

Herefordshire Council - Whole Plan Viability Evidence

Responses to questions from the Task & Finish Group – June 2013 – **Draft for discussion**

T and FG question	Three Dragons response
<p>1. What do you consider to be the strengths and weaknesses of the industry databases you have cited in your report, and how have you made allowances for the weaknesses in the way you have used the data?</p>	<p>As background, the evidence was prepared to reflect the guidance in the National Planning Policy framework, DCLG guidance on preparing CIL charging schedules and “Viability Testing Local Plans - Advice for planning practitioners” published in June 2012 and prepared by the Local Housing Delivery Group, (a cross-industry group, supported by the Local Government Association and the Home Builders Federation and chaired by Sir John Harman). The viability report uses published data wherever possible. The research included consultation with the development industry through a very well attended workshop – as well as follow up discussions with individuals with specific extra knowledge. DCLG guidance on the preparation of CIL charging schedules as well the Advice for Planning Practitioners highlights the importance of effective collaboration between local authorities (their consultants) and the development industry</p> <p>We do not consider there to be ‘weaknesses’ in the data used although consultees may argue for alternative assumptions.</p> <p>Throughout the study, conservative assumptions have been made e.g. we have used BCIS 5 year median house prices rather than the higher default values BCIS provides, to provide a robust set of assumptions.</p>
<p>2. What areas of the evidence base you have collected are you most and least confident about and how/where have you exercised your judgement in mitigating for any areas of low confidence?</p>	<p>We have confidence in the overall strength of the research and analysis process followed and the validity of the Three Dragons toolkit. It would be wrong to describe any of the evidence as lacking in confidence. Wherever possible we have used more than one source of information to verify assumptions (including consultation with the development industry).</p> <p>The issue of appropriate land value benchmarks to use will always be an area of judgement in viability studies. We have used the approach to benchmark setting advised in the Advice for Planning Practitioners but also carried out research with local agents to provide a ‘reality check’. Judgement has been exercised in setting the benchmark and we have taken into account views of examiners for other CIL and plan related examinations.</p>

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<p>3. What is the evidence you have gathered which indicates that there is no appreciable difference in land value/house prices between town-village-rural in particular geographies within Herefordshire, and what have you considered to be a statistically significant sample in arriving at this conclusion?</p>	<p>Market values vary significantly across Herefordshire and we identified 6 market value areas. The analysis of market value areas and the relevant market values was based on the earlier 2010 study which made use of Land Registry data on property prices. As described in the 2013 report, these values were updated using a number of different data sources and quoting from the report <i>“Changes in market values since the 2010 study were reviewed in detail by the Council (using Land Registry data), discussed at the development industry workshop (and with subsequent further feedback) and then followed up through a ‘mini survey’ of agents.”</i></p> <p>The variety of evidence sources used for this exercise strengthens confidence in the robustness of the data. We do not have a measure of statistical significance to put forward but can comment that the 2010 report was thoroughly reviewed for this study – with examination by the council of some 380 records from Land Registry to identify any changes in either the make up of the Herefordshire market and/or values achieved.</p> <p>On the land value benchmark – we identified a higher value area (including Ledbury, Ross, Bromyard and the northern and eastern rural parts of Herefordshire) with a higher benchmark (£800,000 to £1,000,000 per hectare). Benchmark land values are lower in Hereford and lower still in Leominster. We also distinguished a benchmark for large scale (greenfield) developments at £300,000 per hectare.</p> <p>Other development costs will not vary significantly across Herefordshire.</p>
<p>4. How have you accounted for the current and near/medium term poor economic conditions in your recommendations of CIL rates for Herefordshire and how far into the future do you consider the assessment you have made to be robust/valid? How far into the future do you consider the CIL rates you have recommended will be valid?</p>	<p>As advised by the Advice for Planning Practitioners, we have used current values and costs and not forecast changes in costs or values. The exception is an assumed extra cost of £795 per dwelling to achieve compliance with the anticipated changes to the Building Regulations in 2013. Therefore the poor economic conditions have been taken into account in the analysis.</p> <p>It is not possible to say when the CIL rates will need to be reviewed and the council is advised to monitor changes in values and costs at least annually and to consult with the development industry to identify other changes in development costs that might trigger a full review.</p>

