

ASSESSING VIABILITY

Community Infrastructure Levy:

**A Stage 1 Economic Viability Assessment prepared
for 8 Hertfordshire Authorities:**

Dacorum Borough Council
Three Rivers District Council
Watford Borough Council
Hertsmere Borough Council
Welwyn Hatfield Borough Council
St Albans City and District Council
East Herts Council
Borough of Broxbourne

**AUTHORITY SPECIFIC VERSION FOR ST ALBANS
CITY AND DISTRICT COUNCIL**

Report by: Lambert Smith Hampton:

December 2012
Final

Assessing Viability

Community Infrastructure Levy:

A Stage 1 Economic Viability Study: Authority Specific Version for St Albans City and District Council

Prepared for:

8 Hertfordshire Authorities

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Foreword: about the authority specific version of this report

The Stage 1 Economic Viability Study was commissioned as a single entity and subsequently prepared and delivered by Lambert Smith Hampton as a single report containing the complete data for all 8 client authorities: its contents were discussed and agreed with them in this form. The advantage of this was that it has enabled a composite picture of CIL viability issues to be presented to the clients and discussed collectively with them before finalisation, and there have been many benefits for them in considering these matters as a totality rather than viewing them in isolation.

Each district indicated during the course of the report's preparation that they would want to publish a version that focused on data pertaining to that district, and isolated extraneous data relevant only to other authorities. This is that version: it is the **authority specific report for St Albans City and District Council**.

Data relating to other authorities has been removed from Section 6 of the main report as well as from Appendices 2, 3, 5 and 6: apart from this and the first three pages of each report being 'personalised' for the district in question the 8 published versions will in all other respects be identical.

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Executive Summary

Introduction

- a Lambert Smith Hampton (LSH) was commissioned by 8 of the 10 Hertfordshire district councils to undertake a Stage 1 Community Infrastructure Levy (CIL) Economic Viability Study (EVS) to investigate and support the eventual preparation of individual charging schedules for each of the authorities. CIL was introduced by the government through regulations published in April 2010 in order to help authorities secure funding from new development towards the provision of the infrastructure need that such development gives rise to in order to support planned growth in their area.
- b In commissioning this work the 8 authorities saw considerable advantages in pursuing a joint CIL EVS, as it builds on historic practices of joint working. It also enables a consistent approach to be adopted towards a standard assessment of the key factors and parameters that will influence development viability and therefore potential CIL rates within Hertfordshire. At the same time it allows for local market variations and policy differences across the county to be taken into consideration when assessing potential CIL rates for each authority. However, it should be noted that the assumptions and approach used in this study have been chosen to best serve a review across a diverse study area. The nature of this study means that it does not assess the development viability of individual schemes, but it recognises that there will be circumstances where individual schemes will a) have infrastructure impacts and b) be inherently profitable, and that in such circumstances authorities may continue to seek appropriate contributions
- c Ultimately, each of the 8 potential charging authorities will make an individual decision on CIL rates to be charged, based on the evidence on viability as well as the options contained within this report, its own assessment of infrastructure need and its attitude to risk. What we have provided in this report is the evidence needed to arrive at such a judgement.

Relationship with the NHDC viability study

- d North Herts District Council (NHDC) is commissioning their own individual CIL EVS as they wanted to link this closely with work to test out affordable housing provision as a variable alongside potential CIL rates. This is a step further than our study, and given this and NHDC's desire to make a much earlier start on progression of viability work (their consultants DSP were commissioned a full 5 months earlier) means that a study covering all 10 Hertfordshire districts - though it might have had its advantages - was neither practical or appropriate (although we also have covered the issue of potential variations in affordable housing proportions/mix for each of our 8 districts in our sensitivity testing). The North Herts CIL review has also been considered in preparing this advice.
- e We believe that the work undertaken for North Herts is broadly compatible with our study. A number of our generic viability model inputs (developer's profits, marketing fees etc) are consistent with other

CIL viability studies and have also been used by DSP in their EVS work for North Herts (and as part of that commission have been the subject of development industry consultations during the summer of 2011). These values are also consistent with other industry standard viability models such as those developed by the HCA and Three Dragons.

Status of this work

- f This is a Stage 1 CIL EVS study. What that means is that we have developed a model and undertaken an initial assessment of potential CIL rates developed in consultation with the client authorities and reflecting assumptions agreed with the authorities. It would be entirely possible for one or more individual authority - if they felt it to be appropriate - to move forward to prepare a charging schedule and (subject to suitable evidence of infrastructure need) proceed to a charging schedule examination on the basis of the viability assessment work contained within this study. The study will form part of the 'appropriate evidence' required by the CIL Regulations.
- g It is the case that at the time of writing only 1 of the 8 client authorities currently has an adopted Core Strategy, and although some authorities expect to have adopted Core Strategies in place within a relatively short timescale, others will not. What we can see therefore are considerable differences in the current status of LDF and infrastructure planning work in the county. We think that on the information we have that the period between the first and last CIL charging schedules being in place is likely to be many months and indeed, quite possibly, several years.
- h Given this, the 'early' CIL promoters should, we feel, be comfortable with the evidence on viability we have provided, and are able to follow our recommendations regarding CIL rates. The 'later' authorities may wish to pay attention to a range of factors (such as market conditions, scheme values and other variables) to ensure that the values assumed now remain appropriate in the future. It is also possible that authorities may wish to test out different geographies, or indeed take a different approach to their CIL rates than that in our report. A follow on Stage 2 study (at a later date) would pick up such matters and the influence of any other factors such as changing government policy and possible amendments to the CIL Regulations. It would also allow further development industry consultations.
- i Potentially, however, all authorities may wish to undertake further work under Stage 2. This is because of the potential importance we have identified within this report of the interplay between CIL rates, the ongoing ability to negotiate s106 agreements for site specific infrastructure (despite future restrictions coming into force) and the cost to developers of providing affordable housing. What we have emphasised in this study is that potential variations - in, say, financial contributions to be sought for site specific infrastructure, and changes to both the proportion and mix of affordable housing - would have a direct and possibly significant influence on CIL rates, because of the changes they would bring about in the viability of schemes.

- j With this knowledge authorities may or may not choose to adjust affordable housing requirements and site related s106 aspirations to deliver changes in anticipated CIL rates. If they do, then a Stage 2 study would need to test out the effect of amending such values in detail. (We have undertaken a preliminary analysis of these changes in our sensitivity work within this report, using proposed affordable housing policies as a benchmark, but an in depth analysis is outside the scope of this study and the authorities concerned would therefore need to explore such matters in finer detail).
- k As a final point on the status of this work, it should be noted that as part of this commission we are passing on the viability model to the authorities, and providing a face to face training session and a manual of how to operate it. Authorities will have the ability make use of our model to undertake any Stage 2 work for themselves, or ask for help from outside bodies as they see fit.

Our viability methodology

- l As noted earlier, in undertaking this work we have made use of a number of standardised assumptions cross referenced by a range of bespoke local assumptions informed by both geographical and policy based considerations. These have all been factored into our model, which uses a residual appraisal methodology to determine whether, having deducted construction costs, planning requirements and developer profit, the residual value that remains is sufficient to incentivise landowners into releasing that land for development.
- m To do this we have established a benchmark based on "market value" (i.e. the value we think a landowner would reasonably accept for the land with planning permission) for a wide range of development types. Potential CIL rates are then inserted into the model as a development cost to determine - for different development scenarios - whether the residual value for that proposal achieves or fails to meet the predetermined benchmark.
- n Should this residual value fail to meet the benchmark, then the scheme is either considered unviable at the chosen CIL rate or, potentially, the value of 'negotiated' elements of development cost (which will be the planning requirements such as s106 contributions to deal with the cost of site related infrastructure as well as the provision of affordable housing) will be "squeezed" with the consequence that they cannot reasonably be secured (or only in part) from the development. This latter point - the potential for CIL (which will be a mandatory, fixed cost) to impact on the funding of other infrastructure including affordable housing - can potentially have significant repercussions for local authorities introducing CIL and is something we will return to shortly.
- o To identify a benchmark value which is likely to give a landowner a reasonable return we have assumed a market value for the land which takes into account development plan policies and other material planning considerations relating to that land, as well as previous property disposals.
- p This is achieved through a review of comparable evidence as a sensitivity check, comparing results to residual testing which takes into account changes in planning policy and reviews alternative land

values. By using a number of approaches, we feel we have provided a robust consideration of "Market Value" and how it varies between property types and over geography.

- q Evidence was gathered on property sales data across Hertfordshire covering both residential and non residential types. This includes published data from the Land Registry and the Valuation Office Agency. Data was then inputted for a variety of indices including unit sizes, sale prices and rents/yields to ascertain a benchmark for a range of development types, taking into account the different planning policies, across the study area.
- r To operate the model a development type for a chosen location is selected and the postcode inserted (to reflect the impact of location on development costs and sales) and a local authority identified (to reflect the differing impact of local authority planning policies). The model then applies build and other development costs (e.g. sales/marketing); developers profit; and assumptions for the costs falling on the development in relation to planning obligations to secure site related infrastructure and the provision of affordable housing; and then sets these against likely revenues (which are postcode sensitive) to give a residual value for the land.
- s It is this residual value that, once compared to a predetermined benchmark, establishes whether a positive value can be set for CIL for this type within this specified location, and if so, what value can be potentially placed on that CIL rate.

Model variables

- t A number of standard values for a range of variables have been established and agreed with the authorities for inputting into the model, including an average dwelling size for houses/flats (in the case of residential development), a ratio of net to gross development, and an appropriate deduction for current floorspace (on which CIL cannot be charged). Other inputs will tend to be industry standard, and/or already accepted in tried and tested viability models.
- u A particularly important consideration is the reflection of local authority policies on affordable housing requirements (both proportions and mixes) and the insertion of an average figure for the cost of s106 site specific infrastructure for residential development (the latter figure has been agreed by each of the 8 authorities individually). Up to date sales values, rents and yields for residential and non residential development as appropriate have also been incorporated, based on market evidence.

Modelling the outputs and the conclusions

- v A total of 11 different development types (5 residential, and 6 other property uses - offices, industrial/distribution, hotels, care homes and gyms) - were tested. The residential types were tested across the 47 Hertfordshire postcodes covering the 8 districts whilst a single countywide figure was used for the non residential uses, based on the lack of geographical variation in the comparable evidence.
- w Our modelling work quickly drew the conclusion that on viability grounds, a number of development activities - including cinemas, theatres and leisure centres - were unlikely to be capable of sustaining a positive CIL charge and we therefore recommend that these are zero rated. Office development also appeared unviable in 8 authorities, with only St Albans able to support a potential CIL rate of **circa £63 m²**.
- x To reach this conclusion, office and distribution average rental data was assessed for each of the 8 local authorities. Even in the higher value areas office appeared unable to sustain a CIL rate and remain viable. The exception to this is St Albans where values are higher but the extent of floorspace currently available is driving down values. It is therefore proposed that for **office be set at zero** to ensure commercial development remains viable and can be delivered in the study area. It is possible, however, that market conditions will improve and the current office space will not be sufficient to supply the need, which will drive up rental values and make commercial development more viable. It is therefore important to review commercial CIL rates at appropriate intervals. For **St Albans** an **office rate of £63 m²** is suggested.
- y With regard to **industrial use (B2) and distribution (B8)** it was concluded that a rate of **£20 m²** could be achieved across the authorities. However, LSH suggest caution in applying a CIL charge to industrial and distribution uses at this level. Further investigation at stage 2 is required to ensure that minor changes in a range of inputs would not make the charge unviable.
- z We recommend a CIL charge for **hotels** at **£145 m²** and for **care homes**, **£163 m²**. A standard CIL rate across the county is proposed for such developments as we did not find that either development costs or sales/rental values varied significantly across the 8 districts.
- aa Although our research in regards to **retail properties** appeared to reflect a difference in viability between larger retail stores and smaller local shop developments, recent CIL examinations in public and a legal challenge by Sainsbury in Poole have indicated that it may not be possible to differentiate CIL rates within a specific use class based on size. Therefore we recommend that for retail development a single rate of **£125 m²** across the 8 authorities is adopted. The authorities may wish to review this once they fully understand the mix of retail development they anticipate in their areas through the plan period as LSH identified a range of potential CIL rates depending on the retail property type.

- bb Turning to residential development we found, as expected, that differing authorities would most likely command different CIL rates. Although across Hertfordshire it seems reasonable to anticipate similar rates for a range of costs including fees, build costs and profit, the location of a development within the county makes a big difference in terms of sales values. For example house prices in central St Albans are significantly higher than those found in Watford. This was most notably recognised in average sales values by postcode, reflected in Land Registry data.
- cc Additionally and most strikingly, local authority policies on affordable housing provision from new development makes a significant impact on potential CIL rates. There are marked differences in the proportions of affordable housing sought within the 8 authorities (from 25% in part of one authority to 45% in another) but notably what is even more significant is the mix of such housing, with the proportion of social rented housing (of the overall affordable housing mix) varying from 20% in one authority to 80% in another.
- dd Since the cost of providing social rented housing is a very significant one to a developer when compared to other forms of affordable housing tenure, it naturally follows that this will be reflected in variations in the viability of residential development and consequently potential CIL rates for authorities that might otherwise share broadly similar characteristics.
- ee This having been noted, we are able to propose CIL residential rates for all 8 authorities. The rates we propose make a suitable allowance for potential abnormalities and contingencies and also include sufficient headroom for future adverse changes (we believe, for instance, that for all scenarios, there is sufficient headroom in our assumptions for an increase in build cost of 10% costs even if sales values remain static). Our rates also reflect the type and location of development expected in each district, and this is explicitly covered in our report. All our figures can be justified on viability grounds, in line with the CIL Regulations.
- ff Our recommended standard residential CIL rates for the authorities are as set out below and reflect the most appropriate CIL rate on balance across each of the authorities:

Table 1: Proposed residential CIL rates by authority.

Authority	Affordable Housing (%)	Proposed Residential CIL rate (£/sq.m.)
Broxbourne	40	130
Dacorum	35	150
East Herts	40	110
Hertsmere	40	120
St Albans	40	170
Three Rivers	45	150
Watford	35	200
Welwyn Hatfield	25	270
	30	200
	35	135

Issues associated with high density urban schemes and large sites

- gg The proposed rates mask an important issue that the 8 Hertfordshire authorities need to consider. This is the problem of the apparent inability of higher density urban development to bear CIL. Amongst the types we tested out within each postcode were a medium density urban housing scheme of 1 hectare (with a density of 70 dwellings/ha) as well as a high density scheme also of 1 ha (density 100 dwellings/ha).
- hh The cause of this disparity in some high density schemes is that the assumption of build costs per square metre will increase for high density schemes, but the revenue per square metre does not increase to the same extent. This effectively squeezes the potential to pay CIL in some areas at high density. In some locations, such as Dacorum (postcode HP2), Three Rivers (WD25), and Broxbourne (EN11), even nil or very low CIL rates would not lead to development values sufficient to incentivise landowners to release land for development. In other words it is not the introduction of CIL which makes high density schemes in these locations unviable, but their underlying unprofitability. In other locations - such as Three Rivers (WD18) - lowering CIL rates to bring such schemes into positive viability would have a detrimental effect on CIL revenues secured by charging authorities.
- ii There is, however, an alternative to this which we would recommend. Firstly it needs to be pointed out that only a relatively small part of Hertfordshire regularly attracts development at this type of density most notably only in parts of the towns of Watford, Borehamwood and Rickmansworth, which means that for large parts of the county this is unlikely to be a significant issue on balance for CIL.
- jj Even in those districts where high density development occurs, such development tends to be confined to town centre locations. In view of this, we consider that local authorities should not seek to rein back CIL rates to take account of the relative adverse viability of higher density development.
- kk Instead, those authorities faced with the prospect of such development can consider alternative choices: if discrete high density enclaves can readily be identified (e.g. town centres, major brownfield locations) the authority in question can identify such areas in its charging schedule and propose a lower or nil CIL residential rate for these locations, depending on the outcome from further viability work, which may show such areas can support higher than average residential sale values.
- ll Alternatively an authority can maintain the standard CIL rate and be prepared to accept potential reduced levels of site related infrastructure secured through a s106 agreement and/or reduced provision of affordable housing secured through the development, if the developer can make a convincing case for this. The authority might even take the view that the combined effect of the CIL rate and its planning policies may render such development unviable under current circumstances, although if an authority were to take such a stance it would need to reconcile this with its proposed development strategy and in addition convince the CIL examiner that this represents a reasonable step.

mm Potentially a similar situation may arise in relation to major development areas (MDAs) - developments of 500 dwellings+ brought forward in LDF development strategies. Here the issues are however slightly different. We would anticipate that for large developments, there is likely to be an expectation that such schemes will meet the cost of site related infrastructure (access roads, primary schools, open space etc) through a negotiated planning obligation.

- nn Despite the introduction of CIL, we anticipate that s106 agreements will continue to be the chosen method of securing site related infrastructure for MDAs and some other developments, because the CIL regime cannot provide the certainty that CIL revenues will be directed towards the provision of infrastructure in any one location, and the promotion of MDAs is likely to be predicated on a guarantee that such infrastructure will be secured.
- oo We have however made only a relatively modest standard allowance for s106 costs as an input into our viability model as it is impossible to provide an accurate value for likely s106 costs for MDAs without knowing each development's specific characteristics. Moreover each local authority will need to develop its own ideas on how it wishes to secure infrastructure for MDAs (should there be any) within its boundaries. We did not test the viability of any specific sites as part of this study so if any of the authorities wish to consider alternative CIL charges for MDAs they are able to identify (or indeed other sites/areas) this will need to be progressed as part of any Stage 2 viability testing.
- pp We also noted that in authorities where the affordable housing policy had the least impact on viability, currently significant levels of s106 contributions could be collected. With the introduction of CIL a balance between Section 106 and CIL will be required as the proposed model shifts the previous monies that could be attributed to Section 106 contribution to that of CIL. This is of particular note in Watford.

Possible differential residential rates

- qq We have considered the possibility of differential rates for individual authorities based on location: given that our study of Hertfordshire was postcode based this would involve the potential for differentiation by postcode within each of the authorities. It needs to be recognised that CIL has been conceived as a system that should be straightforward in both conception and operation, and there may be little merit in promoting a complex system of differential rates particularly if the viability justification for doing so is marginal.
- rr It is also the case that individual postcodes can sometimes show marked variation in sales values within the same district and ultimately, for differential CIL rates for residential development to be fully justified it may be necessary to show a more fine grained approach than that contained within our study, and this would therefore need to be the subject of follow up work as part of Stage 2 testing.

- ss These points aside, we have identified evidence that there is some potential for differential rates in particular areas within the following districts and these are set out in table 2:

Table 2: Proposed variable residential CIL rates by location.

