS data. The cost figure for Shropshire for 'Estate Housing – Generally' was £1,164/m² at that time (December 2019). The equivalent figure now (June 2024) has increased to £1,438/m².

Table 3.1 BCIS Costs- £/m² gross internal floor area

Results	Rebased to Shropshire (98; sample 98)					
Description:	£/M2 STUDY					
	Rate per m2 gross internal floor area for the building Cost including prelims.					
Last updated:	15/06/2024					
	£/m² gross internal floor area					
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest
	New build					
810.1 Estate housing						
Generally (15)	1,497	768	1,267	1,438	1,640	5,135

Source: BCIS (15th June 2024)

3.2 This data shows that the cost of construction has increased by 23.5% since the 2020 LPDVS was undertaken.

3.3 There has been much coverage in the press around build cost inflation. The BCIS is predicting that, going forward, that the General Build Cost Index will increase by about 3.1% over the next year (from June 2024 – 460.4 to June 2025 – 474.7) and by about 9.1% over the next three years (from June 2024 – 460.4 to June 2027 – 502.3).

Changes to Policy Requirements at a National Level

- 4.1 The 2020 LPDVS was completed shortly after the NPPG was updated in 2019. The ongoing changes to the planning system were set out from paragraph 2.42 of the 2020 LPDVS. Since then, there have been further announcements about changes in national policy that may impact on viability. The impact of these changes and potential changes on viability are considered below.

Accessible and Adaptable Standards

- 4.2 In July 2022, the Government announced the outcome of the 2020 consultation on raising accessibility standards of new homes⁵ saying:

73. Government proposes that the most appropriate way forward is to mandate the current M4(2) (Category 2: Accessible and adaptable dwellings) requirement in Building Regulations as a minimum standard for all new homes – option 2 in the consultation. M4(1) will apply by exception only, where M4(2) is impractical and unachievable (as detailed below). Subject to a further consultation on the draft technical details, we will implement this change in due course with a change to building regulations.

- 4.3 The Government will now consult further on the technical changes to the Building Regulations to mandate the higher M4(2) accessibility standard. No timescale has been announced.

- 4.4 The 2020 LPDVS set out in this regard as follows:

8.13 The Council policy in this regard will be informed, in due course, by the Council's new SHMA and other relevant evidence. However, consistent with the Council's policy direction as part of the study we have assessed what the impact would be of requiring:

- All new homes to be designed to be accessible and adaptable dwellings.*
- 10% of housing to be wheelchair adaptable dwellings.*

8.14 Paragraph 56-009-20150327 of the Housing: optional technical standards restricts the application of the wheelchair standards:

What issues should local planning authorities consider in determining whether dwellings should be fully wheelchair accessible or adaptable?

Part M of the Building Regulations sets a distinction between wheelchair accessible (a home readily useable by a wheelchair user at the point of completion) and wheelchair adaptable (a home that can be easily adapted to meet the needs of a household including wheelchair users) dwellings.

Local Plan policies for wheelchair accessible homes should be applied only to those dwellings where the local authority is responsible for allocating or nominating a person to live in that dwelling.

56-009-20150327

8.15 It is assumed for the purpose of this assessment that any wheelchair accessible homes will be affordable homes.

- 4.5 As set out in Table 10.23 of the 2020 LPDVS, a requirement for 70% Accessible and Adaptable Category 2 and 5% Accessible and Adaptable Category 3 was allowed for in the Minimum

⁵ [Raising accessibility standards for new homes: summary of consultation responses and government response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/raising-accessibility-standards-for-new-homes)

Policy Requirements. The costs associated with these requirements were set out at paragraph 8.12 of the 2020 LPDVS.

The cost of a wheelchair adaptable dwelling based on the Wheelchair Housing Design Guide for a 3-bed house, is taken to be £10,111 per dwelling. The cost of Category 2 is taken to be £521 (this compares with the £1,097 cost for the Lifetime Homes Standard). Through the February 2020 consultation it was suggested that these costs be indexed as they are somewhat dated. This has been done, uplifting these costs by 17%.

- 4.6 If the requirements for mandatory M4(2) are introduced nationally, in Shropshire the requirement would be increased from 70% to 95% (the remaining 5% is assumed to be M4(3)). Across a scheme, this is likely to add about £1.50 per sqm (at indexed costs) or about 0.1% to the cost of development. This is a small cost and beyond the Council's influence.