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<p>5. How does the assessment you have carried out in Herefordshire compare with assessments you have undertaken for other comparable authorities? Where are the areas of significant difference? How do you account for these? What did you consider to be the most surprising and/or unexpected outcomes of your work in Herefordshire?</p>	<p>The method used for the study is similar to that used elsewhere by Three Dragons. As noted earlier the Three Dragons approach is in line with the Advice for planning practitioners. The complexity of market value and HMA areas is unusual but not unique. Given the diversity of the market values found in different parts of Herefordshire – the range of CIL rates and affordable housing percentages that can be supported is not unexpected.</p>
<p>6. Do you consider that the time and breadth/depth of the study you have been able to undertake has been sufficient to enable the council to set its CIL rates with confidence? If not, what additional work would you recommend be undertaken to address any gaps/shortfalls?</p>	<p>The study undertaken was thorough and allowed for consultation with the development industry – both at a workshop (which was split into 2 sessions to accommodate all interested parties) and subsequent follow up telecons/meetings. The testing undertaken was of two types – a series of notional 1 hectare schemes at different densities in different market areas and 13 case studies. The case studies were agreed with council officers as representative examples of the type of development potentially likely to be developed in Herefordshire over the next few years. The testing was rigorous and detailed and included sensitivity testing of selected notional 1 ha schemes – to review the impact of any changes in values and costs. If further testing is required before the CIL examination – this can be undertaken.</p>
<p>7. How well do you consider your approach to land valuation makes allowance for transition from the current market/hope value of land to the assumed lower land values of the future?</p>	<p>It should be noted that the study was not a land valuation exercise. The question implies that the study benchmark land values will lead to a uniform reduction in land values. In some cases values may be less than currently but developers may choose to pay more for the land than the benchmark if they foresee ways of enhancing value and/or reducing costs. It should be noted that CIL does not necessarily lead to higher cost of planning obligations. Very roughly, CIL of £100 per sq m, in a scheme of 40 dwellings with 35% affordable housing equates to a payment of £6,000 per dwelling</p>

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8. Where do you consider the greatest uncertainties lie in the evidence you have relied upon for your viability testing? How do you mitigate for the variances between your recommended approach to calculating the threshold land value and the current market values?	<p>The evidence collected has been based on the best available information from published sources wherever possible and discussed with the development industry. The main set of testing has been based on current values and costs to minimise uncertainties.</p> <p>The approach to assessing threshold land values reflects the guidance in the Advice for planning practitioners.</p>
9. How great were the changes made in the market values you used following the review you cite as being undertaken to update the data since the 2010 study? How did these changes compare with your expectations and/or experience from work in other comparable authorities?	<p>In the main, values between the 2 studies were unchanged. Changes made were not uniform across all market value areas and dwelling types but when made, they typically led to a reduction in values for the 2013 report. Examples include Hereford, 2 bed terrace from £155,000 in (2010) to £145,000 (2013) and Ledbury Ross and Rural Hinterland, 3 bed semi from £215,000 (2010) to £205,000 (2013).</p> <p>It was reassuring that the 2013 study had available sufficient information and expert views to make the kinds of detailed changes that it did. But it was not a surprise that values, in the main, generally held up 2010 to 2013.</p>
10. What variance from your rate recommendations would you consider to be prudent to mitigate for any compounding assumptions created by possible shortcomings in the evidence base and/or your modelling approach?	<p>The study did not recommend specific rates but indicated maximum rates justified by the evidence. The evidence used for the study was robust and conservative. It is for the council to decide how it wishes to use the evidence in setting the CIL rates. For example, the most recent guidance from DCLG states that <i>“A charging authority’s proposed levy rate (or rates) should be reasonable given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence, for example, if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism”.</i> (para 28)</p>

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<p>11. What areas of the Herefordshire study and you most and least confident about? What did you consider to be the most surprising outcomes from your work and what comment would you make about these outcomes?</p>	<p>This is a very difficult question to address. There should be considerable confidence behind the study given the robustness of the data collected and the level of input from the development industry.</p> <p>There was nothing inherently surprising from the study – the variation in market values across Herefordshire would naturally lead to the potential for a wide range of fully justified CIL rates.</p>
<p>12. How likely do you consider it to be that realisation of affordable housing targets and S106 infrastructure will be affected by the implementation of CIL? For how far into the future would you expect this to last before land prices adjust – based upon your judgement and experience from other studies?</p>	<p>CIL was not considered in isolation in the study. The testing undertaken took into account the levels of affordable housing in the emerging local plan as well as an allowance for scaled back s106 payments (we tested at £2,000 per dwelling). Therefore the implementation of CIL should not impact on the delivery of affordable housing (and collection of scaled back CIL). It is not possible to say when and whether land prices will adjust in the future – other factors such as changes in market values and build cost will affect landowner expectations. Insofar as CIL increases the costs to development of planning obligations, there may be a period of adjustment.</p>
<p>13. What is your experience on the ground of development behaviour resulting at the boundary of CIL areas? How would you recommend Herefordshire Council should best mitigate against the negative impact of such boundary behaviour?</p>	<p>This question implies that developers’ choice of location would be influenced by CIL rates and they may avoid area perceived to have a high CIL rate and favour areas with lower CIL. It is too early in the implementation of CIL to identify whether this is a trend. It should, be remembered though that higher CIL rates are found in areas which attract higher values with much stronger residual values capable of absorbing higher levels of CIL. The other point to make is that delivering quality development that attracts strong values and a fast rate of sales will benefit from investment in infrastructure that money collected through CIL will be able to help fund.</p>