Authority	Postcode(s)	Rate (£/sq.m)
Dacorum BC	HP1, HP2, HP3, WD4	£150
	HP4, AL3, HP23	£210
Three Rivers DC	WD3, WD4, WD18, WD19, WD25	£150
	WD5	90

- tt Where they can be considered achievable, the benefit of differential CIL rates is that they will maximise development across an authority by reducing the risk of jeopardising development in more marginal locations whilst maximising potential returns in more robust locations. Differential rates do however increase the complexity of the CIL charge. Furthermore it may be that an authority anticipates little development in certain postcodes or areas (too little to justify a separate CIL) and on balance may decide to adopt a single rate. We understand that Hertsmere may wish to investigate the potential for differential rates as part of a Stage 2 study due to the nature of their geographic areas. At present our investigations have not uncovered sufficient evidence based on the data collected to justify, this but further work is required.
- uu It is also possible that other authorities may wish to undertake more detailed analysis on a finer grain than that achievable at a postcode level. Postcodes can cover a wide area and not best reflect the nuances of geographical variation between streets/areas.

Sensitivity Testing

- vv As part of our commission we undertook a standard set of sensitivity tests across all 8 authorities to determine the impact of charging cost and value parameters. The following table identifies our recommended rates and illustrates a variety of sensitivity test results and their impact on where rates may be set.

Variable ➔ Authority ↓	Standard rate (£/sq.m)	5% reduction in land values	5% increase in land values	5% increase in costs (above 10% already incorporated)	5% reduction in proportion of affordable housing sought	Affordable Housing Mix at 35% Social Rented and 65% Intermediate	Doubling of s106 contribution towards site related infrastructure from that agreed with local authority	New development compliance with Code for Sustainable Homes Level 3 (Not CSH 4)
Broxbourne	130	160	90	20	230	500	100	220
Dacorum	150	170	125	40	210	350	90	230
Three Rivers	150	180	60	30	250	500	125	250
Watford	200	250	100	100	235	100	130	280
Hertsmere	120	180	30	20	260	440	80	200
Welwyn Hatfield (35%)	135	150	80	50	200	350	80	190
Welwyn Hatfield (30%)	200	230	160	100	270	400	140	260
Welwyn Hatfield (25%)	270	300	240	190	300	425	230	350
St Albans	170	210	90	40	270	340	120	240
East Herts	110	150	50	15	230	430	50	190

Notes:

1. All the figures in the boxes represent impact of this change in variable on the proposed standard rate

Table 3: Sensitivity test of residential CIL outputs by authority.

ww The table provides a balanced view of potential sensitivity across the various types of development. Given that permutations that could be undertaken in sensitivity testing could be virtually endless, we have focused on a manageable range of amended values to illustrate the implications of the most likely variations, not every conceivable one. It is possible that some districts will wish to do some further testing to consider a wider range of potential options open to them in relation to s106 contributions and affordable housing provision: the model we are providing allows them to do that as part of a Stage 2 study.

Conclusions

- xx In conclusion we feel that we have provided robust, properly researched and sourced evidence to enable each of the 8 Hertfordshire authorities to understand the potential for raising CIL within their district, whilst also setting out for them the constraints they need to work within and the issues they will need to confront and, if necessary, resolve in moving forward.
- yy As we have made clear, the report allows authorities - if they are otherwise able - to move forward quickly with the preparation of a charging schedule at the earliest opportunity based on the evidence we have provided. Alternatively, they can undertake follow up work to consider and if appropriate make changes to the way in which CIL interacts with other planning policy variables that have an infrastructure content and cost - i.e. s106 payments for site related infrastructure, affordable housing provision and mix, and Code for Sustainable Homes level compliance.

Next steps

- zz On acceptance of this report we will provide a copy of our model as well as face to face training backed up by written instructions on its use. That act will complete our commission. We think it will be important for local authorities to reflect upon the outcome of this commission and the issues this raises for them. We recommend:
- All authorities consider viability issues as a whole: in particular the way CIL and affordable housing policy interact/impact on scheme viability. We would recommend this particularly considered in Watford and Three Rivers.
 - All authorities consider the impact of the anticipated distribution of development across the authorities and where the proposed CIL rates should be adjusted to account for this. It is anticipated that authorities will need to have undertaken further analysis of their emerging plans for this to be achievable.
 - Hertsmere and Dacorum consider the impact of CIL on high density schemes: their likely incidence/location within the district and (given what our viability evidence has shown) how to deal with the issues that are likely to arise in terms of introducing and operating CIL.

-
- Additionally Hertsmere consider a finer grained analysis of their authorities than reflected at a postcode level. Also we would suggest collection of additional development evidence to ensure that the maximum reasonable CIL rate can be achieved.
 - All authorities consider Major Development Areas (MDAs): how those local authorities where MDAs have been identified will approach the task of ensuring the provision of appropriate and timely infrastructure to ensure such development is fully sustainable, considering the respective roles of CIL and s106 agreement in doing so.
 - Welwyn Hatfield District Council to consider a more fine grained analysis of the implications of differential rates for affordable housing, based on location and development viability.
 - For local authorities contemplating a later introduction of CIL, a review of model data assumptions to consider whether they are still relevant or require updating due to changed circumstances.
 - All authorities to consider type and mix of anticipated retail development with their authorities, in consideration of their emerging planning documents.
 - All authorities remain up to speed with examiners decisions in respect of the examination in public of CIL schedules.

[End of Executive summary]

1. Introduction

Instruction

- 1.1 Lambert Smith Hampton was commissioned in December 2011 to undertake a joint Stage 1 Community Infrastructure Levy (CIL) Economic Viability Study (EVS) on behalf of 8 of the 10 Hertfordshire authorities as part of the supporting evidence that will be eventually used in the preparation of each individual authority's CIL Charging Schedule. The authorities commissioning this study were:

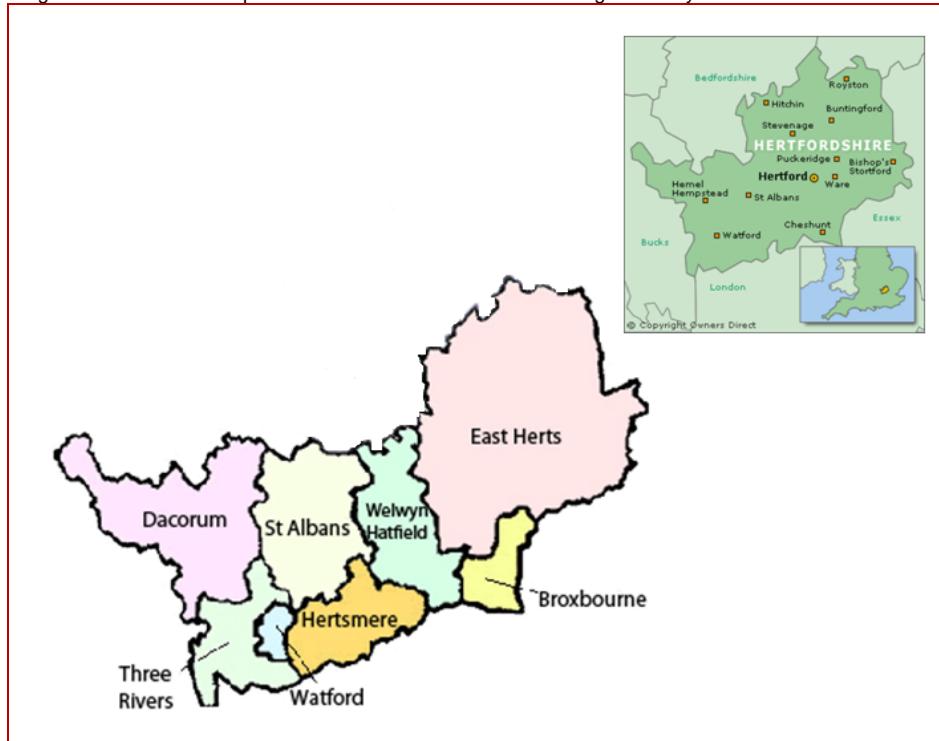
- Dacorum Borough Council
- Three Rivers District Council
- Watford Borough Council
- Hertsmere Borough Council
- Welwyn Hatfield Borough Council
- St Albans City and District Council
- East Herts Council
- Borough of Broxbourne

- 1.2 The Study is in response to the Secretary of State's enabling powers in the Planning Act of 2008¹ with regard to the introduction of a Community Infrastructure Levy. This Stage 1 Study provides a first review of appropriate assumptions for assessing CIL as well as an evidence base from which we propose appropriate CIL rates. The local authorities can then feed this review into eventual CIL Charging Schedules through further work. The study will also identify options available to the authorities in exploring CIL charging rates further.
- 1.3 The Stage 1 review was commissioned across 8 authorities as joint working was considered to provide significant advantages, building on historic practices of joint working in the County and enabling a consistent approach to many elements of the CIL viability assessment process. At the same time the commission has also made allowances for local market variations between the authorities to ensure a measured view of CIL rates, taking account of the individual market characteristics of each authority.

¹ Section 205-2225 and CIL regulations February 11th 2011.

- 1.4 When undertaking this assessment careful consideration was given to the appropriate assumptions and data required to deliver a reasonable assessment across the 8 local authorities which cover circa 650 square miles. It was discussed and agreed with the authorities that for the purpose of this study that generic types of development would be tested across the study area based on information collected at a postcode level. The benefit of this approach allowed all the authorities to be compared and enabled the collection of accessible data. The constraints of such an approach are that the finer grain detail within authorities is not captured. Furthermore, consideration also needs to be given to the application of individual property types within a district to ensure they remain appropriate in considering a reasonable CIL rate.
- 1.5 It is anticipated that the information in this report will provide a framework for identifying viable CIL rates as well as stimulating further debate within each authority on CIL's relationship with other aspects of individual authority's work, including affordable housing policy and emerging planning policies.
- 1.6 The diagram below demonstrates the geographic area of the commission. This instruction does not include North Herts or Stevenage districts.

Diagram 1. The relationship between the authorities commissioning this study



Structure of the Report

- 1.7 This report has been structured to provide the authorities with a common understanding of the processes involved in reaching the study's conclusions including the options available to them in determining CIL rates. The subsequent chapters of this report cover the following:

2. Explanation of CIL.

This section provides an explanation of what the Community Infrastructure Levy (CIL) is and why it is important for the authorities to consider and understand its purpose and its relationship with planning policies. The relationship between this study and the separate commission undertaken for North Herts District Council is considered, as well as the study's status as a Stage 1 study (and what further work, if deemed necessary, could be undertaken as part of Stage 2).

3. Planning Context.

This section provides a synopsis of the individual authorities' planning policies and considers the implications these will have on CIL rates.

4. Our Methodology.

This section provides an explanation of the methodology underpinning our work. Including an explanation of the approach to assessing viability, calculating land value benchmarks and the model used to calculate CIL rates.

5. Model Assumptions & Data review.

This section outlines the base assumptions incorporated in our model to determine potential CIL rates. An explanation is provided of the chosen types of development which have been tested as well as the data collected across the county, with particular emphasis on how LSH calculated average residential values and the application of land value benchmarks.

6. Standard Assumption Outputs.

This section identifies the results of testing the agreed assumptions on CIL rates, both geographically and for different types.

7. Sensitivity testing.

This section reviews the impact of varying the agreed assumptions, including planning policies.

8. Options.

This provides advice on the various options available to the authorities in introducing CIL.

9. Conclusions.

This provides a summary of this study as well as setting out potential next steps.

Our Advice

- 1.8 This report has been prepared using standard industry residual valuation techniques, taking account of previous CIL reviews and RICS guidance. The advice provided herein is to inform the CIL policy decision making process and must only be regarded as an indication of potential value, on the basis that all assumptions are satisfied. In accordance with Valuation Standards 1 of the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards – Global and UK 7th Edition (2012 amended) advice given expressly in preparation for, or during the course of negotiations or possible litigation does not form part of a formal “Red Book” valuation and should not be relied on as such.
- 1.9 This report covers 8 local authorities and therefore a significant amount of data has been collected, reviewed and interpreted. It is therefore acknowledged that chosen assumptions will rarely fit all eventualities. LSH recognise that every development scheme will be unique and the assumptions of this report will not necessarily reflect the outcomes of specific cases.
- 1.10 The advice provided herein should only be used as a guide to inform the authorities' CIL policy decision making process. LSH have, however, attempted to ensure that the assumptions used are explained, accurate and robust to support our approach in proposing appropriate CIL rates.

2. CIL in context

Community Infrastructure Levy

- 2.1 The Planning Act 2008 introduced CIL as a mechanism to enable the funding of infrastructure needed to support growth from developer contributions. This led to the publication of the CIL Regulations in March 2010 and the introduction of CIL from 6th April 2010. The Regulations set out the requirements for CIL, including the production of a Charging Schedule, which has to be supported by background evidence on economic viability and infrastructure planning. The Regulations were amended in April 2011 and further changes are being considered in 2012 to clarify the 2010 Regulations and allow Charging Authorities to charge by instalments.
- 2.2 This report provides economic viability evidence that identifies appropriate CIL rates that each authority could charge by assessing "*the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area*"² and in appropriate circumstances provides them with options for potential charging rate(s). This study will support the future consideration of a CIL charging schedule at Examination in Public (EiP). The regulations require a local authority to have used appropriate evidence to inform the draft charging schedule which should both include information on the infrastructure requirements that CIL will help fund as well as evidence that the economic viability of the proposed CIL charge has been properly considered.
- 2.3 Through previous work on CIL viability, we fully recognise the importance of ensuring that CIL is deliverable without compromising new development, and this study considers the potential impact on future development both for a range of development types and across differing geographical areas. When adopted by a Local Authority CIL rates are, in essence, non negotiable and have to be paid by developers on the additional floorspace created by new development. It is important to ensure that the evidence a charging authority uses to set its CIL rates is sufficiently robust and credible to support a local authority in achieving the "appropriate balance" that CIL Regulations require. The diagram overleaf sets out the wider considerations local authorities will have to consider when establishing a balanced CIL charge.

² (CIL Regs 2010, R.14.1.b)

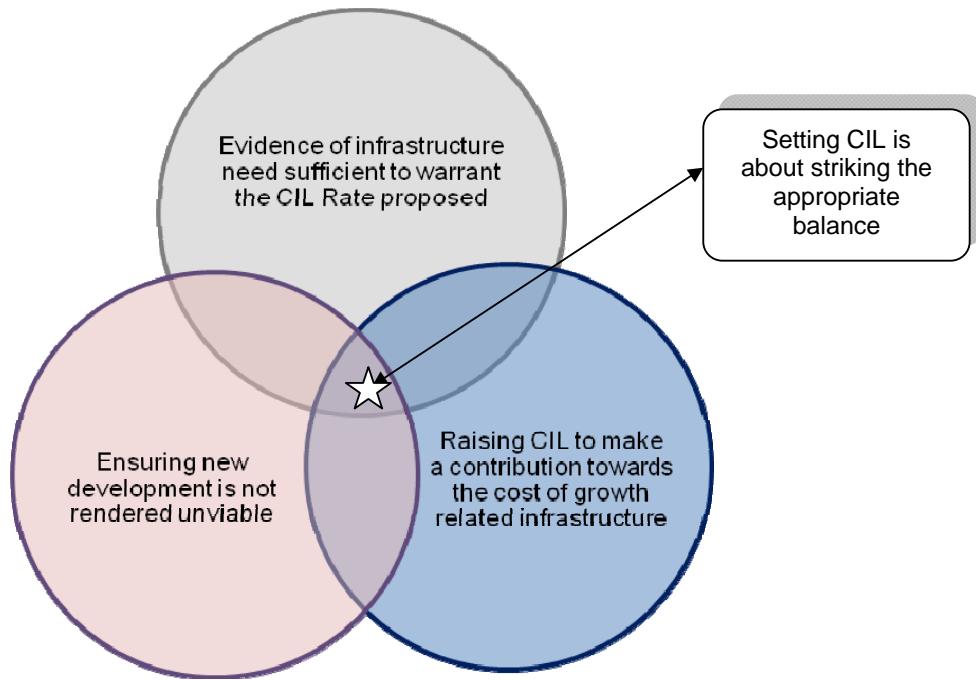


Diagram 2: Introducing CIL is all about striking the appropriate balance

CIL explained in further detail

- 2.4 The Community Infrastructure Levy (CIL) is a local levy that is charged on new development for the purpose of raising funds to deliver infrastructure that is required to enable growth. CIL was introduced by the previous government (1997-2010) through Section 206 of the Planning Act 2008 (The Act). This allows certain bodies known as “charging authorities” to charge CIL. In most circumstances the “charging authority” is the Local Planning Authority for the area, but in London includes the Mayor of London also.

- 2.5 The introduction of CIL is intended to provide a more transparent and effective way of providing for major infrastructure, addressing some concerns that have been expressed about the previous reliance on the use of ‘tariff style’ s106 obligations to support the funding of new infrastructure. When introduced, the expectation is that CIL will be used for general infrastructure contributions across the local authority area (and beyond it as well, since the Regulations allow for the pooling of CIL to deliver strategic infrastructure). S106 obligations will still be available to local planning authorities to be entered into for site specific mitigation - including the securing of affordable housing - but on a reduced scale when they introduce CIL (or from 6 April 2014, whichever is the earliest date). The

Planning Officers Society³ in its advice note on S106 and CIL identified three significant repercussions for S106 obligations:

- Making the test for the use of S.106 obligations statutory (R.122)
- Ensuring that there is no overlap in the use of CIL and s106 (R.123)
- Limiting the use of 'pooled' S.106 obligations post April 2014 (R.123)

- 2.6 If a charging authority decides to levy CIL in its area, a document known as a 'charging schedule' must be prepared setting out the rate of CIL which will apply. The charging schedule must be supported by background evidence on the economic viability of CIL as well as evidence of infrastructure need in the area plus an up to date development strategy. The charging schedule will be subject to public consultation, and an independent examination. The adopted charging schedule will sit within the Local Development Framework, although it will not form part of the statutory Development Plan.
- 2.7 Other key elements of CIL are as follows

Key area of CIL	Comment
Introducing CIL is optional	Whilst charging authorities are empowered to introduce CIL they are not obliged to. It is anticipated however that many authorities will be sufficiently incentivised to introduce CIL given the future restrictions on the scope of s106 agreements and the increased financial contributions that CIL is expected to make towards the funding of new infrastructure. It is anticipated that all Hertfordshire authorities will introduce it in time
Once introduced, CIL is mandatory	In all but the most exceptional circumstances once introduced CIL is a mandatory charge
To introduce CIL a charging authority will require an up to date development strategy and evidence of infrastructure need	The view appears to be that the base requirement is an emerging or adopted core strategy or up to date development plan. Evidence of infrastructure need should be presented at examination, and costed: the cost of such infrastructure must be equal to or exceed the amount CIL is expected to raise

Table 4: Key elements of CIL

³ The Planning Officers Society, Section 106 Obligations and the Community Infrastructure Levy: An Advice Note, April 2011

The Legislative and Planning Framework to CIL

2.8 The current legislation and guidance informing the development of CIL includes the following:

- The Planning Act 2008
- The Community Infrastructure Levy Regulations 2010, and amendments from 6 April 2011 and April 2012
- Community Infrastructure Levy Guidance – Charge Setting and Charging Schedule Procedures; CLG March 2010

2.9 There are further changes proposed to CIL through the Localism Act 2011, which include:

- A 'meaningful' amount of CIL is proposed to be directed towards local communities in which it is raised
- The examiners' report on CIL is proposed to be limited to ensure compliance with legislation
- The possibility (yet to be confirmed) that affordable housing provision will be secured through CIL as well as provision through S106 obligations.