Affordable Housing

- 4.7 In May 2021 the Government published the outcome of the First Homes consultation.

What is a First Home?

First Homes are a specific kind of discounted market sale housing and should be considered to meet the definition of 'affordable housing' for planning purposes. Specifically, First Homes are discounted market sale units which:

- a. must be discounted by a minimum of 30% against the market value;*
- b. are sold to a person or persons meeting the First Homes eligibility criteria (see below);*
- c. on their first sale, will have a restriction registered on the title at HM Land Registry to ensure this discount (as a percentage of current market value) and certain other restrictions are passed on at each subsequent title transfer; and,*
- d. after the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London).*

First Homes are the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers through planning obligations.

PPG: 70-001-21210524

- 4.8 The provision of First Homes was tested in the 2020 LPDVS (from paragraph 10.26) although due to the associated transitional arrangements, this is not a requirement in the context of the Draft Local Plan. The 2020 LPDVS concluded as follows:

10.26 ... the Government recently undertook a consultation with regard to First Homes. No details have been published, but in broad terms, it is suggested that development should include an element of First Homes where these are discounted for first time buyers by at least 30% from market values. At this stage, the proportion of First Homes to be delivered has not been proposed.

10.27 In this study the value of intermediate housing is taken to be 70% of market value, subject to a 30% discount, so at a value that is equivalent to First Homes. On this basis a requirement to introduce up to 10% First Homes (rather than other intermediate tenures) is likely to be cost neutral. A requirement for more First Homes (rather than other affordable tenures) would improve viability.

- 4.9 The 2020 LPDVS is up to date in this regard.

Biodiversity Net Gain (BNG)

- 4.10 The Environment Act received Royal Assent in November 2021 and mandates that new developments must deliver an overall increase in biodiversity. The PPG was updated in February 2024⁶ in this regard. The requirement is that developers ensure habitats for wildlife are enhanced and left in a measurably better state than they were pre-development. Developers must assess the type of habitat and its condition before submitting plans, and then demonstrate how they are improving biodiversity.
- 4.11 The costs of achieving BNG were considered in the 2020 LPDVA (from paragraph 8.39). The impact of including 10% BNG was tested (paragraph 10.28 of the 2020 LPDVS). 10% BNG was then assumed to be a 'Minimum Policy Requirement', as set out in Table 10.23 of the 2020 LPDVS.
- 4.12 The changes in relation to 10% BNG were anticipated in the 2020 LPDVS. The 2020 LPDVS is up to date in this regard.

Environmental Standards

- 4.13 National policy has moved on in this regard. As set out in the 2020 LPDVS, the Government launched a consultation on The Future Homes Standard towards the end of 2019. This was linked to achieving the 'net zero' greenhouse gas emissions by 2050.
- 4.14 As set out from paragraph 8.18 of the 2020 LPDVS, several options were tested. It was assumed that Option 1 - 'Future Homes Fabric'⁷ of the 2019 Future Homes Standard consultation would add about 2.5% to the base cost of construction, and Option 2 - 'Fabric plus technology'⁸ of the 2019 Future Homes Standard consultation would add about 3.1% to the base cost of construction. Both Option 1 and Option 2 were tested.
- 4.15 It was also assumed the 'Merton' requirement (10% of on-site energy needs generated on-site from renewable energy resources) would be applied in addition to these carbon savings. This was estimated to add about 0.75% to the cost of construction⁹.
- 4.16 The Department of Levelling up, Communities and Housing, published revisions to Conservation of Fuel and Power, Approved Document L of the Building Regulations as a 'stepping stone' on the pathway to Zero Carbon homes. It sets the target of an interim 31% reduction in CO₂ emissions over 2013 standards for dwellings (so aligning with Option 2 of the 2019 Future Homes Standard consultation). These changes now apply to new homes.
- 4.17 In December 2023, the Government published a further consultation on the details of the implementation of the Future Homes Standard. At the same time the Housing Minister, Lee

⁶ [Biodiversity net gain - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/biodiversity-net-gain)

⁷ A 20% reduction in CO₂ from new dwellings, compared to the then current standards.

