HEREFORDSHIRE COUNCIL

NOTES of the meeting of Task & Finish Group - Community Infrastructure Levy (CIL) held in the Council Chamber, Brockington on Thursday 27 June 2013 at 2.00 pm

Present: **Councillor EPJ Harvey (Chairman)**

Councillors: J Hardwick, MAF Hubbard and G Swinford

Officers: **A Ashcroft (Assistant Director Economic, Environment and Cultural Services), B Baugh (Democratic Services Officer), Y Coleman (Planning Obligations Manager), G Dean (Scrutiny Officer), and A Tector (Head of Special Projects).**

Invitee: **Lin Cousins, Three Dragons**

1. APOLOGIES FOR ABSENCE

1.1 Apologies for absence had been received from Councillor BA Durkin.

1.2 The Chairman [EPJH] thanked Lin Cousins [LC] for coming to talk to the group and noted that the Group was keen to address any misunderstandings or misinterpretations that had built up since LC had last spoken to the Group and to make progress by focusing on issues of substance. The Chairman also thanked LC for responding to the thirteen questions that were posed in April 2013.

2. T&FG Draft Report, Paragraph 3.7, '*Concern has been expressed regarding the sharp charging differences at sub-market area boundaries…*'

2.1 LC made the following points:

2.1.1 This was compliant with the guidance in *Viability Testing Local Plans, Advice for Planning Practitioners, Local Housing Delivery Group Chaired by Sir John Harman Viability, June 2012* [hereafter, Viability Testing Local Plans report], the regulations and DCLG advice.

2.1.2 There will always be boundary issues with different zones and different charging rates. However, there was a case for common sense testing to check that the boundaries were appropriate and workable.

2.1.3 Without different charging 'zones', the CIL rate would have to be set at the lowest common denominator and the CIL money received would be less than would be obtained through the use of zones with different charges.

2.2 Councillor Hubbard [MAFH] suggested that such boundaries could be run through rural areas without development opportunities.

3. Map Showing Proposed Residential Preliminary Draft Charging Schedule [Part 1]

3.1 Councillor Swinford [GS] questioned how values could jump from £50 per square metre in the 'Green Zone' [Zone 2: Hereford Northern and Southern Rural Hinterland and Leominster] to £140 per square metre in the 'Blue Zone' [Zone 4: Ledbury, Ross and Rural Hinterland and Northern Rural] and ask for clarification about the rationale.

3.2 LC advised that there were some significant differences in the market values in Herefordshire. Market values were critical in determining viability, alongside the effect of affordable housing policies and requirements.

3.3 MAFH suggested that such a large shift between the boundaries could become a factor in determining where housing development comes forward and perhaps consideration should be given to further zoning.

3.4 LC said that, in the same way that there would be zoning for affordable housing, it would not be expected that there would be the same level of CIL across the county.

3.5 MAFH said that there was a history of small, scattered, developments in the county and national government policy should not start to determine where houses were built.

3.6 LC did not consider that, given the values in higher value areas and the level of the CIL rates, there should be a deterrent effect.

3.7 In response to a comment by GS, LC acknowledged that the line of boundaries might influence some developers where there was a choice of site. One effect could be that developers would seek an adjustment from the landowner.

3.8 Andrew Ashcroft [AA] said that perhaps up to a third of the houses in the rural areas would come forward from people that had no other choice than to put a house on a particular parcel of land, therefore they would not have the flexibility to react to different CIL rates.

4. T&FG Draft Report, Paragraph 3.9, '*The EVA-2013 scenario modelling has not modelled all the housing developments at the build densities consulted upon in the core strategy document: e.g. Ledbury is recommended for housing up to 50 dph…*'

4.1 EPJH reported that, since the draft report had been produced, the target for Ledbury had been dropped to 40 dph, although the consultation had been at 50 dph.

5. Draft Report, Paragraph 3.11, '*We are concerned that county house prices in the evidence base appear to have been overestimated and land values significantly underestimated.*'

5.1 On house prices, LC advised that:

5.1.1 House prices have varied over the last year but, overall, there had been no substantive change and house prices had ended up roughly where they had been one year ago.

5.1.2 For the recent study, substantial work had been undertaken to ensure that the correct market values were in place and nothing had happened in the last year that would indicate a need to re-examine these.