2.10 A summary of the key regulations that have been taken into consideration in the preparation of this study can be found in Appendix 1.

How does CIL work and how is it calculated?

2.11 The CIL rate or rates are set out in the 'charging schedule' and must be expressed in standard metric format as £/square metre. CIL is levied on the gross internal floorspace of the net additional liable development. Existing floorspace to be demolished on a site is deducted from the gross new floorspace to arrive at a net new floorspace that the CIL rate is to be applied. Any existing floorspace on a site must have been in lawful use for at least 6 of the last 12 months from when planning permission is granted in order for it to be deducted from the gross floorspace of the new development

2.12 The levy can be varied for different areas within the charging authority's area and for different types of development (e.g. residential, commercial). This economic viability study will assist in determining the most appropriate levels of CIL in Hertfordshire, and whether CIL should be applied at different rates in different parts of the County or for different types of development.

2.13 In setting the rate(s) of CIL in an area, the charging authority must consider the “appropriate balance” between:

- (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
- (b) The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.”⁴

2.14 This means that in setting the CIL rate charging authorities need to demonstrate that their proposed CIL rate(s) will not put development across their area, taken as a whole, at undue risk.

2.15 The regulations place this consideration of the “appropriate balance” upon the charging authorities. It is expected that there will be wide variations of CIL rates across the country and these need to be explained and justified.

2.16 Any revenue received through CIL must be used to fund infrastructure that will support the development and growth of the area, and the charging authority is responsible for reporting to its local community how much CIL has been collected and spent.

Current CIL Rates in England and Wales

2.17 As April 2014 approaches more Local Authorities are developing their CIL charging schedules. The approach by authorities so far has varied widely.

- Some authorities have arrived at complex CIL rates (e.g. Newark and Sherwood has, for instance, 5 zones for residential use with rates varying from £0 to £75 per sq.m.)
- Others have gone for a simpler approach (the London Borough of Redbridge has adopted a flat rate of £70 per sq.m. with no geographical or use variance)
- the focus has tended to be on charges for residential and, to a slightly lesser extent, retail uses, with a number of authorities setting zero rates for industrial, non residential institutions and leisure uses
- examiners appear to be scrutinising draft charging schedules to ensure that there is sound viability evidence to support proposed rates and there is no attempt to 'engineer' CIL rates for planning or regeneration purposes (which is not acceptable under the Regulations)

⁴ CIL Regs 2010, R14.1.(a) and (b)

The joint commission and its relationship with the North Hertfordshire CIL Economic Viability Study

- 2.18 As previously noted, this is a study commissioned by 8 of the 10 Hertfordshire districts. Aside from the obvious economies of scale of authorities working together on a matter of mutual interest, with many shared characteristics across the county, the commission is a reflection of a well established pattern of joint working on infrastructure planning and viability issues (e.g. development economics studies, strategic housing market assessments) of which Hertfordshire can be proud.
- 2.19 The study has further value in enabling a consistent approach to be undertaken to a number of key indices and viability model inputs and the range of parameters that will influence development viability and therefore potential CIL rates across Hertfordshire, whilst at the same time allowing for local market variations (particularly residential sales values, which are marked) and policy differences between authorities to be factored in when assessing these potential rates.
- 2.20 A common approach should not be taken to mean a singular approach across the 8 authorities in arriving at CIL rates. Individual authorities are likely to have their own views on the extent to which setting CIL rates challenges development viability and each will therefore need to make a decision about the "appropriate balance" that needs to be struck. As we will see later in the report, a range of CIL rates across the 8 authorities are proposed (reflecting different viability considerations) and for several authorities it is possible to consider differential residential rates. What is consistent however is the methodological approach to assessing viability, and many of the model inputs (e.g. marketing fees, profits) are ones that we consider appropriate right across the county.
- 2.21 A final consideration in relation to this joint commission is that our study assumptions and overall conclusions will be tested out at the first of the 8 commissioning authorities' charging schedule examinations. The outcome of this first examination (whether the examiner supports our approach and conclusions, or whether he/she raises concerns that are subsequently addressed) will have a considerable bearing on subsequent examinations, with some expectation that sound assumptions and evidence demonstrated at the first examination will hold good for later ones.

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- 2.22 North Herts District Council (NHDC) are commissioning their own CIL viability work. It would be wrong to assume that NHDC were hostile to the idea of a countywide study, or that the other 8 authorities have any concerns about them pursuing an independent commission. In the case of North Herts, they wanted a study that linked CIL viability closely with work to test out affordable housing policies and provision as a variable alongside potential CIL rates. This is not something we were asked to do in our commission, which has the cost of affordable housing provision as a predetermined model input, although it is something that some clients may wish to explore as part of any follow on Stage 2 work.
- 2.23 Additionally NHDC were ready to commission work a full 5 months ahead of the other 8 authorities, so decided to make an earlier start on viability work.
- 2.24 The NHDC study (undertaken by consultants DSP) is not yet published, although we have had sight of the final report. Although it takes a different methodological approach in reaching market value to our study, we consider their conclusions on CIL rates for North Herts are entirely consistent with our conclusions on CIL rates for the other 8 districts. This is in no small measure due to the fact that we are both using the same generic model inputs, as agreed at the start of the commission. These inputs (which cover fixed allowances for matters such as developer's profits, build costs and marketing fees) are consistent with those used in viability models developed by the HCA and by Three Dragons, and can be regarded as an industry standard. Furthermore as part of their commission, DSP tested out these inputs in development industry consultations that took place in the summer of 2011.

Status of this report as a Stage 1 study

- 2.25 This is a Stage 1 viability study. What this means is that we have undertaken a full assessment of the viability implications of introducing CIL across the 8 client authorities by developing a bespoke residual value model and tested it out across the study area to arrive at the relevant conclusions for each authority (this is the scope of our Stage 1 study), whilst at the same time identifying follow up work that authorities may wish to undertake, and which might have a bearing on our initial conclusions. This further work would form Stage 2 of the study.
- 2.26 What this also means is that based on the evidence provided by this study it would be entirely appropriate for each of the client authorities to move forward with the preparation of a CIL charging schedule with the aim of holding a charging schedule examination at the earliest opportunity. This would be subject to being able to demonstrate at the charging schedule examination that there is sufficient evidence of infrastructure need, at a cost of providing equal to or exceeding the estimated revenue CIL will generate. (We were not asked to undertake such work and it therefore forms no part of this report).
- 2.27 It is however also the case that the Hertfordshire authorities, for the most part, are at the early stages of introducing CIL. At the time of writing only 1 of the 8 districts has an adopted core strategy in place, and although a number of others expect to have reached a similar position in a relatively short timescale, others will not. What this means is that there is anticipated to be a wide divergence in the timescale for introducing CIL across the client authorities: we think the potential spread could be as much as two years.
- 2.28 Given this we think it is possible to think of the 8 authorities being split between 'early CIL introducers' and 'late CIL introducers'. The 'early introducers' are those who wish to move forward quickly, with possibly little or no supplementary work to that contained in this report. These authorities should, we feel, be entirely comfortable with the evidence provided in this report and our recommendations on proposed CIL rates.
- 2.29 'Later introducers' will as a minimum wish to reassure themselves that the values assumed in this report (such as market conditions, scheme values and other model variations) remain as appropriate at the time they introduce CIL as they were when this study was completed. Beyond that, there may be changes in government policy (and indeed CIL Regulations) which may need to be factored in. Authorities may decide to test

out different geographies, or indeed adopt a different approach to defining CIL rates to that proposed in this report. If any of these factors result in different model inputs, further development industry consultations on the new assumptions are likely to be desirable.

- 2.30 All the above could be undertaken under a Stage 2 study, but there is another important consideration. Later in this report we make much of the important interplay between CIL rates, the ongoing ability to negotiate s106 agreements for site specific infrastructure (despite the forthcoming restrictions in their use) and the cost to developers in providing affordable housing. We cannot overstate our view that potential variations in what can be regarded as 'negotiable' contributions - the financial contribution being sought for site related infrastructure through a planning obligation, the cost to developers in providing affordable housing (influenced by the proportion and tenure mix of what is being sought by local authorities) - has a significant impact on potential (and to all intents and purposes non negotiable) CIL rates, because of the impact this will have on scheme viability.
- 2.31 In this commission we were asked simply to provide a fixed value for the cost to the developer of providing affordable housing - in some but not all cases this was based on current affordable housing policies whilst in one case (Welwyn Hatfield Council) this entailed the testing of three differential rates. We also looked at changes in affordable housing provision in our sensitivity testing. In terms of s106 contributions, we assigned a single 'across the board' value representing an average anticipated developer's contribution towards site related infrastructure for each authority and agreed this with the district concerned: we also sensitivity tested this figure.
- 2.32 Though our sensitivity work provides authorities with no more than a broad picture of the implications of making changes to both affordable housing provision and the contribution to be sought through a s106 agreement for the cost of site related infrastructure, we feel it is sufficient to make it absolutely clear that making such changes will have a significant bearing on CIL rates and therefore the revenues that can be raised towards growth related infrastructure. With this information it is open to authorities to explore further potential changes in the values of these three indices to see what effect this has on the authority's development strategy, its ability to deliver sufficient infrastructure to ensure the creation of vibrant and sustainable new communities, and its commitment to deliver sufficient affordable housing in response to local needs.

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- 2.33 There is undoubtedly a trade off between these three policy imperatives and it is possible that authorities will want to explore this and other issues in further detail - such as CIL and its relationship with major development areas, and medium and high density development, issues we highlight in this report. Such work would be undertaken as part of Stage 2. Authorities may wish to receive outside help to undertake this task: equally it is possible that they will be in a position to undertake such work in house, because as part of this commission, we will be providing face to face training as well as written instructions in the form of a manual on how to operate our model.
- 2.34 In section 9 (Conclusions) we set out in further detail the additional work that could be encompassed in Stage 2.

3. Planning in Context

- 3.1 This study is a joint approach to CIL viability across the 8 individual authorities, however we are aware that planning policy - particularly approaches to affordable housing - can have a significant impact on viability and therefore it is very important to consider the impact of those policies on an individual basis.
- 3.2 Although this report focuses on viability and is not an attempt to review planning policy we have nevertheless provided a summary of individual authorities' planning policies in Appendix 2. Our individual authority commentaries on planning policies influencing CIL outputs consider:
- Authority Location
 - Local Spatial Strategy
 - Affordable Housing Policy
 - Infrastructure need overview
- 3.3 Our review of the various authorities' planning documents enabled us to establish individual authority related assumptions, which have then been agreed and applied to the model (e.g. affordable housing).
- 3.4 In addition, we asked each authority to identify the anticipated average Section 106 contributions for site related infrastructure which would be anticipated over and above CIL, so that this sum could be included in the viability model, as it was recognised that some allowance would need to be made for such contributions to continue, albeit on a smaller scale, given the scaling back of planning obligations from April 2014 (or from when CIL is introduced, if it takes place at an earlier date).
- 3.5 It was agreed with the authorities that anticipated Section 106 contributions would be identified as a per unit sum for the purposes of this assessment (whilst recognising that actual figures will, in practice, vary as the sum sought will be related to the scale of site related infrastructure relating to any particular development scheme).

4. Our Methodology

Assessing Viability

- 4.1 “*An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to ensure that the development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered*”.⁵.
- 4.2 In discussing the impact of planning policy on development viability, the National Planning Policy Framework (NPPF) states that: “***the cumulative impact of these standards and policies should not put implementation of the plan at serious risk***⁶ and is echoed in the requirement in CIL guidance for charging authorities to set rates that “***will not put the overall development across their area at serious risk***”.
- 4.3 Estimating a potential CIL charge therefore requires an understanding of the impact on viability of a CIL charge for a notional development. This can be achieved through undertaking a valuation of a development and assessing its viability through review of the impact on land value.
- 4.4 The RICS identify in valuation information paper 12: Valuation of Development Land, that there are two approaches to the valuation of development land:
 - ***comparison with the sale price of land for comparable development; or***
 - ***assessment of the value of the scheme as completed and deduction of the costs of development (including developer's profit) to arrive at the underlying land value.***

⁵ Viability Testing Local Plans, advice for planning practitioners (June 2012) LGA and HBF.

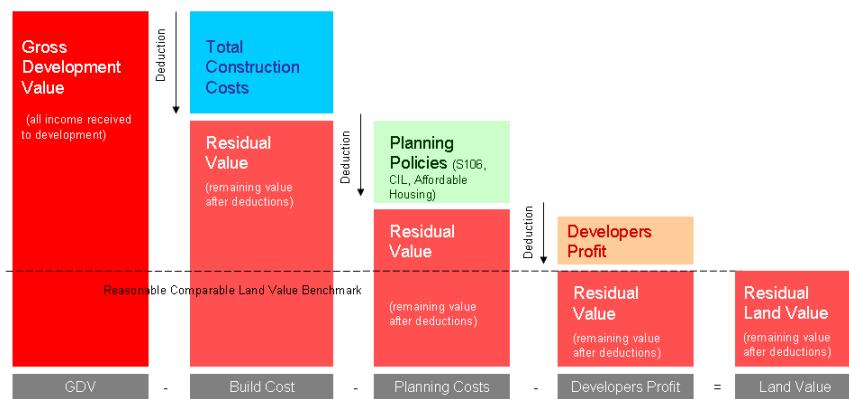
⁶ NPPF, para 174.

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- 4.5 The latter approach is known as the residual method. In practice it is likely that a valuer would utilise both approaches, and the degree to which either, or both, are relevant depends upon the nature of the development being considered, and the complexity of the issues.
 - 4.6 Given the nature of anticipated development including CIL, there are no (or limited) transactions to use for the comparative method; therefore the residual method provides the most appropriate valuation approach. However, even limited analysis of comparable sales can provide a useful check as to the reasonableness of a residual valuation against real world market conditions – particularly if an allowance for a CIL payment is considered.
 - 4.7 The residual method requires the input of a large amount of data, which is rarely absolute or precise, coupled with making a large number of assumptions, particularly when reviewing generic developments over wide geographical areas. Small changes in any of the inputs can cumulatively lead to a large change in the land value. Some of these inputs can be assessed with reasonable objectivity, but others present great difficulty. For example, the profit margin, or return required, varies dependent upon whether the assessor is a developer, a contractor, an owner occupier, an investor or a lender, as well as with the passage of time and the risks associated with the development.
 - 4.8 A residual method has been applied in this study and is consistent with that used in previous CIL viability studies - including North Herts - and is the recommended approach stated in the paper "Viability Testing Local Plans – advice for practitioners" (June 2012). Furthermore, we have given careful consideration to all assumptions used to provide the most robust approach possible.

Residual Appraisal Methodology

- 4.9 The residual appraisal method essentially deducts the total costs - in the form of construction costs, planning obligations and profit - from the total value generated by the development opportunity. The remaining sum is described as the residual land value and this is available to pay a landowner to enable the site to be developed and guides a developer in determining an appropriate offer price for a site. The diagram below sets out this approach.

Diagram 3: Calculating residual value



- 4.10 To establish whether the resulting residual land value, including a CIL charge, is appropriate and does not render the scheme unviable proper allowance has been made to the level of value of which a landowner would reasonably release/dispose of their land for development. This has been recognised by the National Planning Policy Framework (NPPF, March 2012). Therefore, it is important to identify what is a reasonable market value or "Land Value Benchmark" (shown as a dotted line on diagram above) by which to assess the viability of a development.

- 4.11 Market Value is described as "*The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. ... Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase, and without offset of any associated taxes*"⁷

⁷ The Royal Institution of Chartered Surveyors, Appraisal & Valuation Standards, PS 3.2., 3.3.2 (5th ed. London: 2003, as amended). A detailed Commentary on the definition is set out in the Appraisal & Valuation Standards. This definition has

Land Value Benchmark

4.12 In the CIL regulations no prescription is given to a particular methodology for testing viability and it is deemed a matter of judgement for each charging authority. However there has been significant debate about how a reasonable benchmark should be assessed to ascertain a reasonable market value and there are currently a number of alternative approaches to achieving this:

- Comparison to similar sites.
- Existing Use Value with and without a premium.
- Alternative Use Value.
- Evidence assessment of Development Value.

4.13 A “comparison” approach uses comparable property values to determine a reasonable market value for a property. Whilst relatively simplistic and easy to use, this approach is problematic where value is determined by factors yet to be reflected in comparable sales, such as emerging planning policy or site specific characteristics. This approach is often identified as the preferred approach of the RICS.

4.14 The RICS suggest that whilst Market Value based on comparable evidence is the preferred method, any value used should also have regard to development plan policies, including CIL and all other material planning considerations and disregard those matters which are contrary to the development plan. Therefore simply applying comparable land values of previously purchased sites would not fully account for current or future planning policies.

4.15 Given a lack of comparable data, it is reasonable to assume, in the first instance that Market Value will be reflected in a site's Current or Existing Use value (EUV) or its value for an alternative use. However, development land by definition assumes the potential for change or improvement of use, which may cause the land value to be higher than the EUV or an alternative use value. It seems logical that if a residual land value of a proposed development is below that of the EUV or an Alternative Use Value (whichever is higher), the land owner is likely to be reluctant to sell.