⁸ A 31% reduction in CO₂ from new dwellings, compared to the then current standards.

⁹ Figure 4.10. Centre for Sustainable Energy Cost of carbon reduction in new buildings December 2018

Rowley, made a Written Parliamentary Statement¹⁰ which set out the Government's position in this regard as follows:

... Any planning policies that propose local energy efficiency standards for buildings that go beyond current or planned buildings regulation should be rejected at examination if they do not have a well-reasoned and robustly costed rationale that ensures:

- *That development remains viable, and the impact on housing supply and affordability is considered in accordance with the National Planning Policy Framework.*
- *The additional requirement is expressed as a percentage uplift of a dwelling's Target Emissions Rate (TER) calculated using a specified version of the Standard Assessment Procedure (SAP).*

Where plan policies go beyond current or planned building regulations, those policies should be applied flexibly to decisions on planning applications and appeals where the applicant can demonstrate that meeting the higher standards is not technically feasible

4.18 Whilst this direction does not preclude the introduction of policies that go beyond national standards for energy efficiency, this does suggest that such policies will need to be well justified and subject to greater scrutiny.

4.19 *The Draft Local Plan requires that '... all proposals for 10 or more dwellings achieve a minimum of 19% improvement in the energy performance requirement in Part L of the 2013 Building Regulations, ...'.* This requirement has been superseded by the changes to Part L of Building Regulations, which introduced a 31% saving over the 2013 Standard. The Council is not seeking standards on energy efficiency over and above national standards, although it does (Policy DP11) encourage developers to strive to achieve Zero Carbon, so it is timely to reconsider the costs of achieving higher standards.

4.20 Paragraph 6.10 of The Future Homes Standard 2023 consultation on the energy efficiency requirements of the Building Regulations affecting new and existing dwellings. Consultation-Stage Impact Assessment sets out the following costs:

6.6 A summary of the impacts considered under this Impact assessment (IA) is provided below in Table 3, relative to the counterfactual – the counterfactual is the 2021 notional building specification, which has a gas boiler, lower efficiency solar panels and wastewater heat recovery, or a heat pump (see Routes to Compliance (para 5.23 - 5.25) section). This is with the exception of mid-high rise, which is an ASHP and gas boiler hybrid communal heat network. Broadly, Option 1 is a home with a heat pump and more efficient solar panels. Option 2 meets our public commitments through the use of heat pumps only. All figures are Net Present Values (NPV) over 10 years of policy and a subsequent 60-year life of the buildings. Negative NPVs are given in parenthesis and represent costs. The figures represent the aggregate impact across the building mix...

6.10. ... In 2022 prices, on a per-home basis (3-bed semi-detached), Option 1 leads to a ~£6,200 (4%) increase in upfront capital costs, whereas Option 2 only leads to a ~£1,000 (1%) increase....

Additional Capital Costs

6.16. The increase in capital costs from the proposed 2025 standards, compared with the continuation of existing 2021 standards (gas boiler and solar pv home), are shown in Table 5. Further breakdown of the costs of the different elements is provided in Appendix C.

¹⁰ [Written statements - Written questions, answers and statements - UK Parliament](#)

Table 5: Additional Capital Costs* relative to 2021 Gas Boiler and Solar PV Counterfactual (£)

	Option 1	Option 2
Detached house	£6,390	£-200**
Semi-detached house	£6,170	£950
Mid-Terraced house	£5,960	£740
Low Rise Flats (<11m)	£4,460	£2,760
Mid Rise Flats (>11m) (same for both option)	£190	£190
Weighted Average (based on assumed build mix)	£4,360	£640
*Gross Undiscounted Costs in 2022 prices, excluding gas asset value cost in counterfactual. If included this would lead to the costs presented in table 5 falling. ** a minus equals a cost saving.		

6.17. Over the longer-term, Currie & Brown estimate that the costs associated with both heat pumps and solar PV will fall, as supply chains mature and become more integrated, and learning rates take effect. By the end of the policy appraisal period (10 years), it is assumed that the cost of a heat pump will be around 70% of the initial cost, whilst for Solar PV they will be around 60% of the initial cost.