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- 4.16 To account for this value over or above EUV for redevelopment a number of viability assessments have applied an EUV plus a premium approach to deliver a reasonable market value benchmark. It is the intention that the margin will act as suitable incentive for a land owner to release the site for development – in other words a premium is added to reflect Market Value.
- 4.17 An issue with this approach, as with any generic assessment of land value, is anticipating a reasonable EUV of land for the purposes of an area wide CIL viability assessment, as this may not reflect site specific circumstances, or the multitude of current land uses which may be developed. This is particularly an issue with deriving a reasonable approach over 8 local authorities.
- 4.18 It should be noted that applying an EUV plus a percentage approach requires an assessment of a reasonable margin assumption to incentivise a landowner to sell the land (achieving Market Value). Clearly this percentage will vary between uses and geography, for example the increase in value between agricultural use and residential use will be significantly higher than that between commercial uses and residential use. It is therefore, best that this premium elevates EUV to reflect comparable data taking into account current and emerging planning policy.
- 4.19 Furthermore, the gross development value in the residual model will be based on values associated with the market, whether these are house prices or commercial rents and a simple cost plus approach to land value may deliver a distorted assessment of viability, which could be open to challenge by developers and land owners at examination.
- 4.20 The “EUV plus” approach has been endorsed by the LGA/Home Builder Association in “Viability Testing Local Plans – Advice for Planning Practitioners (June 2012).” However, the paper indicates that it is best not to determine a reasonable value benchmark from one approach in isolation.
- 4.21 An alternative method therefore would be to review the comparable data and develop residual models to reflect current comparable land values. These models could then be adjusted to make allowances for emerging planning policy. This delivers a benchmark value which is evidenced and grounded in comparable data, but allows for anticipation of planning policy. It is likely if the S106 and affordable housing planning obligations on a site

increase that the resulting benchmark land value will be less than for comparable schemes recently sold or developed.

4.22 In effect a similar land value would be achieved if a reasonable premium to reflect anticipated market value was added to an existing use value.

4.23 Therefore, the most robust solution to ascertaining a reasonable market value benchmark will be to use a number of methods with appropriate sensitivity testing. Irrespective of which approach is used the important focus should be on ensuring that the chosen benchmark does not render the development undeliverable and therefore a market value which takes into account the obligations required by planning is required.

Applied Land Value Benchmark

4.24 For the reasons expressed above we have not wholly relied upon applying a premium to EUV to achieve a reasonable market value. Instead we attempted to estimate land value benchmarks through assessing and combining a variety of approaches; making sure we have taken account of emerging planning policies including CIL. This combined approach endeavours to minimise objections to identifying a reasonable land value at which landowners will sell land, whilst achieving the objectives set out in the NPPF.

4.25 We have reviewed comparable evidence, undertaken residual development land appraisals taking into account emerging planning policy, and assessed reasonable alternative land values.

4.26 We have concluded proposed land value benchmarks on the assumption of a value per hectare of development. An estimate of land value per hectare by geography follows a similar approach to that of the VOA Property Market report that is published twice a year.

4.27 We recognised that residential land values will vary geographically and therefore rather than applying a single land value across the study area of 8 Local Authorities the land value benchmarks were adjusted to reflect market variation in land values across the study area. These variations in land values were presented at a postcode level, for the purposes of this area wide study; however it is recognised that market value of land within postcodes can vary.

- 4.28 The diagram below sets out the approach taken to identify a reasonable land value benchmark taking into account various sources of information.

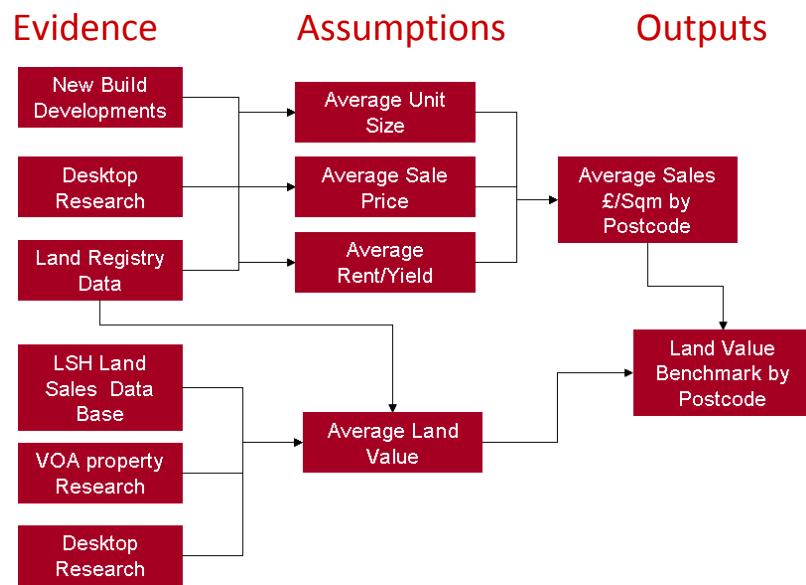


Diagram 4: How an appropriate land value benchmark by postcode is established

Comparable Land & Sale Values

- 4.29 LSH investigated the recent land transactions across Hertfordshire and compared this to published data from the Land Registry and the Valuation Office Agency (VOA) to provide a 'sense check' to what current land values are being achieved (Appendix 4 reflects a collection of comparable land values). It is anticipated future land values will be adjusted to take into account CIL levels, however, this approach provided us with a good understanding of the geographic variations across the study area.
- 4.30 We have identified minimal recent activity in many property use classes, mainly as a consequence of the recent recession. In relation to B1/B8 uses, activity has also been dampened by the increase in speculative development over the boom period immediately prior to the recession (particularly in B1 uses) which has led to an overhang of supply.
- 4.31 The supply of land for B1/B8 uses is not generally restricted as local authorities typically allocate a range of employment site opportunities which will provide for several years of demand. Undeveloped land is available to purchase in the open market, and whilst take-up may vary, variations in land value appeared to be limited. Therefore we noted that commercial land values tended to be consistent across a wide geographic spread. It was

therefore agreed that it would be right to apply a single land value benchmark across the stage 1 study area for non-residential land.

- 4.32 The comparable evidence, however, did not show a relatively consistent land value across the study area for residential land. Residential land values fluctuate principally according to location and availability. However, it is likely that the variations in affordable housing policies and other planning policies across the study area, given that we are addressing 8 Local Authorities, also have an impact on residential land values.
- 4.33 As well as geographic distinctions in value we have also been able to establish that land values vary between greenfield and brownfield sites, as well as at differing densities. These values are predominately affected by the potential achievable development value and the variations in development costs.
- 4.34 In addition to land values we have collected comparable property sales data from a number of reliable sources and reviewed the data geographically to identify general patterns in value. This data was used to inform both the estimated residential land value benchmarks and also used within the residual model for testing CIL.
- 4.35 Land Registry average property sale values (by postcode) were compared to those identified from desktop analysis and field surveys on new developments in similar locations. This approach is particularly useful in identifying the difference in average sale values in residential units collected from Land Registry and those of sold values for new build residential properties.
- 4.36 Based on data collated it was possible to estimate the average achievable residential property price, commercial rental stream and yields that can be anticipated in different geographical areas, which helped support our understanding of potential land values as well as acting as an input assumption for CIL modelling.
- 4.37 As with land values sale data was assessed by postcode for this study. This approach is limited to the average price anticipated across the postcode, which was viewed as providing adequate detail for a stage 1 study covering 8 Local Authorities. However, there may be locations where - given the fact the whole authority is covered by only two postcodes - the nuances of the local market are not reflected in postcode data. It may be

that in such cases additional, more “fine grained” review is required at a Stage 2 review. This may also be the case where an average postcode value does not reflect the geographical spread in values across a postcode. Furthermore, anomalies can arise in assessments where postcodes cross authority boundary lines.

Estimated Market Land Value

- 4.38 To take account of changes in planning policy we estimated the market land values of our proposed types, based on comparable data collected and using a residual model. Estimated land values took into account planning policies such as affordable housing, although no direct allowance was made for CIL at this point. Instead an applied contribution per unit was used which reflected assumed Section 106 cost including infrastructure works which would eventually be collected through CIL (at c£6,000 per residential unit).

Alternative Use Value

- 4.39 It was anticipated that there would be examples where a residual development appraisal, irrespective of a CIL charge, would have a lower potential development value than an alternative use value. Therefore, in all instances if a residual output was below an alternative use value, the alternative use value was used to assess the scheme. Alternative use value was used instead of an existing use value as it would be beyond the scope of the study to identify multiple existing use values for properties across the study area of 8 authorities. It was also recognised that the alternative use value would be likely to vary between greenfield and brownfield developments.

Alternative Use: Greenfield development

- 4.40 To identify an appropriate benchmark for greenfield development, we have investigated values for agricultural land in Hertfordshire and have estimated an average of £24,000 per hectare. Based on HCA guidance on “Transparent Assumptions”⁸ an allowance of 10 to 20 times agricultural value (existing use) is acceptable to reflect an alternative use (namely un-serviced residential).
- 4.41 Based on this approach LSH would conclude that minimum greenfield land values would be c£480,000 per hectare. This conclusion is also consistent with discussions we have had with the VOA recently in respect of unserviced residential land values.

Alternative Use: Brownfield development

- 4.42 Although alternative uses are restricted by planning policy we considered that using an alternative use value for industrial land would provide a reasonable alternative land value benchmark. Average industrial land values remain reasonably constant across the study area and equate to circa £1,600,000 per hectare (c.£650k per acre). Industrial land value as an alternative use value for brownfield development is a suitable alternative use value as the assumptions regarding design, revenue and costs are broadly consistent across the county.

Proposed Benchmarks

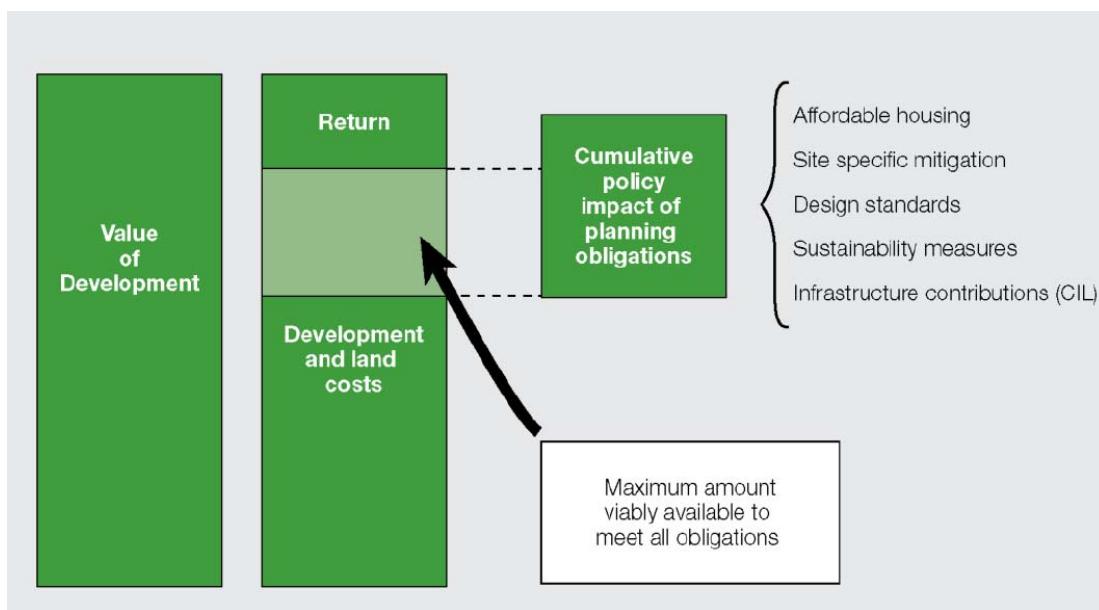
- 4.43 Appendix 3 sets out the applied residential land value benchmarks for each of the proposed development types used to establish potential CIL rates on the assumption of planning policy compliant development. For the most part they reflect an anticipated market value, taking into account emerging planning policies and are therefore below comparable land values. Where residual land values fall below alternative use value, Alternative use value has been applied (£480k for greenfield and £1.6m for brownfield). It is unlikely however that residential development would occur on sites where the residual land value is below the alternative use value.
- 4.44 We also used alternative use value benchmarks for non residential land values for each of the proposed development types. No premium was added to these benchmarks.

⁸ As also this approach was used in the North Herts CIL viability study

4.45 LSH recognise that variations in the proposed land value will have a direct impact on the potential achievable CIL rates. Therefore as part of our sensitivity analysis we assessed the impact of a reduction in land value benchmark marks on the potential deliverable CIL rate.

Impact of Planning Policy

4.46 Assuming that other outputs remain constant, there is will be a maximum level of cost attributed to planning policies (including s106, CIL, affordable housing requirements etc) which can be imposed on a development whilst allowing it to remain viable; as demonstrated in the diagram below:



Source: Diagram from: Financial Viability in Planning - Exposure Draft Guidance Note: April 2012

Diagram 5: There is a maximum amount of planning obligations that can be imposed on any development scheme

4.47 Given this maximum cost associated with planning policies which can be secured from a development, the introduction of CIL will have an impact on both land value and the ability of schemes to deliver other planning obligations, and it might be that negotiable elements, such as s106 or affordable housing become "squeezed" in order that the scheme remains viable.

4.48 For the purposes of this study is it is therefore fundamental to consider the implications of a proposed planning contribution package on the viability of assessed development types.

Therefore in setting CIL charges at the appropriate level there is the need to ensure that there is sufficient headroom in the proposed CIL rate so that the majority of schemes to which they are applied remain deliverable (both in terms of viability and in terms of meeting planning policy).

4.49 Given the wide geographic spread of this Stage 1 study it was agreed that, wherever possible, appropriate industry standard assumptions, (such as profit, professional fees, build costs and disposal costs) would be assumed whilst also factoring in variations in local geography and the impact of different planning policies across the study area. Therefore a number of assumptions used are bespoke to individual authorities, ensuring that the outputs of this study are specific to each local authority assessed. Our assumptions are similar to those used in the North Herts Study.

CIL Viability Model

4.50 In order to generate an appropriate CIL rate from a set of assumptions we have produced a residual viability model which can assess a residual value against a benchmark value for a number of types, geographies and planning policy assumptions. Given CIL Regulations 13 & 14 (which stress the need to establish CIL rates which enable schemes to remain viable), our model has been produced to allow consideration of the following:

1. Land Use to be developed.
2. Impact of Land Use type on CIL viability.
3. Impact of geographical market variations on CIL viability.

4.51 The model process can be broken down into five stages:

1. Choose:
 1. Type
 2. Planning Authority
 3. Postcode
2. The model applies:
 - i) Inputted build and development costs/profit/sufficient headroom.
 - ii) Inputted affordable and s106 assumptions.
 - iii) Revenues assumed with the postcode.
 - iv) Assumed benchmark reflecting use and location.
3. The model produces a residual land value
4. Adjust CIL rate which ensures residual value capable of meeting benchmark
5. Resultant adjustment identifies achievable CIL

4.52 Diagram 6 demonstrates the model process in reaching a CIL capable of being delivered based on the set inputs:

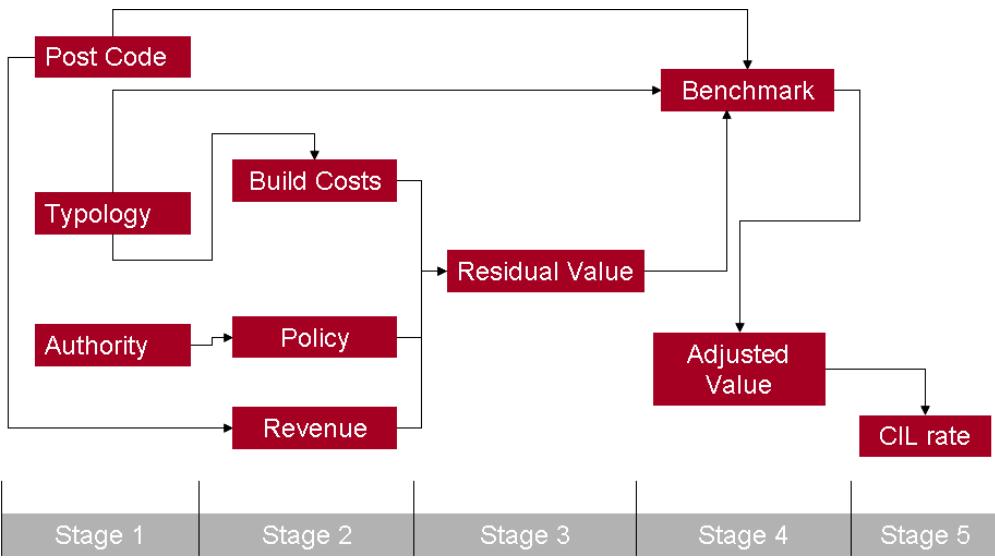


Diagram 6: How a CIL rate is established

4.53 A “type” is represented by a generic development opportunity, whether it is a small greenfield housing scheme, a large brownfield housing scheme or a commercial development. Following discussion with the authorities it was agreed that the same types are to be applied across all authorities. This approach gives some consistency across the assessment. However, it is recognised that different authorities may have different proportions of types driven by opportunities or development which should be taken into account when assessing the overall CIL rate for a particular use. For example, it is unlikely that many of the authorities will see a significant level of high density residential development.

4.54 Diagram 7 demonstrates the inputs which go into producing a type and how a type is then assessed to produce an estimated CIL rate.

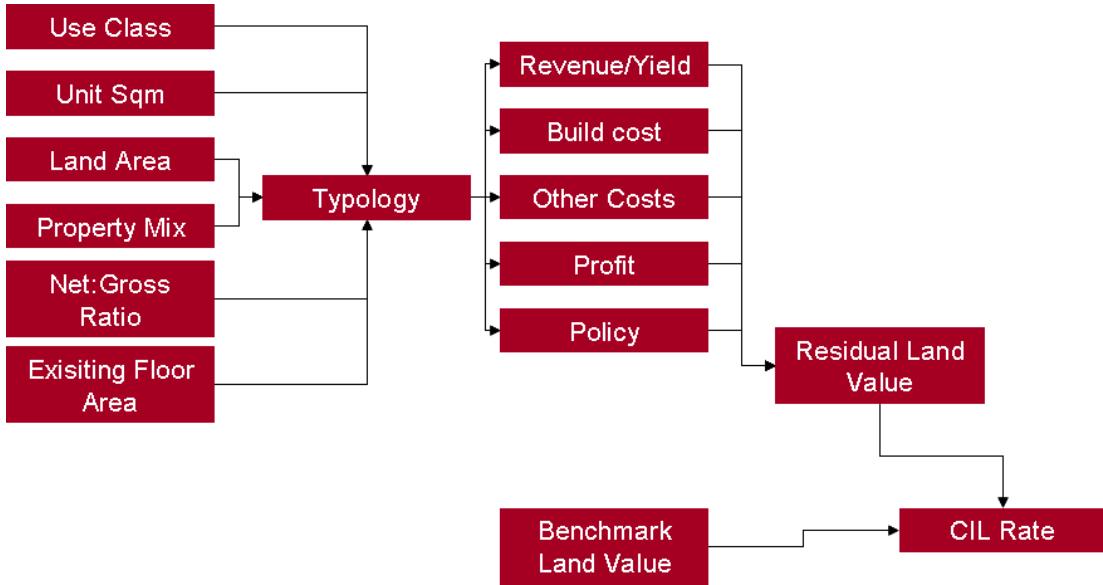


Diagram 7: How an appropriate CIL rate is established

4.55 Our CIL model can support and assess a number of chosen types and assumed development schemes, and the model can then assess the types against changes to inputs such as revenue, cost and individual authority values for affordable housing percentage and mixes and s106 requirements. In this way the CIL model can produce different results from the same types, thus reflecting geographic and planning policy variations across the authorities.

4.56 The residual model produces a net CIL payable by taking into account previously developed floorspace and affordable housing. The model also has the ability to apply different CIL rates for different types in the same development.

5. Model Variables

Standard Types

- 5.1 A CIL may be attributable to any new development opportunity and therefore assessment is required of a number of notional development types to ascertain if a CIL is firstly viable and secondly, whether it should vary between uses. Clearly not every permutation of development can be undertaken for a Stage 1 study, but a range of development types were chosen to best reflect the significant types of development anticipated in the 8 authorities.
- 5.2 Our model assessed development across a broad range of development types and activities, including 5 different residential types and a number of non-residential types, as set out below. These types were discussed and agreed with the 8 authorities as the most suitable for undertaking a Stage 1 CIL assessment.

Activity	Code	Description
• Retail	A1	Shop
• Office	B1 (a)	Office
• General Industrial	B2	Industrial
• Hotel	C1	Hotel
• Institutional Residential	C2	Care Home
• Residential 1	C3G	Rural/Greenfield Resi
• Residential 2	C3U	Urban/Brownfield Resi
• Residential 3	C3XU	Medium density Resi
• Residential 4	C3IU	High Density Resi
• Residential 5	C3M	Mixed Use Resi
• Leisure	D2	Gym

- 5.3 It is likely that not all these types, particularly high density residential development, will be identifiable in all of the 8 authorities within the study area. In fact high density schemes may only be appropriate in a few settlements including, Watford, Borehamwood and Rickmansworth. Therefore consideration will be required, when anticipating any potential CIL rate for the individual authorities, to the anticipated density of development across each local authority.

Scheme Size (Area)

- 5.4 The types can be varied to assess any size of scheme. The metric for assessment is in hectares, but a comparable size in acres can also be displayed. Development area will vary from scheme to scheme and location, therefore any area chosen for the model can only reflect an average.

- 5.5 Major developments and regeneration schemes in the authorities can potentially cover sites varying from 0.25 - 10 hectares, varying from small infill schemes to major urban extensions. B1/B8 developments can vary from extensive strategic development sites of 50 hectares (plus), to much smaller scale, often less than 1 hectare; retail parks and out of town supermarket developments can be relatively extensive. For the purposes of this study we have assumed a standard development size on the scale of 1 hectare; density then reflects the individual types.

Floor Area (GIA)

- 5.6 The model assumes an average gross internal floor area (GIA) based on market data and discussions with the authorities. A 5% increase over these private residential averages is applied to the affordable housing to reflect higher affordable space standards. The model does not distinguish between individual unit types, as a single average rate of value has been used in the assessment. However the sizes are an average which takes into account mix. Although affordable housing does not generate a CIL contribution, it does have an impact on overall development costs and the proportion of a scheme which does contribute to CIL.

- 5.7 In assessing commercial only schemes, there are difficulties in estimating the coverage of an average development, due to the potential variables, including height and potential use/tenant. Furthermore, coverage is affected by the size of the development site, as large sites will favour particular uses which may reduce the coverage, whilst smaller sites may have a higher coverage. However, for the purposes of this review we have agreed with the authorities that we will assess the potential non residential types using the following Gross Internal Areas:

- **Net to Gross Ratio:** The model assumes an average gross internal floor area (GIA) based on market data and standard industry assumptions, as discussed and agreed with the authorities.
- **Current floorspace to be deducted:** It has been assumed that as some development will be undertaken on previously developed land; some overall allowance must be made for a proportion of previous floorspace to be deducted from certain types. This is important because CIL can only be charged on the net increase in overall floorspace. We have therefore deducted a standard figure of 15% for all types with the exception of 2 of the 5 residential types.
- **Non residential element of mixed use schemes:** The amount of non residential uses of such schemes can be variable, but for the purposes of this study it was assumed that 20% of the total floorspace of any mixed use scheme would consist of a non residential use.
- **Unit Mix/Density:** The model enables development scenarios to be varied through amending the number of units and/or site area. For the purposes of this study it was assumed that development would reflect planning policy. Therefore, different types were assessed at different density assumptions.

Table 5 Standard development type assumptions used in this study:

Type description	Area (Ha)	GIA (sqm)	Net to Gross ratio	Current Floorspace	Density Dwelling per Ha	Av. House size (Sqm)	Av. Flat size (Sqm)	Proportion of Flatted Development
Shop	0.14	92	90%	15%	N/A	N/A	N/A	N/A
Office	0.5	2800	80%	15%	N/A	N/A	N/A	N/A
Industrial	1	6000	90%	15%	N/A	N/A	N/A	N/A
Hotel	0.5	2600	85%	15%	N/A	N/A	N/A	N/A
Care home	0.5	1700	75%	15%	N/A	N/A	N/A	N/A
Rural/Greenfield resi	1	2375	100%	0%	25	95	N/A	0%
Urban/Brownfield resi	1	3800	100%	0%	40	95	N/A	0%
Medium density resi	1	4690	85%	15%	70	95	67	80%
High density resi	1	6700	85%	15%	100	N/A	67	100%
Mixed use resi	1	4690	85%	15%	70	N/A	67	100%
Gym	0.5	1700	85%	15%	N/A	N/A	N/A	N/A

Standard Viability Model Inputs

Proposed development costs

- 5.8 Standard development costs were assessed on a value per sq.m. basis based on market data and the Royal Institution of Chartered Surveyors (RICS) Build Cost Index Service (BCIS). The Model uses average standard build costs for the various uses and differentiates between low and high density residential schemes.
- 5.9 The below table sets out all costs allowances (£per sqm.) used in this study based on BCIS Build costs March 2012 (adjusted for Hertfordshire):

Table 6: Build cost assumptions by property type

Type description	Build Cost Commercial per sqm	Build Cost House per sqm	Build Cost Flat per sqm	Externals allowance *	Code 4*	Abnormals allowance*
Shop	£748	N/A	N/A	5%	N/A	5%
Office	£1,345	N/A	N/A	5%	N/A	5%
Industrial	£484	N/A	N/A	0%	N/A	5%
Hotel	£1,345	N/A	N/A	5%	N/A	5%
Care home	£1,300	N/A	N/A	5%	N/A	5%
Rural/Greenfield resi	N/A	£1,022	N/A	5%	4%	10%
Urban/Brownfield resi	N/A	£1,022	N/A	5%	4%	10%
Medium density resi	N/A	£1,022	£1,195	5%	4%	10%
High density resi	N/A	N/A	£1,195	5%	4%	10%
Mixed use resi	£1,300	N/A	£1,195	5%	4%	10%
Gym	£1,400	N/A	N/A	5%	4%	5%

*% of extra over standard build cost – additional external costs are not anticipated for industrial buildings.

- 5.10 We understand that BCIS residential data reflects a Code level 3 energy rating; therefore values have been increased by 4% to reflect a Code level 4 energy rating in line with planning policies. All residential outputs in this assessment, therefore, assume that homes will be built to Sustainable Homes Code Level 4.
- 5.11 Standard BCIS average build costs reflect a countywide average. We do not anticipate that build costs will vary significantly as a result of location across the county, and it is reasonable therefore, to use countywide averages.

-
- 5.12 We recognise that schemes may incur site specific external costs over and above the basic build cost assumed in this study. This is reflected in the model by an allowance of 5% over and above standard build costs.
- 5.13 Furthermore an additional allowance of 10% has been added to the standard build costs to allow sufficient headroom to enable abnormal costs - such as contamination, build cost inflation, or individual additional site costs - to be factored in before the viability of CIL is assessed.
- 5.14 The additional allowances made within the model ensure that the residual results are consistent with those identified through other CIL viability assessments such as the North Herts assessment. However, this approach taken can only act as a guide, as some schemes will incur higher or lower standard costs. It should also be understood that even small variations in build costs can lead to significant variations in scheme viability.

Profit

- 5.15 Profit is closely reflective of risk, and the larger the risk to development, the higher the required profit level. The model enables profit to be varied, both for private elements of the scheme and for affordable elements.
- 5.16 We are aware that a 17% profit return on total GDV (20% on Cost) is a standard assumption of the GLA Three Dragons Affordable Housing Toolkit and is also supported by the HCA Economic Appraisal Toolkit. Arguably the level of profit within a development scheme reflects the level of risk to the developer. However, our model attributes profit as a percentage of overall cost, and as sufficient headroom is achieved through additional costs allowances, this will feed through to additional profit as well. We therefore consider that we have reasonably allowed for developer's risk in the model.
- 5.17 We have however distinguished between developer's profit on private residential developments at 20% on cost and contractor's profit only of 6% on cost for non-profit affordable housing. This again reflects GLA and HCA guidance, although it is understood that the North Herts CIL assessment did not make this distinction and allowances were made elsewhere in their assessment.

5.18 In addition to residential developments, residual appraisals were run for several other property development types. Profit returns on these types of properties were chosen to reflect market norms. For example development undertaken by owner occupiers such as shops and hotels were calculated on a contractor's profit of 6% as their return would be achieved through the operational activities of the properties developed.

5.19 The table below sets out the assumed profit returns for the various property types tested.

Table 7: Profit assumptions by development type.

Type	Profit on Cost
Shops	15%
Office	15%
General Industrial	15%
Hotels	6%
Care homes	20%
Private Residential	20%
Mixed Use	20%
Gym/Leisure	15%
Affordable	6%

Additional basic assumptions used in the base model

5.20 The model also reflects a number of other standard viability appraisal inputs, such as professional fees and sale costs. LSH have reviewed those assumptions adopted by North Herts and, in general the standard assumptions used in both assessments are consistent.

5.21 The table below sets out additional assumptions reflect standard industry assumptions and other guidance/practice.

Table 8: other assumed development assumptions

Assumption		Comment
Professional Fees	12%	Reflects GLA TDTK
Marketing Fees	1%	Standard Industry Assumption
Sales Fees	2%	Standard Industry Assumption
Contingency	5%	Reflects GLA TDTK
Finance Costs	7%	Standard Industry Assumption
Stamp Duty	4%	Standard Industry Assumption
VAT on Stamp	0.8%	Standard Industry Assumption
Purchase Fees	1.5%	Standard Industry Assumption
Consultant Fees	1%	Reflects planning costs
Ground Rent	£100 per unit	LSH estimate
Ground Rent Yield	5.5%	LSH estimate

Authority specific viability inputs

Affordable housing

- 5.22 The model allows variation in the unit size, cost, revenue, mix and the percentage of overall units, as well as potential grant funding, to generate the development potential from the affordable housing element. There is a positive correlation between affordable housing delivery and viability, which has been further highlighted by the recent reduction in availability of affordable housing grant.
- 5.23 Affordable housing policies vary from authority to authority and significantly influence potential viability even when revenue streams remain constant. The reason for this is that the level of overall revenue attributed to a scheme is influenced by the proportion of affordable housing and the mix of affordable housing. Affordable housing by definition produces less revenue than private sales and therefore residential schemes with higher levels of affordable housing will generate less revenue to offset costs whilst the private element of the scheme will be more constrained in its ability to support significant CIL charges. Furthermore the amount of revenue varies between affordable housing types, with much less revenue being achieved from social rented accommodation than intermediate forms of tenure and affordable rents.
- 5.24 We consider the level and mix of affordable housing to be one of the most fundamental factors in differences generating potential CIL rates across the Hertfordshire authorities. It may be the case that some authorities may wish to review their affordable housing policies in light of the impact on potential CIL rate generation, and this is something that we will return to later in the report.
- 5.25 We discussed and agreed with each authority the affordable housing criteria to be applied to this exercise as set out below. Over the timescale of this instruction it became apparent a number of the authorities are considering or proposing affordable rent housing to replace social rented units within their policies. It was agreed that amending the results to reflect affordable rent assumptions was beyond the scope of a Stage 1 study and that review of the impact of increased levels of affordable rent could be considered as part of a Stage 2 study.

5.26 The assessment for Dacorum is based upon an affordable rent reflecting their emerging policy position. As this demonstrated, the introduction of affordable rent by other authorities would improve the overall viability of development and therefore, potentially allow the establishment of higher CIL rates. However, LSH wish to emphasise that if affordable rent is used to identify a reasonable CIL rate for residential development, it is likely that attempts to include social rented units in the future will make a scheme less viable.

Table 9: Affordable housing assumptions agreed with authorities.

Authority	Affordable Housing %	Social Rented %	Intermediate (Shared Ownership / Affordable Rent) %
Broxbourne	40%	80%	20%
Dacorum	35%	75%*	25%
Three Rivers	45%	70%	30%
Watford	35%	20%	80%
Hertsmere	35%	75%	25%
Welwyn Hatfield**	25%/30%/35%	70%	30%
St Albans City	40%	60%	40%
East Herts	40%	75%	25%

*Social rent replaced by Affordable Rent.

**Welwyn Hatfield has a range of different percentages that are location specific.

5.27 In order to estimate standard capitalised rates for affordable tenures - such as social rented, affordable rent or shared ownership (intermediate) - a standard blended mix of unit sizes was discussed and agreed with the authorities and calculated on assumptions similar to the GLA Three Dragons Toolkit and the HCA Economic Appraisal Toolkit. No grant funding was included in the viability testing. By not including any grant funding in assessing the development viability LSH have ensured that irrespective of future decisions regarding grant availability, viability will not be adversely impacted.

5.28 Anticipated average capitalised affordable values applied in the model are set out in table 10. By using these standard rates across the study area LSH is taking a cautionary approach to affordable revenues to ensure the affordable element remains viable.

Table 10: Assumed capitalised affordable revenue

Tenure (without grant)	Cap Rate per m ² (£)	Cap rate per ft ² (£)
Social Rented Units	£818	£76
Affordable Rented Units*	£1071*	£100
Shared Ownership Units	£2,433	£226

* Affordable rent rental values will be individually capped by local authorities, Dacorum displayed.

Planning Obligations

- 5.29 As of April 2014 or (or earlier on the adoption of CIL) local authorities will be unable to pool s106 contributions in the same way. It is, however, anticipated that development schemes will still be required to provide some s106 contributions for site specific mitigation. The model enables the input of a value per sqm which is anticipated as an average across each authority.
- 5.30 Required s106 contributions will vary from site to site; however, the authorities have provided what they anticipate will be the average required s106 contribution as a rate per unit following April 2014 when the new regulations come into force and determine what can be collected under s106 obligations and that which will be can be collected through a CIL charge. These proposed s106 contributions are anticipated to be lower than the current collected s106 revenues.
- 5.31 The table below demonstrates the anticipated s106 contribution by unit for each individual authority to be used in the modelling exercise. These levels of contribution were agreed by the relevant authorities in preparation for this study. Variations in CIL and s106 contributions may affect the overall viability of the scheme.

Table 11: Agreed s106 contributions (post April 2014) by authority

	Section 106 per unit
Dacorum	£2,500
Three Rivers	£1,000
Watford	£3,000
Hertsmere	£2,000
Welwyn Hatfield	£3,000
St Albans City	£1,000
East Herts	£2,000
Broxbourne	£1,000

- 5.32 It should be noted that this study does not assess the development viability of individual schemes, but it recognises that there will be circumstances where individual schemes will a) have site specific infrastructure impacts and b) be inherently profitable, and that in such circumstances authorities may continue to seek appropriate contributions

Applying CIL

- 5.33 CIL Regulation 40 permits any existing floorspace within a lawful use to be deducted from the total proposed floorspace, ensuring that the CIL Levy is applied only to the net increase in floorspace. Therefore, in assessing the CIL charge an allowance has been made for existing floorspace in brownfield development opportunities, which can be deducted from a CIL charge. If such space is not deducted from before running the model then it will give an inaccurate picture of the potential CIL to be collected.
- 5.34 Through an analysis of their recent planning applications the authorities estimated that an average 15% of the new floor area was previously developed. This deduction in floorspace was applied in the viability assessment to reflect this position.
- 5.35 In addition, an exemption is made for all forms of affordable housing including socially rented or shared ownership (intermediate) (Reg 49-50 Social Housing relief). LSH have therefore not applied CIL calculations to affordable housing development.

Revenue Inputs

- 5.36 Thorough market research was undertaken in Hertfordshire and following discussions with the authorities it was concluded that this study should concentrate on the most common types of development anticipated over the plan period.

- Retail (includes local shops, supermarkets and major retailers)
- Business/Offices
- Warehouse/Distribution
- Private residential
- Hotels

- 5.37 In addition to these property types, consideration was given to alternatives; however these uses were particularly problematic to assess due to the limitation of data and the variation in individual schemes. Examples of such property types are classified under the Use Class Order 2008 (as amended).

- C2 Residential schools
Hospitals
Care Homes
- D1 Churches
Education
Health Centres
Public Halls
Day Nurseries
- D2 Cinemas
Concert Halls
Sports Centres
Gyms
- Sui Generis
Theatre
Scrap yard
Petrol Station

5.38 Because of the wide range of potential property types an assessment of development value by use class is extremely difficult. In LSH's experience many of the property types identified in the Use Class categories of C2 and D1 do not generate income streams and are in effect non-profit making organisations or public institutions. In fact a number of these property types would be anticipated to be delivered by CIL rather than deliver a CIL charge.

5.39 LSH would however anticipate that private schools, care Homes, private gyms and Day Nurseries may generate a viable residual land value. Detailed review of all use class categories is beyond the scope of this report; however, additional work on various use classes could support the overall conclusion and be included in stage 2 assessments.

Revenue data Collection

5.40 Assessing revenue values is largely dependent on comparable evidence, which requires sufficient new development within the study area to provide a realistic value base. Furthermore, such evidence only represents a snapshot in time, reflecting the market conditions and planning policies at the time of review. Therefore careful consideration

needs to be given to the current market conditions to identify any trends or anomalies that may distort this assessment.

- 5.41 Although the common consensus is that we are currently at the bottom of an economic cycle the model does not rely on improved market conditions to find viability. It does however reflect local market conditions, which have, for residential housing remained relatively stable in Hertfordshire. The conclusions of this study must be considered in the context of the information available and reasonable tolerance should be given to determining the impact of market changes in the future.
- 5.42 Revenue variables were based on collected data across Hertfordshire between January and June 2012. LSH collected data from the following sources, through desktop research and site visits:

- 17 current and proposed development schemes in the study area.
- LSH land dataset for Hertfordshire
- Circa 250 Land Registry entries of recent property transactions.
- Advertised residential properties in the study area.
- Circa 450 various commercial properties in study area
- National data set reviews – Focus, PIP, VOA Property Market Reviews
- Discussions with local agents.