4.21 Separately, the *Future Homes Hub, Ready for Zero, Evidence to inform the 2025 Future Homes Standard – Task Group Report* (February 2023) was published. As publication occurred before the Government consultation, it tested a wider set of options than are being considered at a national level. The following costs were estimated:

Table 4.1 Additional Costs for Options Towards Zero Carbon

		Arcadis Cost uplift compared with Ref 2021	Arcadis Cost uplift compared with Ref 2025	Energy bills variance from Ref 2021 (£700/yr)*
CS1	to be consistent with the expectation that the FHS home should reduce carbon emissions by a minimum of 75% from 2013	2%	-3%	Circa 190/yr more
CS2	to align closely with the current Part L 2021 but electrify the heating	7%	2%	Circa £260/yr less
CS2a	As for CS2a but with Batteries on PV and Infra-red heating	10%	5%	Circa £50/yr less (Significant underestimate)**
CS3	to be mainstream recognised low energy techniques and technologies for a very low energy specification, whilst allowing design flexibility	15%	9%	Circa £360/yr less
CS4	to minimise space and water heating, drawing on UK and European low energy building best practice	19%	13%	Circa £450/yr less
CS5	to improve the fabric efficiency to the level that a comfortable temperature is maintained without a heating system	17%	11%	Circa £410/yr less

Source: Future Homes Hub, Ready for Zero, Evidence to inform the 2025 Future Homes Standard – Task Group Report (February 2023)

- 4.22 These costs are somewhat greater than those in the more recent Government consultation, however they predate the Government announcement and are not directly comparable.
- 4.23 Shropshire has not undertaken specific work to establish the costs of moving beyond Building Regulations. The current changing situation is summarised as follows.

Table 4.2 Overview of the two options currently in the Future Homes Standard consultation

	Existing Part L 2021	FHS Option 1	FHS Option 2	Zero Carbon
Fabric	Baseline: Improved insulation & glazing than Part L 2013.	Further improvement from Part L 2021 (improvement to airtightness). No change to insulation or glazing.	No improvement from Part L 2021.	Significant improvements from Part L 2021. Mild improvement on FHS Option 1.
Heating	Gas boiler	Heat pump	Heat pump	Heat pump
PV	40% of ground floor area	40% of ground floor area. Greater efficiency than in Part L 2021.	None – removed.	To match 100% of energy demand – typically ~50-70% of ground floor area
Ventilation	Natural	Mechanical	Natural	Mechanical with heat recovery
Wastewater heat recovery?	Yes	Yes	No	No
Cost uplift from Part L 2021	N/A – baseline	4%	1%	4 – 7% depending on home type

Source: HDH (June 2024)

4.24 The additional costs, over and above the current BCIS costs are summarised as follows (it is important to note that the 2021 increases to Part L are now partially, but not fully, reflected in the BCIS costs):

- a. The 2021 changes to Part L of Building Regulations (31% CO₂ saving) to add 2% to the BCIS base costs.
- b. The Future Home Standard Option 2 is expected to add 3% (i.e. 2%+1%) to the current BCIS base costs.
- c. The Future Home Standard Option 1 is expected to add 6% (i.e. 2%+4%) to the current BCIS base costs.
- d. The cost of Zero Carbon would add 8% to the costs of construction.

- 4.25 Building to higher standards that result in lower running costs results in higher values^{11 12}, although no premium is assumed in the 2020 LPDVS.
- 4.26 Consistent with the proposals in the Draft Local Plan, the 2020 LPDVS assumed that development would be as per Option 1 - 'Future Homes Fabric' of the 2019 Future Homes Standard consultation, which were assumed to add about 2.5% to the base cost of construction. Allowance was also made for the 'Merton' requirement (10% of on-site energy needs generated on-site from renewable energy resources) in addition to this energy efficiency standard, which was estimated to add about 0.75% to the cost of construction.
- 4.27 The costs of the updated 2023 Part L of Building Regulations is now estimated to add about 2% to the current BCIS costs, so less than the 2.5% assumed to achieve the standard proposed within the Draft Local Plan. If the Government were to proceed with Option 1 of the 2023 Future Homes Standard consultation, it is expected that this will add 6% to the current BCIS base costs. This is somewhat more than the allowance made in the 2020 LPDVS (2.5% plus 0.75% for the Merton requirements). It is not yet known if / how the Government will take this forward.
- 4.28 In November 2021, the Government announced that, from 2022, all new homes would be required to include an electric vehicle charging point. The costs of EV charging was considered at paragraph 8.26 of the 2020 LPDVS, where a cost of £976/unit¹³ was set out to allow for a full installation. This requirement was not carried into the policy requirements proposed in the Draft Local Plan. The cost of EV charge points has reduced significantly over the last few years and a single installation is likely to cost £600 or so. Having said this, the costs are, at least in part, now reflected within the BCIS costs. They are included with the additional 6% costs of Option 1 of the 2023 Future Homes Standard consultation.

White Paper: Planning for the Future (MHCLG, August 2020)

- 4.29 The Government has consulted on *White Paper: Planning for the Future* (MHCLG, August 2020) and various supporting documents. In terms of viability the two key paragraphs are:

Assessments of housing need, viability and environmental impacts are too complex and opaque: *Land supply decisions are based on projections of household and business 'need' typically over 15- or 20-year periods. These figures are highly contested and do not provide a clear basis for the scale of development to be planned for. Assessments of environmental impacts and viability add complexity and bureaucracy but do not necessarily lead to environmental improvements nor ensure sites are brought forward and delivered;*

Local Plans should be subject to a single statutory "sustainable development" test, and unnecessary assessments and requirements that cause delay and challenge in the current system should be abolished. This would mean replacing the existing tests of soundness,

¹¹ See *EPCs & Mortgages, Demonstrating the link between fuel affordability and mortgage lending* as prepared for Constructing Excellence in Wales and Grwp Carbon Isel / Digarbon Cymru (funded by the Welsh Government) and completed by BRE and *An investigation of the effect of EPC ratings on house prices* for Department of Energy & Climate Change (June 2013.)

¹² [Savills UK | The cost and premium for new eco-homes](#)

¹³ Paragraph 9 Electric Vehicle Charging in Residential and Non-Residential Buildings (DfT, July 2019)

updating requirements for assessments (including on the environment and viability) and abolishing the Duty to Cooperate.

- 4.30 Pillar Three of the White Paper then goes on to set out options around the requirements for infrastructure and how these may be funded. The key proposals are:

Proposal 19: The Community Infrastructure Levy should be reformed to be charged as a fixed proportion of the development value above a threshold, with a mandatory nationally - set rate or rates and the current system of planning obligations abolished.

Proposal 21: The reformed Infrastructure Levy should deliver affordable housing provision

- 4.31 The above suggests a downgrading of viability in the planning system, however, as it stands, the proposals in the White Paper are options which may or may not come to be adopted so, at the time of this note a viability assessment is a requirement.

Levelling-up and Regeneration Act

- 4.32 At the end of October 2023, the *Levelling-up and Regeneration Act* became law. Many of the measures in the Act will be implemented, in due course, through secondary legislation and / or regulations. The provisions within the Act will have a significant impact on the overall plan-making process, but they do not alter the place of viability in the current Local Plan process.

- 4.33 The *Levelling-up and Regeneration Act* includes reference to a new national Infrastructure Levy. The Act sets out that an Infrastructure Levy would be set, having regard to viability and makes reference to the *Infrastructure Levy Regulations*. *Infrastructure Levy Regulations* have yet to be published.

Technical consultation on the Infrastructure Levy

- 4.34 In March 2023, the Department for Levelling Up Housing & Communities published a *Technical consultation on the Infrastructure Levy*¹⁴ to seek views on technical aspects of the design of the Infrastructure Levy. The consultation suggests (paragraph 7.11) the Levy would be fully rolled out from 2029, but there would be a 'test and learn' roll out starting in 2025.

- 4.35 Under the proposals set out in the consultation, CIL and the delivery of affordable housing would be combined into a single levy, that would be calculated as a proportion of a scheme's value. Affordable housing could be provided on-site as an in-kind payment. Under the proposals some aspects of the current s106 regime would remain.