Residential Housing Market –National Context

- 5.43 At a national level, the March 2012 RICS Housing Market Survey shows that the trend towards price stabilisation continues to be driven by the London market. Sale activity and market confidence remains largely intact, supported by temporary (stamp duty exemption expiry and unseasonable weather) as well as more fundamental factors (less economic downside risk perceived).
- 5.44 On the activity side, the Q1 2012 RICS data highlights a further modest improvement in newly agreed sales and new buyer enquiries, while new vendor instructions remained relatively unchanged on the month. Although the survey's net balance data does not correlate exactly with the sales and stocks data, they are both providing a broadly consistent message i.e. a slightly firmer market. Indeed, the sales-to-stock ratio - a lead indicator of market slack - rose from 22.9% to 23.3%. This is the best reading since September 2010, but is still well below the long run average of 33%.

5.45 Anecdotal evidence in the RICS survey suggests a more fundamentally driven market improvement. Indeed, it is possible that surveyors, as with financial markets, are now beginning to factor in less economic downside risk going forward. This is consistent with the more solid trend in sales expectations at the 3 month horizon. Indeed, if the recent improved market was boosted purely by the stamp duty changes and seasonal distortions, near term activity expectations would likely reflect this by receding but they remain elevated. It is also consistent with positive price expectations at the 12-month horizon for the second successive month.

5.46 London remains the only region in the survey where more respondents are currently reporting price rises rather than falls. In Northern Ireland, surveyors are the most negative in the UK, whilst in Scotland, the price balance remains negative.

Residential Housing Market –Local Context

5.47 At a local level Land Registry data suggests most authorities have seen house prices fall in the last 12 months by circa 1%, whilst AL post codes has seen a circa 2% rise.

Table 12: House price growth by post codes in Hertfordshire

Growth rate	Percentage variation by Post Code					
	WD	EN	CM	SG	AL	HP
5yr house price growth	-0.43%	-1.07%	-2.66%	-1.03%	1.93%	-1.61%

Source: Land registry, Updated April 2012

Residential Housing Development in Hertfordshire

5.48 The number of current residential developments underway in the county is limited. This is anticipated to be the consequence of the recent recession and contraction in the residential development market. Appendix 4 sets out identified schemes showing the average sales prices.

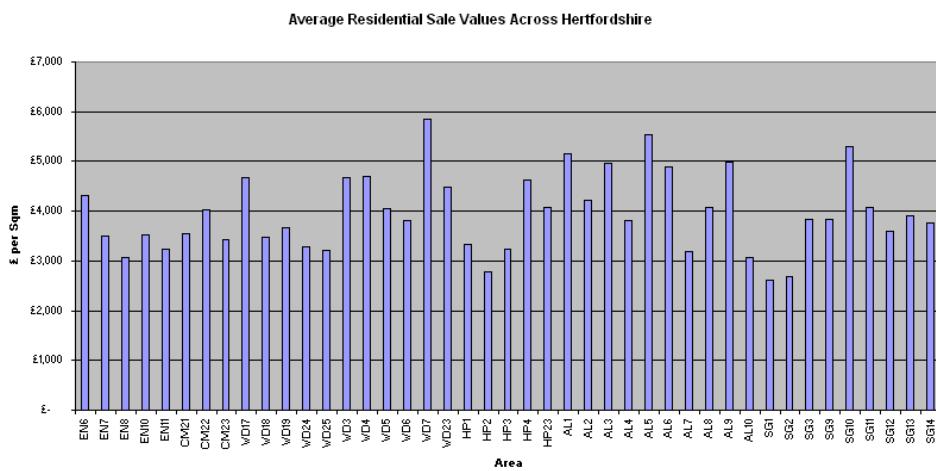
Estimated Hertfordshire Residential Housing sale values

5.49 On assessment of the average residential values by postcode LSH found that the range in value was significant with the highest values over double the lowest. The average residential value over the whole of Hertfordshire is circa £3,950 m² (£367 psf). Table 13 sets out the sales values used in the viability assessment. The data has been arranged to identify the low, medium and high value areas (by postcode) across the study area.

Table 13: Average residential sale values by post code in Hertfordshire

Low Value Areas			Medium Value Areas			High Value Areas		
Post Code	£/sqft	£/sqm	Post Code	£/sqft	£/sqm	Post Code	£/sqft	£/sqm
HP2	£259	£2,788	EN10	£328	£3,531	WD23	£416	£4,478
EN8	£285	£3,068	CM21	£330	£3,552	HP4	£431	£4,639
AL10	£286	£3,079	SG12	£335	£3,606	WD3	£433	£4,661
AL7	£296	£3,186	WD19	£341	£3,671	WD17	£434	£4,672
WD25	£299	£3,218	SG14	£349	£3,757	WD4	£437	£4,704
EN11	£300	£3,229	AL4	£353	£3,800	AL6	£455	£4,898
HP3	£300	£3,229	WD6	£354	£3,810	AL3	£461	£4,962
WD24	£306	£3,294	SG3	£356	£3,832	AL9	£462	£4,973
HP1	£309	£3,326	SG9	£356	£3,832	AL1	£478	£5,145
CM23	£318	£3,423	SG13	£364	£3,918	SG10	£492	£5,296
WD18	£323	£3,477	CM22	£374	£4,026	AL5	£515	£5,543
EN7	£324	£3,488	WD5	£377	£4,058	WD7	£543	£5,845
			SG11	£378	£4,069			
			HP23	£378	£4,069			
			AL8	£380	£4,090			
			AL2	£392	£4,219			
			EN6	£402	£4,327			

5.50 The following graph drawn from table 13 shows the variation in residential sale values across the study area.



5.51 By identifying property value by postcode it is possible to categorise the average residential values per sqm (or sqft) on different terms, if finer detail was required, although collection of data beyond that of postcode is more difficult. As part of any Stage 2 assessment authorities could investigate sales values in more depth to identify differences within postcodes if whole postcode area average values do not provide the level of detail required.

Non Residential Housing Market

National Level

5.52 In comparison to the last three months of 2011 there was a 21% drop in investment activity in commercial property over the first quarter of the year in the UK. Investor activities have been limited by the Greek debt crisis, worries over the UK economic recovery and the squeeze on consumer spending. In contrast, both industrial and office sectors within Central London have performed well, with an increase in both transaction volumes and inward yield movement. Unfortunately Hertfordshire has not reflected this Central London trend, partly due to the location dynamics of Hertfordshire, but also because commercial property across the UK has looked less attractive against other asset classes.

Local level

5.53 At a local level LSH undertook research into available retail, office, and warehouse space, which gave a view of the market dynamics in and around Hertfordshire and an indication of those uses that are capable of paying CIL. Examples of the collected data across the County are set out in Appendix 4.

Estimating potential non-residential housing values

5.54 There is less geographical variation in rents in some property types such as care homes, leisure uses, and hotels compared to that found in residential development over the study area. This is partly a result of the dearth of comparable evidence for some uses such as care homes, gyms and hotels. Furthermore, geography, certainly over the study area, has a lesser impact on revenue streams for some non-residential uses. For the purposes of this Stage 1 study we have used historic evidence and anticipated revenues for development such as care homes, gyms and hotels.

5.55 Table 14 sets out the assumptions used in this study based on available comparable data:

Table 14: Assumed rents, yields and revenue assumptions for non residential properties

Type	Net Rent (m ²)	Est. Yield	Rate per room	Room Size (m ²)
Hotel		6%	£5,000	33
Care Home	£323	6%		
Gym	£161	6%		

5.56 With regards to office space, the current market conditions have seen an increase in available commercial space, which has reduced the demand for new build commercial property. LSH was able to identify c.200 currently available offices across the study area (see Appendix 4) that show rental values ranging from £127 per sqm in Broxbourne to £250 per sqm in St Albans and Berkhamsted, with an average rent of £186 per sqm across the study area. Initially we concluded that a single commercial rate at the upper end of values across the study area would be sufficient to demonstrate the impact of CIL on office development. However, on reflection it was considered that average office rents would be applied for individual authorities for the purposes of this study.

Table 15: Average rents and yields for office properties

Local Authority	Average Office rent per (m ²)	Proposed Yield
Broxbourne BC	£127	8%
Dacorum BC	£180	8%
East Herts DC	£215	8%
Hertsmere BC	£182	8%
St Albans City & District	£250	8%
Three Rivers DC	£176	8%
Watford BC	£176	8%
Welwyn Hatfield BC	£183	8%
AVERAGE	£186	8%

5.57 LSH identified around 200 industrial/warehouse properties across the study area (appendix 4). The industrial properties appear to have less variation in rents between locations around the study area, with a rental range (£50-95 per m²) appearing to be more related to the size of property and its quality rather than location. Therefore LSH concluded it reasonable to test the study area average rent of £75 per m² and upper limit of £95 per m² using a yield of 7.5%.

5.58 The recent Poole CIL examination experience may suggest that CIL rates cannot be varied according to the size of retail units. It was noticeable in collecting retail data (Appendix 4) that local/smaller shops appear to achieve a lower capital value than larger/national retail units. This appeared to reflect the strength of occupiers associated with the larger retail units, including supermarkets, multiples and department stores. In further discussions with the local authorities and reflecting uncertainties raised by the Poole case it was concluded a single CIL rate should be calculated for retail development in each authority based on average rents (Table 16) to which we have applied an average yield of 6.5:

Table 16: Average rents, yields for retail properties

Local Authority	Average Retail rent per sqm	Proposed Yield
Broxbourne BC	£230	6.5%
Dacorum BC	£385	6.5%
East Herts DC	£303	6.5%
Hertsmere BC	£415	6.5%
St Albans City & District	£466	6.5%
Three Rivers DC	£355	6.5%
Watford BC	£287	6.5%
Welwyn Hatfield BC	£307	6.5%
AVERAGE	£343	6.5%

5.59 Additional research into particular commercial areas or development types within authorities could be further investigated as part of a stage 2 study and at the point individual authorities produce their charging schedules to ensure the approach remains reasonable at that time.

6. Modelling Outputs

This section identifies the results of testing the agreed assumptions on CIL rates, by location and for different types of development.

Introduction

- 6.1 The test CIL results reflecting the various scenarios and assumptions discussed earlier in section 5 are set out for each authority in Appendix 5. The sensitivity test results for each authority in are set out in Appendix 6.
- 6.2 LSH undertook modelling of all property types across all 8 authorities; with the 5 residential housing property types taking into account planning policies and variations in sale values by post code; and with the non-residential property types reflecting standard assumptions with only rental values varying between authorities within the study area.
- 6.3 This testing produced approximately 450 standard test CIL results; these demonstrate the CIL rate that is viable for each property type tested.
- 6.4 Table 17 sets out the number of standard CIL tests undertaken for each local authority based on an agreed set of assumptions. Welwyn Hatfield was tested at three affordable rates to reflect their current policy, therefore tripling the number of standard CIL outputs:

Table 17: Number of CIL results tested by Authority

Authority	No. Post Codes	Residential results	Non residential results	Total Standard Results
Broxbourne	4	20	7	27
Dacorum	6	30	7	37
Three Rivers	6	30	7	37
Watford	6	30	7	37
Hertsmere	5	25	7	32
Welwyn Hatfield	10	50 x 3*	7	157
St Albans	10	50	7	57
East Herts	9	45	7	52
TOTAL	56	380	56	436

*Tested at 25%, 30% and 35% affordable

Viability Summary Sheets

- 6.5 Due to the number of individual results, LSH have not included a summary appraisal sheet for each CIL test, however worked examples of each property type tested can be found in Appendix 6.
- 6.6 The summary sheets are divided into 6 sections:

- Section 1:

- This includes the chosen area, which populates the planning policy specific assumptions of that authority into the model; these include affordable housing percentage, affordable housing mix and Section 106 contributions.
- The postcode is then chosen to reflect the geographical location of the development. Where appropriate this populates revenue data for residential developments. For commercial/non residential schemes postcode choice is irrelevant as there is no geographical variation.
- Finally the property scenario/type is chosen. This and the chosen postcode inform the land value benchmark, total units, area, existing floorspace on site etc.

- Section 2:

- This section is automatically populated based on section 1.
- It includes the generation of gross development value, based on the property type chosen, which provided unit sizes, numbers and values. The Gross Development Value (GDV) is calculated for both private and affordable housing elements.
- If the chosen type is non-residential or mixed residential the commercial GDV is also calculated based on pre-chosen floor areas, yields and rents as highlighted in the assumptions in Section 5.
- This section also attributes basic build costs based on the chosen scenario multiplied by floor area.
- In addition to this an extra cost is added to residential units to reflect the over and above cost of Code 4 for Sustainable Homes.
- Section 2 highlights the total Gross development area, the GDV and the Gross Development Cost (standard).

- Section 3:
 - This section established site costs and displays them separately for private / commercial and affordable housing.
 - This section calculates professional fees, marketing, sales fees, contingency costs and additional costs for abnormal/externals or additional costs – reflecting sufficient headroom to allow the majority of individual schemes to be delivered based on the output CIL rate.
 - This section also includes assumed Section 106 and CIL rates

- Section 4:
 - This section applies finance costs on a basic residual assumption to all costs summarised in the previous section (including standard build costs).

- Section 5:
 - This section demonstrates the anticipated profit to be attributed to the scenario, both for affordable housing and private/commercial elements.

- Section 6:
 - This section delivers a gross residual land value from deducting the costs from the GDV of the proposed scheme. It then creates a net residual land value which takes into account, purchase costs.

- 6.7 The summary sheet has three potential CIL rate inputs in Section 1 which can be applied manually or generated automatically. A range of CIL rates can be applied to different property types to enable assessment of the impact of CIL on a mixed use development.

- 6.8 A CIL rate is generated by the model when the residual land value is equal to or greater than the appropriate land value benchmark.

- 6.9 In the model, if a potential CIL is generated automatically this will enable the residual land value to match or equal the assumed land value benchmark suggesting a viable rate at which the CIL can be fixed.

-
- 6.10 This process was run for all scenarios and authorities to produce around 450 standard test results. As highlighted earlier, a summary of the results of these tests are presented for each authority in Section 6a.

Residential Results

- 6.11 The individual authority CIL test results as set out in section 6a express the optimum achievable residential housing CIL rate per sqm (based on a reasonable land value benchmark) for each of the chosen property types, whilst also showing the geographical variation in results.
- 6.12 All of the schemes are assessed based on assumptions agreed with the authorities and anticipate policy compliant affordable housing provision.

Impact of type and density

- 6.13 The residential types of development assessed and presented in the tables at section 6a, effectively increase in density from left to right, with the furthest column to the right showing the output of an assumed mixed use scheme (20% non residential made up of office and retail). The residential development types tested (C3U, C3G, C3IU, C3XU and C3M) are set out in Table 5 Chapter 5.
- 6.14 It can be noted that in some circumstances the test CIL rate is zero. This is because the model matches the residual land value to the benchmark land value and where there is a deficit it is automatically filled with a CIL rate. Therefore where a scheme has costs in excess of revenue, a negative CIL is produced automatically to balance the equation. Clearly CIL cannot be negative so the achievable CIL has been assumed to be zero.
- 6.15 Where a zero CIL rate is the outcome, the development type tested cannot viably support a CIL charge. It is important to note that in some circumstances the schemes would appear unviable even before a CIL charge is applied. Given this, it is unlikely that scenarios with zero CIL would see this type of development delivered in these locations.
- 6.16 Positive residential CIL rates also vary between the types of development assessed. On the whole, lower density (25-40 per hectare) greenfield schemes appear to be able to support a significant CIL rate based on the assumptions employed.

- 6.17 The results show that urban schemes (40 to the hectare), which are likely to be partially or wholly brownfield appear to support slightly lower CIL rates than lower density greenfield developments, which may be a result of higher build costs associated with higher density development. It may also be affected by an increase in anticipated land value as a result of the land being serviced compared to greenfield land.
- 6.18 Achievable CIL rates were significantly reduced in the “extra” and “intense” urban residential developments tested, with a number of areas - most notably in parts of Broxbourne and Dacorum - unable able to support a CIL in high density residential development.
- 6.19 One reason some areas appear to be unable to support high density schemes may be because they are in areas with lower sales values. Sales values in the model do not increase as a result of an increase in density and indeed may decrease, whilst build costs go up. In consequence, for some locations the higher density schemes appear the least viable or those which may be unable to support a CIL.
- 6.20 To some extent the impact of low sales values is counterbalanced by a reduction in the proposed land value benchmarks, but this does not always appear enough to enable a scheme to support a CIL charge in all cases.
- 6.21 It is also notable that in locations where the Market Value reflects Alternative Land Value (ALV) CIL test results show the scenario unable to support a viable CIL. This is where residential land values are lower than alternative development types. In such circumstances residential development is unlikely to come forward. Table 18 demonstrates the correlation between adopting an alternative land value (where residential values are too low) and achieving a viable CIL rate:

Table 18: Examples of correlation between land value and CIL rate.

Authority	Post Code	Average Sales Value per Sqm	Land Value per hectare	Type	CIL rate per Sqm
Broxbourne	EN10	£3,531	£1,600,000*	C3XU	£27
Broxbourne	EN11	£3,229	£1,600,000*	C3XU	£0
St Albans	AL1	£5,145	£6,900,000	C3IU	£188
St Albans	AL10	£3,079	£1,600,000*	C3IU	£0

*Alternative land value used, because it is higher than Residential Land Value.

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- 6.22 In these cases residential land value is below an alternative use land value, suggesting that residential development is unviable as a landowner and the developer would do better to develop the land for a viable alternative use, rather than residential.
 - 6.23 It is important to recognise that the different residential types provide a good understanding of the implications for delivering different types of residential development in different locations across Hertfordshire. It is unlikely that all of the assessed types will be implemented in all of the authorities. For example Broxbourne and East Herts are unlikely to see significant high density development in their areas.
 - 6.24 In reaching our conclusions on appropriate CIL rates for the local authorities LSH have considered the various outputs against the likelihood of certain types of development coming forward. The NPPF policy seeks to ensure that a residual appraisal generates a land value after payment of CIL that is sufficient to persuade the landowner to sell the land for development. The CIL rate must not compromise the viability of development within an area taken as a whole. This must lead to the adoption of a CIL rate at the lower end of the appropriate viable range. LSH have considered the various outputs to ensure that any proposed CIL rate optimises the scope for development to remain viable.
 - 6.25 It is possible to consider the outputs in more strategic ways, reflecting the anticipated geographical spread of development identified in emerging core strategies. It may be that individual authorities may wish to consider this approach in more detail in a Stage 2 study, once they have fully established the likely distribution of development driven by the core strategy across the authority and the requirement or need for investment in additional infrastructure.

CIL and Urban extensions/Large developments

- 6.26 In addition to density there may be a requirement to consider the impact of the scale of development on potential CIL rates. Although no Major Development Areas have been identified to date by the authorities it is apparent that any significant development (schemes with 500 plus units) may require significant “on-site” infrastructure which it may not be appropriate to deliver through CIL but should be sought via s106 contributions. Development on the fringe of Watford may be one such example where large scale development may happen in the study area. In order to secure the specific infrastructure required, a s106 may prove a more effective delivery vehicle in such circumstances. If the

location can be defined, a geographic CIL could be developed that would not apply or which would apply at a lower rate to release development value to support the s106 requirement.

- 6.27 “On-site” infrastructure on large urban extensions could have an impact on the cost of development - and therefore viability - over and above that usually identified for small developments. It may be useful as part of a stage 2 assessment to consider the achievable CIL rate that major developments can viably support to ensure that this is not inconsistent to that proposed based on the assessed types.

Impact of Geography

- 6.28 LSH also note that within any single residential type, CIL outputs vary between postcodes even within the same authority. This variation is not a result of density, nor can it be a result of affordable housing policy as this only applies between authorities. This variation is attributable to the relationship between Gross Development Costs (GDC) and Gross Development Value (GDV). Therefore it seems reasonable that in a single authority where GDV by virtue of sales values is highest it will be able support a higher CIL than where the sales value is lower, assuming all other assumptions remain constant.
- 6.29 Given that variations in land value for the most part balance variations in sale values, any variation in achievable CIL rates between authorities may result from the variation in planning policy between authorities.

Impact of planning policy

- 6.30 The CIL test results show a variation in the viable CIL rates achievable in different authorities across the study area. On investigation it became apparent that this variation was strongly correlated to planning policy and more particularly the affordable housing percentage and mix applied.
- 6.31 The impact of affordable housing on potential CIL rates was more apparent in this study where two authorities cover the same postcode, because the model uses a single Land Value benchmark per postcode. In these instances all other variables other than planning policy are effectively equal, but the deliverable CIL rates are considerably different. In other words, in the authority with the higher affordable housing requirements, there is less GDV generated to offset costs, including a CIL or a s106 contribution.

- 6.32 The table below sets out an example where the impact of affordable housing policy in different authorities across the same postcode is reflected in different CIL levels.

Table 19: Examples of impact of affordable housing on CIL rate.

Authority	Post Code	Type	Land Value Bench Mark (£)	Affordable Housing	Affordable Mix SR/SO	Section 106 Contribution per unit	Achievable CIL rate (£ per Sqm)
Three Rivers	WD25	C3G	£900,000	45%	70% / 30%	£1,000	£177
Hertsmere	WD25	C3G	£900,000	35%	75% / 25%	£2,000	£212

- 6.33 Once a CIL rate is adopted it will be obligatory for a developer to pay and cannot be negotiated. Any amendments to viability will affect the proportion of affordable housing within the scheme. If a scheme becomes less viable the developer may request that affordable housing levels or s106 contributions are reduced. Therefore, in taking their CIL charging schedules forward the authorities should consider the balance or potential “trade off” between CIL, s106 and affordable housing.

- 6.34 LSH have undertaken sensitivity testing to demonstrate the relationship between affordable housing, s106 and CIL. Table 19 shows that even with a lower s106 requirement and a lower Social Rent proportion, an increase of 10% in the affordable housing requirement has a circa 16.5% negative impact on potential CIL rates. Therefore it can be concluded that the impact of increasing affordable housing has an exaggerated effect on a potential CIL rate.

- 6.35 It should be noted that CIL is not chargeable on affordable floorspace and therefore, not only does increased affordable housing affect viability, it also reduces the potential CIL revenues which will be collected from a particular scheme.

Individual test results –St Albans City & District Council

6.72 LSH ran 75 separate tests for the 5 residential development scenarios across the 15 postcodes in total covering St Albans. However, in discussions with the authority it was identified that the key postcodes were AL1, AL2, AL3, AL4 and AL5. These postcodes cover the geographical areas of St Albans and Harpenden, areas where the current major urban development has occurred. A number of other postcodes were also tested (AL6, AL10, AL8, HP2, HP5, WD5, WD7, WD25, SG4, LU1 and LU2) to reflect locations on the periphery of the authority. Testing incorporated the following key assumptions:

Assumption	Comment
Affordable housing @ 40%	In accordance with St Albans City & District emerging planning policies
Affordable housing mix 60% social rented and 40% forms of intermediate tenure	In accordance with St Albans City & District emerging planning policies
Assumption for s106 assumption post CIL - £1,000 per dwelling	Agreed as an appropriate assumption with St Albans City & District Council
residential land values varying between £1,000,000/ha and £6,900,000/ha	See Appendix 6 for details

6.73 The outcome from modelling gave rise to the following results CIL rates which we have divided into “main” postcodes (the major postcodes for the District containing the current primary urban locations) and “peripheral postcodes” where only a small part of the postcode covers the district:

Table 30a: Modelling the results for the main St Albans postcodes showing potential CIL rates

Key postcodes		C3G	C3U	C3XU	C3IU	C3M
AL1	ST ALBANS	£ 202	£ 206	£ 180	£ 188	£ 309
AL2	ST ALBANS	£ 130	£ 147	£ 165	£ 181	£ 312
AL3	ST ALBANS	£ 197	£ 172	£ 193	£ 160	£ 299
AL4	ST ALBANS	£ 171	£ 155	£ 170	£ 194	£ 307
AL5	ST ALBANS	£ 212	£ 203	£ 190	£ 183	£ 296

Modelling results for the peripheral postcodes area as follows:

Table 30b Peripheral Postcodes modelling for St Albans

Peripheral Postcodes		C3G	C3U	C3XU	C3IU	C3M
AL6	ST ALBANS	£ 181	£ 122	£ 172	£ 180	£ 315
AL8	ST ALBANS	£ 156	£ 123	£ 179	£ 187	£ 300
AL10	ST ALBANS	£ 184	£ 142	£ 0	£ 0	£ 0
HP2	ST ALBANS	£ 158	£ 167	£ 0	£ 0	£ 0
HP3	ST ALBANS	£ 163	£ 130	£ 0	£ 0	£ 38
WD5	ST ALBANS	£ 335	£ 352	£ 453	£ 454	£ 449
WD7	ST ALBANS	£ 309	£ 477	£ 311	£ 309	£ 440
WD25	ST ALBANS	£ 41	£ 0	£ 0	£ 0	£ 0
SG4	ST ALBANS	£ 26	£ 0	£ 0	£ 0	£ 0
LU1	ST ALBANS	£ 0	£ 0	£ 0	£ 0	£ 0
LU2	ST ALBANS	£ 0	£ 0	£ 0	£ 0	£ 0

- 6.74 The results show strong positive CIL rates for the key postcode areas for development scenarios (C3G through to C3M) for the main St Albans postcodes that form part of this assessment. Many of the peripheral areas also show that they are able to support a positive CIL.
- 6.75 They also show that for the three high density and mixed used scenarios C3XU, C3IU and C3M, positive CIL rates would be difficult to achieve in some peripheral postcodes.
- 6.76 The nature of development in the City & District of St Albans suggests to us that for the key post code areas the primary areas of development will be in and around St Albans (AL1, AL3 and AL4) and Harpenden (AL5).
- 6.77 WD25, SG4, LU1 and LU2 appear to not able to support similar levels of CIL to the other areas of the district. However, along with AL10, AL8 they cover very small areas of the district and should not strongly influence the level of CIL set by St Albans City & District Council.

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- 6.78 Should St Albans City & District Council be able to identify proposals for development in the peripheral postcode areas in the future (and before setting a CIL rate) it may be appropriate to rerun these tests as part of any Stage 2 programme of work with specific data from the developments concerned.

Our recommendations for residential CIL rates for St Albans

- 6.79 Our modelling work defines residential CIL values ranging from £130/sqm to £312/sqm in the key postcodes as well as several peripheral areas. CIL Regulations require that charging authorities should set CIL rates at a level which ensures that the rate proposed will not put development across their area, taken as a whole, at undue risk. With this in mind we propose a single residential CIL rate across the borough of **£170/sq.m.**
- 6.80 Only 5 of the 25 model results in the key postcodes falls below this figure, and in some cases, only marginally so and we do not feel that development in these locations would be compromised to any material degree.
- 6.81 As a part of a stage 2 process the council could look at the potential for development in the peripheral areas and assess the viability individually for any specific locations that will attract development to ensure the proposed CIL can be met.
- 6.82 We currently can see no justification for the setting of differential residential rates within St Albans City & District; however we would suggest the district consider reviewing the proposed CIL rate prior to publishing their charging schedule to take into account market changes and the identification of any strategic development areas across the district.
- 6.83 The conclusions of testing for St Albans are summarised in table 31:

Table31: Summary of conclusions – St Albans

Standard residential CIL rate of £170/sq.m. across the district
Differential Rates could be considered if significant development is proposed in peripheral locations which could be investigated by further work at stage 2
Possible Stage 2 work to look at significant high density/mixed use development and the potential for such development in peripheral zones
Major Development Areas (MDAs) – consider approach to timely delivery of infrastructure to ensure sustainable development whilst considering the roles of CIL and s106 agreements.
Should the authority be considering later introduction of CIL – a review of model data assumptions to consider whether they need updating due to changed circumstances, particularly as St Albans residential values continue to rise.
Consideration of the type of retail development anticipated – analysis of mix between local shops and national providers such as superstores.
Consideration of emerging CIL examinations in public – consider emerging guidance and results of other examinations in public.

Non Residential Development

6.113 For this viability assessment, rather than a detailed valuation exercise LSH focused on assessing a number of generic commercial property types based on property market research and applied representative rents and yields to the various types of development to provide an indication of the anticipated potential achievable CIL.

6.114 This approach toward different types of commercial development reduces the potential variance between geographical locations and authorities, whilst still providing a good indication of the potential CIL achievable on a site specific development. LSH have made similar assumptions on all key inputs across the 8 authorities, with the exception of rental values.

6.115 Individual schemes will vary, particularly in scheme coverage and build costs, however, LSH have applied BCIS assumptions of build costs for the various property types and have considered site coverage at rates to reflect the development type tested.

6.116 Due to the wide range of potential other property types that may be developed and due to the limitations of this stage 1 study, LSH concentrated on what were regarded as the key (and most likely) types of development including offices, shops and hotels.

6.117 LSH found through its research - although limited by lack of recent evidence - that there was limited or no real variation in development values and build costs within the study area.

Offices

6.118 LSH noted that although office rents showed some variation across the study area it became apparent early in the testing that speculative new office development was in the most part unviable and therefore unable to support a CIL charge. This was partly due to the limiting influences on rents and yields across the study area, but also because of the current lack of demand for these uses in areas where planning permission is achievable. This is exacerbated by the fact that there has been a significant contraction in the commercial and industrial market following the recent/current recession. This in turn increases the available stock on the market and reduces the demand; and therefore achievable rents and land values. This exercise has been carried out to coincide with an historic low in terms of office development and take-up. Rapid expansion in office

provision up until 2006/7 has provided a hangover of space in the region where there is little actual demand meaning that some new office space has remained empty for a number of years. In these circumstances any viability exercise for new office development will identify that there is no real market for this type of development as it remains unviable. At some point this market will change, much of the overhang space will either be taken up or converted to alternative uses and at this point the viability for office development will re-emerge. Councils need to regularly monitor the market to ensure that when it returns, they are well placed to introduce a CIL charge at the appropriate time.

6.119 The below table sets out the residual land values calculated for the 8 authorities for new office accommodation:

Table 40: Residual office land values against an alternative use value benchmark.

Authority	Residual Office Land Value per hectare	Land Value Benchmark per hectare	Proposed CIL
Broxbourne BC	-£3,555,627	£1,600,000	£0
Dacorum BC	-£1,204,860	£1,600,000	£0
East Herts DC	£347,533	£1,600,000	£0
Hertsmere BC	-£1,116,152	£1,600,000	£0
St Albans City & District	£1,899,926	£1,600,000	£63
Three Rivers DC	-£1,382,277	£1,600,000	£0
Watford BC	-£1,382,277	£1,600,000	£0
Welwyn Hatfield BC	-£1,115,032	£1,600,000	£0

6.120 It would appear that offices in all authorities, with the exception of St Albans, are unable to support a meaningful CIL rate at this time. However, LSH would suggest that this is regularly reviewed (in line with the CIL charging schedule review); say 2-5 year intervals to ensure that CIL rates can be adjusted to take advantage of any improvement in market conditions. This recommendation reflects the conclusions of many other CIL viability studies.

6.121 St Albans could implement a CIL rate of £63/m² for office uses. The Stage 2 study for St Albans should investigate the market potential for new development coming forward and in our view the evidence indicates that a CIL is achievable for office development types in that district.

Industrial land

6.122 Based on the assumptions used, general industrial properties appeared to be able to support a CIL charge based on average rental values across the authorities. However the notional CIL achievable on development which can achieve more than £95/m² in rent could only be set at £20/m². We believe further work is required to support and justify this level of CIL to ensure that this rate remains robust under examination scrutiny. The issue arises that CIL set at such a low level will be susceptible to small changes in the inputs that may render CIL rates at such a low level unviable fairly quickly.

Retail

6.123 On reviewing retail evidence in the study area, it became apparent that there were two clear types of retail occupiers, the larger national organisations, such as Tesco, Waitrose, Debenhams and Boots and smaller local shop traders. These two groups of retail providers/occupiers have significantly different characteristics (leaseholder covenants etc) which affect both anticipated rents and yields and would appear to operate in different markets. Multiple retailers in the High Street and the major convenience chains could support a higher CIL whereas secondary retail locations and the independent sector would only be able to support a CIL at a lower level.

6.124 Supermarket and large High Street stores were assessed on different assumptions but they delivered similar CIL rate results, whilst the smaller, local operators appeared to produce a CIL rate approximately half that of national corporate retailers.

6.125 Furthermore, LSH found that the market evidence suggested that corporate retail occupiers tended to occupy properties in excess of 500 m², whilst the smaller local retail occupiers often occupied properties less than 500 m².

6.126 Based on the findings it would be feasible to separate retail development into two distinct groups based on size of unit. Notwithstanding this the results of the recent Poole CIL charging schedule public examination (and a challenge by J Sainsbury) suggests that it may not be possible, within the CIL regulations, to differentiate between the size of

property or development types within in the same use class. Therefore, following further discussions with the authorities, it was concluded that in the light of the current uncertainties only a single CIL rate for retail properties should be proposed. It will be important for the authorities to consider the likely scale and type of retail development either planned for in their core strategies or which is likely to come forward in the plan period when identifying a potential retail CIL charge. Our assessments suggest that an acceptable range for CIL between **£84 per m²** for small retail units and **£170 per m²** for large units would be viable.

6.127 It is open for the authorities to choose from within this range, depending on the scope and type of retail space anticipated in their emerging core strategies. However, for the purposes of a Stage 1 study, LSH would propose a CIL charge for retail properties of **£125 per m²** which reflects the middle ground or average viable CIL rate for shops across the study area and all size ranges. A more sophisticated approach may be developed based on locations and other definitions at Stage 2.

Hotel and Care Homes

6.128 Based on the assumptions set out in Section 5 and evidence in appendix 4, Hotel and Care Home results do appear to be able to deliver CIL rate of circa **£145 per m²** and circa **£168 per m²** respectively.

6.129 Again these reflect the assumptions chosen, based on the research undertaken. However, there are institutional care homes which may be unable to support any CIL charge, whilst the potential costs associated with an individual or speculative hotel development may be in excess of those reflected by BCIS. The authorities therefore need to carefully weigh up the potential CIL that will be delivered from such uses compared to the potential risk to restrict some development. As part of a Stage 2 study, an authority may wish to consider these uses further having regard to the potential for development in these sectors anticipated over the next 2-5 years.

Other property types

6.130 The commercial and non residential property types were discussed and chosen in agreement with the authorities as part of this stage 1 study. These arguably will reflect the major non residential development that the authorities can anticipate over the plan period. However, there are many other types of property which may get developed over the plan period, including agriculture, community use, surgeries, day nurseries, hospitals, cinemas,

leisure centres, petrol stations etc. However, assessing these minor development opportunities by scale is beyond the scope of this assessment. For the most part such uses, do not in LSH's experience produce revenue which out weights the costs at a level which would enable a CIL to be included whilst the schemes remain viable. However the authorities may wish to investigate such uses at a stage 2 review or at a later CIL charging review. Therefore, at this time LSH would recommend that the authorities do not apply a charging rate to other property types without further investigation.

Summary of Findings

6.131 The table below sets out a summary of the findings from the viability tests:

- Residential housing CIL rates vary by postcode reflecting sales value variation.
- Residential market land value is directly correlated to house sale values.
- Variations in land value benchmarks to reflect geography reduce the impact of CIL on development schemes across the study area.
- Residential CIL rates are affected by affordable housing allowances.
- Postcode data may not reflect finer grained variations in values within the same postcode.
- The costs/revenue balance for higher density residential schemes leads to this type of development being unviable and unable to support a CIL in many circumstances.
- Across the study area commercial rental values are not sufficiently high to support a CIL for office or industrial development except in St Albans.
- Shops do appear to be able to support a CIL charge, however the potential level that is viable does depend on the type of retail development.

7. SENSITIVITY TESTING

This section reviews the impact of varying the agreed assumptions; including planning policies.

- 7.1 In order to support the various authorities in making decisions as to reasonable CIL rates LSH undertook several sensitivity tests.
 1. A 5% increase in proposed land value benchmarks.
 2. A 5% decrease in proposed land value benchmarks.
 3. A 5% decrease in affordable housing policy.
 4. A proposed affordable housing tenure mix of 35% social rent 65% Shared Ownership.
 5. Doubling the proposed Section 106 contribution.
 6. 5% increase in standard build costs.
 7. Reduction in adoptable Sustainable Homes Code level to 4 from 3.
- 7.2 These tests are designed to highlight the impact of variations in assumptions to the standard CIL tests presented in section 5. The results of the sensitivity tests are set out in Appendix 6.
- 7.3 LSH have undertaken 7 sensitivity tests on the original 240 residential results, thus providing circa 1,680 variations to the CIL outputs across the study area.
- 7.4 The seven sensitivity tests above are not exhaustive but give a robust indication of the impacts on CIL that more probable variations in market conditions and development economics may produce over the next several years.

Variations to land value benchmarks

1. 5% reduction in land value

- 7.5 CIL test results for all 8 authorities against all residential outputs. The table below summarised the outputs presented in Appendix 6 for each authority showing the impact of a decrease in the land value benchmark assumption by 5%.

Table 41: Impact on CIL rates through reduction of land value

Variable ➔	Standard rate (£/sq.m)	5% reduction in land values
Authority ↓		
Broxbourne	130	160
Dacorum	150	170
Three Rivers	150	180
Watford	200	250
Hertsmere	120	180
Welwyn Hatfield (35%)	135	150
Welwyn Hatfield (30%)	200	230
Welwyn Hatfield (25%)	270	300
St Albans	170	210
East Herts	110	150

- 7.6 The table above demonstrates that a reduction in the cost of land enables a scheme to be more profitable and deliver a greater CIL rate. The differences are significant and illustrate the need to continually monitor land values in the changing areas.