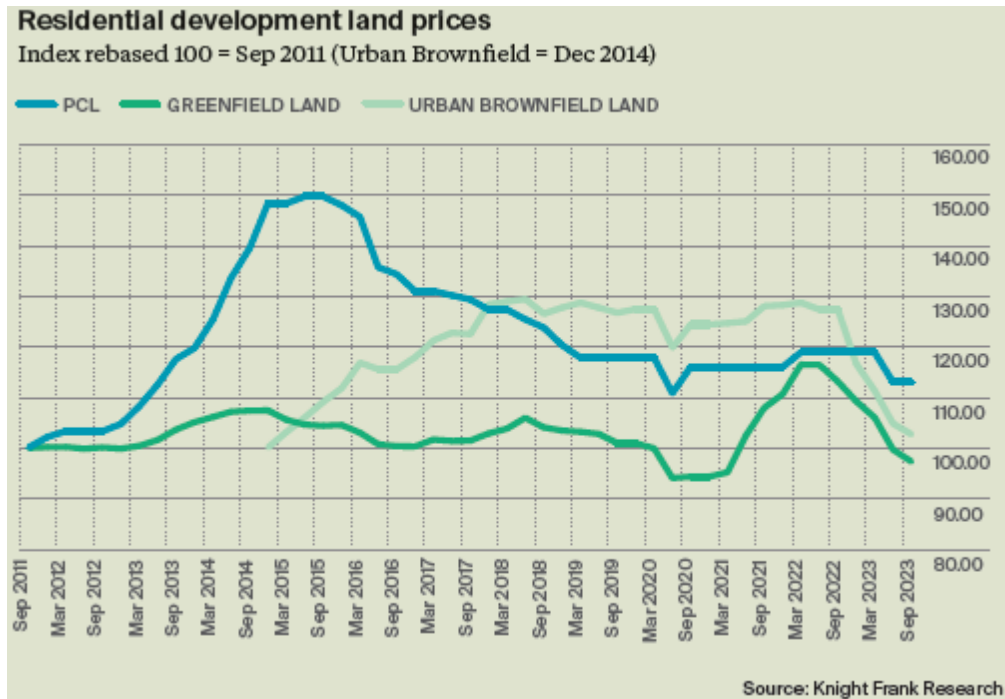
- 4.36 At this stage the relationship with s106 is not known, and the details of the Levy are not clear, so it would be premature to test the Levy. It will be necessary for the Council (like every other Council) to monitor the progress of the Regulations.

¹⁴ [Technical consultation on the Infrastructure Levy - GOV.UK \(www.gov.uk\)](https://www.gov.uk/consult/technical-consultation-on-the-infrastructure-levy)

Changes in Development Land Values Since the 2022 Viability Study

- 5.1 It is timely to review how the value of development land has changed over the last few years. There are several sources of relevant information.
- 5.2 *Development Land Index* (Knight Frank Q3 2023) suggests that land prices may have fallen over the last few years.