2. 5% increase in land value

- 7.7 The table below summarises the outputs presented in Appendix 6 for each authority showing the impact of an increase in the land value assumption by 5%.

Table 42: Impact on CIL rates through increase in land value

Variable ➔	Standard rate (£/sq.m)	5% increase in land values
Authority ↓		
Broxbourne	130	90
Dacorum	150	125
Three Rivers	150	60
Watford	200	100
Hertsmere	120	30
Welwyn Hatfield (35%)	135	80
Welwyn Hatfield (30%)	200	160
Welwyn Hatfield (25%)	270	240
St Albans	170	90
East Herts	110	50

- 7.8 The table above demonstrates that this variation increases the costs to the developer causing the scheme to be less profitable and therefore reducing the potential achievable CIL rate. This assumption demonstrates that paying more than open market value for the land will reduce the viability of the scheme at the standard CIL rates. Market value however, should be assessed on the assumption of a policy compliant scheme, in the future taking into account CIL. Applying the standard rates proposed is likely in the long term to reduce the land value rather than make the scheme unviable.
- 7.9 The CIL rates produced as an outcome to this study reflect those already tested by authorities elsewhere and this can give a degree of comfort that the testing in Hertfordshire is producing similar results to assessments elsewhere. The sensitivity testing of the proposed land values also suggests that the assumptions used are reasonable as the potential CIL rates generated by the standard assumptions appear to reflect the proposed CIL rates in other published or proposed CIL Charging schedules.

Variations Affordable Housing, mix and S106

3. 5% reduction in Affordable Housing

- 7.10 The table below summarises the outputs presented in Appendix 6 for each authority showing the impact of a reduction in the affordable housing percentage anticipated of 5%.

Table 43: Impact on CIL rates through reduction of affordable housing.

Variable ➔ Authority ↓	Standard rate (£/sq.m)	5% reduction in proportion of affordable housing sought
Broxbourne	130	230
Dacorum	150	210
Three Rivers	150	250
Watford	200	235
Hertsmere	120	260
Welwyn Hatfield (35%)	135	200
Welwyn Hatfield (30%)	200	270
Welwyn Hatfield (25%)	270	300
St Albans	170	270
East Herts	110	230

- 7.11 The table above demonstrates that this variation increases the revenue stream to the scheme, causing the scheme to be more profitable and therefore increases the potential achievable CIL rate.

7.12 This assumption demonstrates that reducing the affordable housing percentage will make a scheme more viable and therefore able to support a greater CIL rate. It is also noticeable that the affect on potential achievable CIL rates appears to be exaggerated, with the negative impact being greater where affordable housing consists of a significant proportion of social rented properties.

7.13 It should be noted that when CIL rates are set it is possible that the delivery of affordable housing will be squeezed, particularly if development costs increase. The model already builds significant headroom into the build cost to ensure that affordable housing levels can still be met even if costs increase. Nevertheless it is worth noting that it would appear that only small reductions in affordable housing would be required to enable schemes to remain viable within the proposed standard rates even if cost increases exceed the contingency and anticipated levels.

4. Changing the Affordable Housing tenure mix

7.14 The table below summarises the outputs presented in Appendix 6 for each authority showing the impact of a change in the affordable housing mix anticipated of delivering 35% social rented units and 65% intermediate units.

Table 44: Impact on CIL rates through change in affordable housing tenure.

Authority↓	Variable→	Standard rate (£/sq.m)	Affordable Housing Mix at 35% Social Rented and 65% Intermediate.
Broxbourne		130	500
Dacorum		150	350
Three Rivers		150	500
Watford		200	100
Hertsmere		120	440
Welwyn Hatfield (35%)		135	350
Welwyn Hatfield (30%)		200	400
Welwyn Hatfield (25%)		270	425
St Albans		170	340
East Herts		110	430

7.15 The table above demonstrates this variation, in most cases it increases the revenue stream to the scheme, causing the scheme to be more viable and therefore increasing the potential achievable CIL rate. In the case of Watford the scheme becomes much less viable if this mix is applied. This is because it actually increases the amount of social rented units beyond that of policy in the Borough.

7.16 The table demonstrates that it is important for the authorities to consider carefully the balance between affordable housing percentages, tenure mix and s106 that can be delivered by a scheme. Once CIL is introduced it is likely that any challenges based upon the viability of a scheme are most likely to affect the affordable housing or s 106 contributions.

5. Variation of the s106 contribution

7.17 The table below summarises the outputs presented in Appendix 6 for each authority showing the impact of doubling the agreed s106 contributions.

Table 45: Impact on CIL rates through change in s106.

Authority↓	Variable→	Standard rate (£/sq.m)	Doubling of s106 contributions towards site related infrastructure from that agreed with the local authority
Broxbourne		130	100
Dacorum		150	90
Three Rivers		150	125
Watford		200	130
Hertsmere		120	80
Welwyn Hatfield (35%)		135	80
Welwyn Hatfield (30%)		200	140
Welwyn Hatfield (25%)		270	230
St Albans		170	120
East Herts		110	50

7.18 The table above demonstrates the impact of varying this increased the costs associated with the scheme, causing the development to be less viable and therefore reducing the potential achievable CIL rate.

7.19 The s106 contribution was based on an amount per unit, therefore the impact is increased as the density/scale of the development increases. Doubling the assumed s106 payment reduces the CIL by circa 30%.

7.20 In instances or locations where significant “on site” infrastructure is anticipated - such as regeneration areas, MDA’s or schemes of circa 500 residential units plus - the CIL rate may need to be adjusted to allow sufficient s106 contributions to be secured to deliver the necessary site related infrastructure.

Variations in costs

6. Increase in build costs by 5% above the 10% already included

- 7.21 The table below summarises the outputs presented in Appendix 6 for each authority showing the impact of increasing the proposed build cost assumptions by 5%. However, this sum is over and above the additional 10% build cost inflation already built into every appraisal.

Table 46: Impact on CIL rates through increase in build costs.

Variable ➔ Authority ↓	Standard rate (£/sq.m)	5% increase in costs (above the 10% already incorporated)
Broxbourne	130	20
Dacorum	150	40
Three Rivers	150	30
Watford	200	100
Hertsmere	120	20
Welwyn Hatfield (35%)	135	50
Welwyn Hatfield (30%)	200	100
Welwyn Hatfield (25%)	270	190
St Albans	170	40
East Herts	110	15

- 7.22 The table above demonstrates the impact of this changed assumption; this increased the costs associated with the scheme, causing the scheme to be less viable and therefore reducing the potential achievable CIL rate.

- 7.23 The reason amending build costs by 5% has such a significant affect is due to the other variables linked to build costs and the multiplying effect to the overall cost. In effect Code level costs, externals and abnormalities costs, contingency, professional fees, interest and profit also increased proportionately to build costs creating an exponential impact on development cost.

- 7.24 An additional 10% contingency above standard build costs have already been built into the model to ensure that the standard CIL rates proposed will remain reasonable for the foreseeable future and can take account of development site abnormal costs.

7. Delivering Code 3 sustainable Homes

7.25 The table below summarises the outputs presented in Appendix 6 for each authority showing the impact of reducing the code requirement for sustainable homes from 4 to 3. The assessed types already include code 4 on the assumption that code 4 will become mandatory in new build properties from April 2014. Therefore the approach taken has anticipated this mandatory change to incorporate anticipated build costs over the next 2-5 years.

Table 47: Impact on CIL rates through reduction the code for sustainable homes.

Authority↓	Variable➔	Standard rate (£/sq.m)	Reduction in code for sustainable homes from 4 to 3.
Broxbourne		130	220
Dacorum		150	230
Three Rivers		150	250
Watford		200	280
Hertsmere		120	200
Welwyn Hatfield (35%)		135	190
Welwyn Hatfield (30%)		200	260
Welwyn Hatfield (25%)		270	350
St Albans		170	230
East Herts		110	190

7.26 The table above demonstrates the effect that this change in assumptions will have. It decreases the costs associated with the scheme, causing the scheme to be more profitable and therefore able to support a higher potential CIL rate.

7.27 The impact of code 5 and code 6 have yet be tested, however, it is understood that current code 5 and 6 build costs are significantly higher than code 4 which is included in the model. It is unlikely that revenues will increase at the same rates as build costs when code 5 and 6 are introduced; therefore it is worth the authorities considering the impact of the implementation of code 5 or 6 in the future. LSH would suggest that the viability assumptions are reviewed near the time code 5 or 6 become mandatory to ensure the CIL rates do not make development unviable or cause affordable housing to be reduced.

8. CIL options

This section provides an explanation of the options available to the authorities in setting their CIL Charging Schedules.

- 8.1 This stage 1 study was undertaken for the benefit of 8 authorities on the assumption it would provide guidance for them in determining their CIL rates. Over 1600 variations to potential CIL rates were assessed. To this end LSH regard that in most circumstances a single rate for property types appears appropriate, however there are a few cases where the range of CIL tests suggest that differentiation by location may be more appropriate.
- 8.2 It is the responsibility of the individual authorities to decide which approach they prefer taking account of their attitude to risk, their need for Infrastructure funding, and to ensure the viability of development across their authorities.
- 8.3 When reviewing the achievable CIL rate outputs based on the agreed assumptions of this study, the authorities should give consideration to the aspirations of the authority with regard to development including:
 - Where the major development will be within their authority?
 - What type of development is anticipated in the authority?
 - What is the residential mix of types expected in their authority area?
 - What will be the likely impact of setting a CIL on affordable housing delivery?
 - How will CIL vs. s106 relationship be managed?
 - Is it more appropriate to propose a single CIL rate for each use class or is there justification for differential rates based on geography?
 - How will a chosen CIL rate allow developments to remain viable in changing economic conditions?
- 8.4 The authorities can consider the test outputs and the proposed CIL rates to make a balanced judgement on what reasonable CIL rates they may wish to impose; taking account of different property types, the impact of scale and the impact of geography on development viability.

- 8.5 Due to the variation in achievable CIL rates across different residential department types, as well as postcodes, it will be important for the authorities to consider what type of development is most likely to be developed within their area. On discussion with the authorities, it is anticipated that only a few authorities may expect high density development and even these are likely to be limited and localised.
- 8.6 The table below sets out proposed single CIL rates for residential development, which provide a balanced view across the various scenarios tested by LSH and which are aimed at delivering the maximum development whilst maintaining viability across a wide range of potential schemes.

Table 48: Proposed residential CIL rates by authority

Authority	Affordable Housing (%)	Proposed Residential CIL rate (£/sq.m.)
Broxbourne BC	40	130
Dacorum BC	35	150
East Herts DC	40	110
Hertsmere BC	35	120
St Albans City & District	40	170
Three Rivers DC	45	150
Watford BC	35	200
Welwyn Hatfield BC	25 30 35	270 200 135

- 8.7 In a number of authorities the range of CIL rates identified suggests that differentiation in achievable CIL rates by geography may be more appropriate than a single rate. The table below sets out where LSH deem it appropriate to separate out differential residential CIL rates by geography:

Table 49: Proposed differential residential CIL rates by geography

Authority	Postcode(s)	Rate (£/sq.m.)
Dacorum BC	HP1, HP2, HP3, WD4	150
	HP4, AL3, HP23	210
Three Rivers DC	WD3, WD4, WD18, WD19, WD25	150
	WD5	90

- 8.8 LSH suggest that for Dacorum BC and Three Rivers DC differential CIL rates are applied based on geography to ensure the majority of development opportunities remain viable. (See comments elsewhere about differential rates for other authorities).

8.9 On the evidence included in this study LSH are also of the view that a single rate for most commercial/ non-residential schemes would be appropriate and that differential rates are not justified by viability testing and geography. This excludes St Albans where commercial office development could support a CIL. From the Stage 1 assessment there appears to be no need to vary non residential rates between authorities and areas with the exception of St Albans. Table 50 sets out our recommendations. It is for the individual council's to review the figures in the light of our advice and some may choose alternatives to our proposals based on further work at stage 2.

Table 50: Proposed commercial CIL rates by type

Property type	Proposed CIL rate per sqm
Office (B1)	£0 (£63 St Albans)
Leisure (D1)	£0
General Industrial (B2/B8)	£20
Hotel	£145
Care Home	£163
Retail	£125

8.10 Furthermore, as highlighted above, LSH have concluded that with the exception of St Albans, office developments cannot support a CIL rate whilst remaining viable, irrespective of geography. Therefore LSH proposed that this type of development has a CIL rate set at zero. LSH propose that General Industrial could deliver a CIL of £20psm. We would, however, propose authorities err on the side of caution if an industrial CIL is to be charged, as small variables can impact on the CIL rate to make it unviable.

8.11 The above table highlights LSH's conclusion of a single retail CIL rate which takes account of the varying CIL rates potentially delivered by different types of shops. This is set at the mid range and each authority needs to consider the nature, quantum and type of retail development that may be anticipated to ensure that this level is appropriate.

8.12 Ultimately the authorities will need to consider the outputs of this stage 1 study and consider if they feel it is appropriate to adopt the approach proposed or to undertake further investigations highlighted in this report in a stage 2 study to consider alternatives and to gain a greater understanding of the impact that emerging planning strategies may make.

9. Conclusions

- 9.1 The purpose of this study was to provide an evidence base to ascertain the potential deliverable Community Infrastructure Levy for 8 Hertfordshire local authorities, whilst maintaining the viability of potential development (taken as a whole) within each authority.
- 9.2 We feel that we have successfully provided authorities with robust, properly researched and sourced evidence to enable each of the commissioning authorities to understand the potential for raising CIL in their district. This work has been set within the context of the constraints that the CIL will be required to work within and also sets out issues that individual authorities will need to confront and if necessary resolve in moving forward with their charging schedules.
- 9.3 In terms of conclusions, we have been able through our research to establish the following:

Table 51: Summary of Joint CIL EVS findings

Joint Hertfordshire CIL EVS - main conclusions summarised	
Ability to charge CIL on residential development	All authorities should be able to charge a significant CIL rate for the majority of residential types.
Variations in potential residential CIL rates across the authorities	We found evidence of reasonably significant variations in the level of CIL charge for such developments across the authorities, and this is reflected in our recommendations for proposed rates.
The potential justification for differential residential rates within individual authorities	We found some scope for differential residential rates in 3 districts, and have set out these potential variations on a postcode basis for the authorities concerned, together with the pros and cons of pursuing variable rates.
Potential issues with medium and high density urban residential development	We have set out specific concerns about the potential impact of proposed CIL residential rates on medium and high density residential developments, identifying those locations where this is likely to be an issue and how, potentially, affected authorities can tackle the issues this gives rise to.
Potential issues with Major Development Areas (MDAs)	Similarly we have outlined potential issues should authorities identify Major Development Areas (MDAs) as part of their development strategy and again how they can respond to such issues in terms of operating CIL and maintaining the use s106 agreements in appropriate circumstances.
Potential CIL charges for hotels and care homes	We have set out the justification for a potential standard cross authority CIL charge for these development activities.

Potential CIL charges for retail development	Similarly we have set out the justification for a potential cross authority charge for retail development.
Potential CIL charges for Office Uses	Beyond St Albans we can find no justification on CIL grounds for a positive charge for office development. Our recommendation is that a zero charge is set other than in St Albans where a CIL rate of £63 per sq m is viable for office development.
Potential for Industrial and Warehousing (B2/B8)	A low level charge of £20 per sq m is viable for such development across the district but a charge set at this level is very marginal and only minor movements in any of the input variables could make a charge set at this level unviable. Further work is required to support this number.

- 9.4 As previous discussed, this study has not assessed the development viability of individual schemes, but it recognises that there will be circumstances where individual schemes will a) have infrastructure impacts and b) be inherently profitable, and that in such circumstances authorities may continue to seek appropriate contributions

Next steps

- 9.5 Given the above, and as we have made clear, this report allows authorities - if they are otherwise able - to move forward quickly with the preparation of a charging schedule at the earliest opportunity based on the evidence we have provided.
- 9.6 Alternatively, they can undertake follow up work to consider and build on the conclusions of our study. In particular, authorities may feel that it is appropriate to make changes to the way in which CIL interacts with other planning policy variables that have an infrastructure content and cost - i.e. s106 payments for site related infrastructure, affordable housing provision and mix, and the Code for Sustainable Homes level compliance.
- 9.7 Our model allows the effects of changes to these variables to be rapidly established, and on acceptance of this report we will provide a copy of our model as well as face to face training backed up by written instructions on its use. That will complete the Stage 1 commission.
- 9.8 As we have made clear, we think it will be important for local authorities to reflect upon the outcome of this commission and the issues this raises for them. Set out below are the issues we think they may wish to examine further in stage 2 follow on work. Although

some of this could be undertaken collectively, our feeling is that most if not all authorities would want to explore such matters individually.

Proposed potential Stage 2 CIL work

Action	Description	Recommended Authority
A further exploration of viability issues	In particular the way CIL and affordable housing policy interact/impact on scheme viability	Watford, Three Rivers.
Consideration of development distribution across the authority	The proposed CIL have been concluded based on an attempt to make all developments to remain viable across the authorities. However, it may be that the CIL rate could be weighted to reflect the anticipated distribution of development, which will be identified through the production of core strategies and site allocation document.	All Authorities.
The issues associated with medium/high density schemes	For those authorities where this is likely to be an issue, the likely incidence/location of such development within the district and (given what our viability evidence has shown) how to deal with the issues that are likely to arise in terms of introducing and operating CIL	Dacorum, Watford, Three Rivers,
Finer grained analysis of settlements rather than postcodes	Where postcode results are deemed to not demonstrate the finer variance in potential CIL rates across the authority.	Hertsmere, Watford.
Major Development Areas (MDAs)	How the local authority will approach the task of ensuring the provision of appropriate and timely infrastructure to ensure such development is fully sustainable, in doing so considering the respective roles of CIL and s106 agreements	All Authorities.
CILs reflecting variable affordable housing	A more fine grained analysis of the implications of the authority's proposed variable rates for affordable housing on development viability	Welwyn Hatfield.
For local authorities contemplating a later introduction of CIL	A review of model data assumptions when CIL is about to be introduced to consider whether they are still relevant or require updating due to changed circumstances	All Authorities.
Additional evidence base and research	More detailed analysis where current research was unable to identify significant comparable evidence.	St Albans, Dacorum, Three Rivers
Consideration type of anticipated retail development	Analysis of the anticipate mix of type of retail development between local shops and national providers such as supermarkets.	All Authorities.
Consideration of emerging CIL examinations in public	Consideration in implementing a CIL rate on emerging guidance and results of other examinations in public	All Authorities.