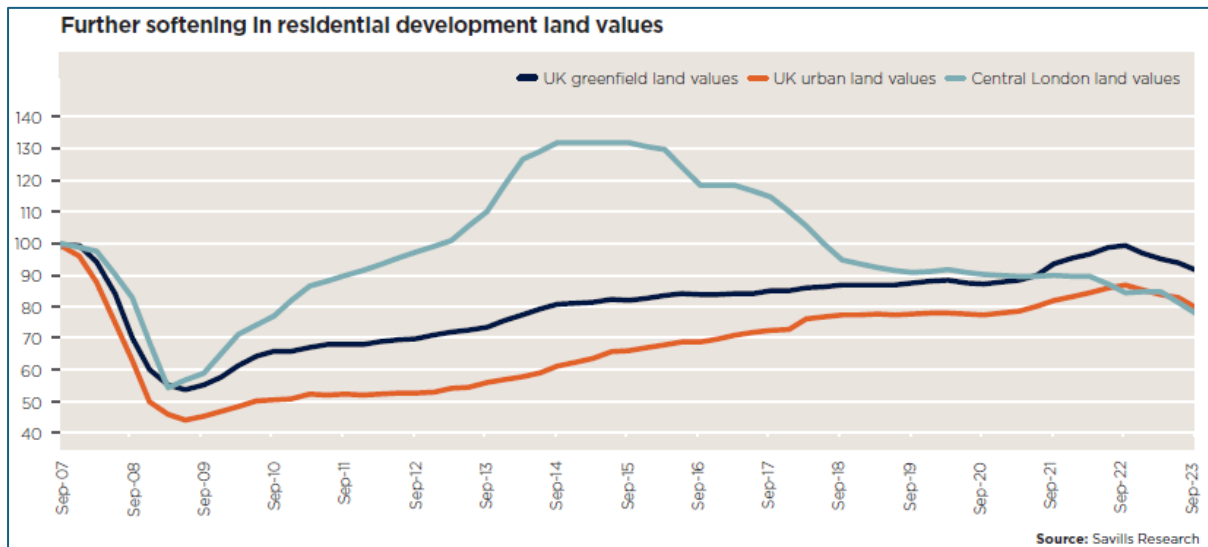
Knight Frank Development Land Index



Source: *Development Land Index* (Knight Frank Q3 2023)

- 5.3 A similar picture is given by Savills in its *Market in Minutes, Residential Development Land* (Savills Q3 2023).

Savills Indexed Residential Development Land Index (Index to 100 at 2007/2008 peak)



Source: *Market in Minutes, Residential Development Land* (Savills Q3 2023)

- 5.4 The above data suggests that the value of development land is broadly unchanged since the 2020 LPDVS. On this basis the assumptions set out in the 2020 LPDVS remain appropriate.

Conclusions and Observations

- 6.1 The assessment of viability is based on the Residual Valuation approach. The income from a scheme is estimated and the costs of delivering that scheme are then deducted. For a scheme to be viable, the Residual Value must exceed the Existing Use Value by a sufficient margin to induce the landowner to sell. In this calculation, if values have increased more than costs, then viability will have improved, with the Residual Value increasing. If costs have increased more than values, then viability will have worsened, with the Residual Value falling.
- 6.2 The Land Registry’s latest data suggests that the average newbuild sale price has increased by about 37% since the 2020 LPDVS was undertaken. The BCIS data shows that the cost of construction has increased by 23.5% since the 2020 LPDVS was undertaken. The Residual Value will have increased, indicating that viability will have improved.
- 6.3 Since the 2020 LPDVS was undertaken, there have been a number of changes in national policy that impact on the cost of development.
- 6.4 In July 2022, the Government announced the outcome of the 2020 consultation on raising accessibility standards of new homes saying that the ‘*most appropriate way forward is to mandate the current M4(2) (Category 2: Accessible and adaptable dwellings) requirement in Building Regulations as a minimum standard for all new homes*’. The Government will now consult further on the technical changes to the Building Regulations to implement this, however no timescale has been announced.
- 6.5 If the requirements for mandatory M4(2) are introduced nationally, in Shropshire the requirement would be increased from 70% to 95%. Across a scheme, this is likely to add

about £1.50 per sqm or 0.1% to the cost of development over and above the cost of the policies set out in the Draft Local Plan. This is a small cost and beyond the Council's influence.

- 6.6 In May 2021 the Government published the outcome of the First Homes consultation, saying (in the PPG) that at least 25% of all affordable housing units should be First Homes'. The provision of First Homes was tested in the 2020 LPDVS which concluded that such a requirement would be cost neutral, although due to the transitional arrangements, this is not a requirement in the context of the Draft Local Plan. There is no need to update the 2020 LPDVS in this regard.
- 6.7 The Environment Act received Royal Assent in November 2021 and mandates that new developments must deliver an overall increase in biodiversity. The costs of achieving BNG were considered in the 2020 LPDVS. 10% BNG was then assumed to be a 'Minimum Policy Requirement' in the 2020 LPDVS and is reflected in policies in the Draft Local Plan. The changes in relation to 10% BNG were anticipated in the 2020 LPDVS so it is up to date in this regard.
- 6.8 National Policy has moved on with regard to environmental standards. The 2020 LPDVS tested several options that were consistent with the 2019 Future Homes Standard consultation. Since then, Part L of the Building Regulations has been updated to set the target 31% reduction in CO₂ emissions over 2013 standards. The Draft Local Plan requires that '*... all proposals for 10 or more dwellings achieve a minimum of 19% improvement in the energy performance requirement in Part L of the 2013 Building Regulations, ...*'. This requirement has been superseded by the changes to Part L of Building Regulations. The Council is not seeking energy efficiency standards over and above national standards.
- 6.9 In December 2023, the Government published a further consultation on the details of the implementation of the Future Homes Standard.
- 6.10 The 2020 LPDVS assumed that development would be as per Option 1 - 'Future Homes Fabric' of the 2019 Future Homes Standard consultation, which added about 2.5% to the base cost of construction. Allowance was also made for 10% of on-site energy needs generated on-site (the 10% 'Merton' requirement) which was estimated to add about 0.75% to the cost of construction.
- 6.11 The costs of the updated 2023 Part L of Building Regulations is now estimated to add about 2% to the current BCIS costs. The 2020 LPDVS is up to date in this regard.
- 6.12 If the Government were to proceed with Option 1 of the 2023 Future Homes Standard, it is expected that this would add 6% to the current BCIS base costs. This is somewhat more than the allowance made in the 2020 LPDVS. It is not yet known if / how the Government will take this forward.
- 6.13 In November 2021, the Government announced that, from 2022, all new homes would be required to include an electric vehicle charging point. The costs of EV charging was

considered at paragraph 8.26 of the 2020 LPDVS where a cost of £976/unit¹⁵ was set out to allow for a full installation. This requirement was not carried into the Council's policy requirements in the Draft Local Plan. The cost of EV charge points has reduced significantly over the last few years and a single installation is likely to cost £600 or so. However, this cost will at least in part, now be reflected within the BCIS costs. They are included with the additional 6% costs of Option 1 of the 2023 Future Homes Standard consultation.

- 6.14 During October 2023, the *Levelling-up and Regeneration Act* become law. The provisions within the Act will have a significant impact on the overall plan-making process, but they do not alter the place of viability in the current Local Plan process. The *Levelling-up and Regeneration Act* includes reference to a new national Infrastructure Levy. In March 2023, the Department for Levelling Up Housing & Communities published a consultation to seek views on technical aspects of the design of an Infrastructure Levy. Under the proposals, CIL and the delivery of affordable housing would be combined into a single levy, that would be calculated as a proportion of a scheme's value. It will be necessary for the Council (like every other Council) to monitor the progress of the Regulations.

Summary

- 7.1 Since the 2020 LPDVS was completed the costs and the values, being the main inputs into a viability assessment, have changed and several changes have been made to national policy. If build and policy costs increase more than values, then viability will become less good. If values increase more quickly than build and policy costs, then viability will improve.
- 7.2 The Land Registry's latest data suggests that the average newbuild sale price has increased by about 37% and the BCIS data shows that the cost of construction has increased by 23.5% since the 2020 LPDVS was undertaken. This indicates that viability will have improved.
- 7.3 Since the 2020 LPDVS was undertaken, there have been a number of changes in national policy that impact on the cost of development. Those that have been implemented were reflected in the 2020 LPDVS and informed the preparation of the Draft Local Plan. There are two matters to which the Government has indicated that it wishes to introduce higher standards, but are subject to further national consultation.
- 7.4 The first of these is the mandating of M4(2) Accessible and Adaptable Standards. In Shropshire the requirement would be increased from 70% to 95%. Across a scheme, this is likely to add about 0.1% to the cost of development over and above the cost of the policies set out in the Draft Local Plan. This is a small cost and beyond the Council's influence.
- 7.5 The second is in relation to the 2023 Future Homes Standard. The Government is consulting on two options. If the higher of these options were to be introduced, then this is expected to add 6% to the current BCIS base costs. This is more than the cost of the higher energy standards considered within the 2020 LPDVS.

¹⁵ Paragraph 9 Electric Vehicle Charging in Residential and Non-Residential Buildings (DfT, July 2019)

- 7.6 If the extra costs associated with the mandating of M4(2) standards and introduction of 2023 Future Homes Standard were added to the costs of construction, the cost of construction will still have increased by substantially less than the increase in values since the 2020 LPDVS was completed. Based on the above, the Council can continue to have confidence in the 2020 LPDVS and rely on it in the plan-making process.
- 7.7 Whilst an update to the 2020 LPDVS would inevitably derive different appraisal results, it is unlikely that the conclusions of the study would be materially different. At this late stage of the plan-make process, it is not proportionate or necessary to undertake a full update.