5.1.3 Additional information collected at the time of the study included through the development industry workshop and a review of data held by the council. In addition, a number of leading agents were surveyed and provided additional evidence for the study.

5.1.4 Inevitably, someone could find examples of particular houses selling for less or more but LC said the Group could be very confident that the house prices had been robustly generated and tested.

5.2 EPJH questioned how judgements were being taken in areas where there were few examples of new build house prices. In response, LC advised that Land Registry data was used and, where there were very low samples, this was supplemented by evidence of existing property prices and through consultations with the development industry and by surveying actual agents.

5.3 EPJH said that agents locally had expressed different views. LC re-iterated her confidence in the evidence, adding that more work had been undertaken on the market values in Herefordshire than would normally be expected because people had asked for further testing. She commented on the need for any evidence of different new build house prices to those modelled to be brought out and tested. She also emphasised the need to like-for-like comparisons as there might be variations in house types, floorspace and other factors.

5.4 In terms of land values, LC advised that:

5.4.1 Guidance was provided in the Viability Testing Local Plans report. Two types of land needed to be looked at separately. Within towns and on the edges, a reasonable way of setting these was to look at existing use values and add a premium; e.g. for Hereford a 30% premium, for Leominster a 20% premium. For other (rural) areas, a higher figure was used based on evidence from the workshop and other information collected from the industry locally. For large-scale (greenfield) schemes a different benchmark had been used - reflecting the particular development characteristics of these types of schemes.

5.4.2 LC said developers may be paying more than the benchmark indicated – for instance, if they anticipated they could achieve higher values and/or lower costs.

5.5 EPJH commented that:

5.5.1 Some developers might have bought land before the property market had declined. However, if today's rates were not matching the benchmark, developers would want to negotiate on viability.

5.5.2 Build costs did not vary significantly across the county, so the price paid for the land was a bigger factor in the overall cost.

5.5.3 The Group was wrestling with the issues of land prices today and, if there were disparities with the benchmarks, whether there should there be a mechanism for transitioning.

5.5.4 There might be subtexts to policy at a national level.

5.6 LC said that the 'urban' benchmarks were reasonable and in line with guidance. Referring to the values in the Updated Economic Viability Assessment, February 2013 [EVA 2013], GS noted that:

5.6.1 Benchmark land values in rural and higher value areas could be as much as double those in urban areas.

5.6.2 Agents, with significant experience in the area, had estimated that there was no more than a 20% variance across the county.

5.6.3 If there was a significant gap, it would suggest that CIL should reflect those differences.

5.6.4 Despite the differences in benchmark land values, the CIL rate was consistent right across the Blue Zone [see paragraph 3.1 above.

5.7 In response, LC advised that benchmark land values were not the only thing affecting the rate of CIL, there was a range of other factors, not least affordable housing policies.

5.8 In response to a further question from GS, LC said that in areas with high benchmark land values but high market values, the gap between the benchmark and the residual value allowed for the setting of a higher CIL.

5.9 EPJH commented that Ledbury met that description but she had been told that land values were as much an acre as had been identified per hectare. It was noted that there had not been significant amounts of new build housing in recent years, so there was not a large pool of examples that met the criteria for house valuation.

5.10 EPJH said that there were a finite number of plots available and some developers might be overpaying, perhaps expecting to trade way other aspects of the development, but there was still the issue of transition.

5.11 MAFH expressed a concern that higher land values and higher CIL rates could put pressure on negotiations on affordable housing and local infrastructure. He noted that there was a major problem in the county with the affordability of housing.

5.12 EPJH commented on the behaviours already being seen and, in accordance with best practice, the setting of CIL had to be based on current values. It was noted that, although it might be different for smaller and infill developments, there were clear locations for strategic housing sites in the Core Strategy. Consequently, land values for the specified plots were likely to increase, with everything else coming down to negotiation.

5.13 LC emphasised that the CIL rates were reasonable and the benchmark land values followed the guidance.

5.14 GS sought further clarification about the significant differences between benchmark land values given in the report and the relationship to CIL. LC advised that:

5.14.1 Herefordshire had a complex pattern of markets.

5.14.2 There were very high values in some of the market towns, as well as the surrounding rural areas.

5.14.3 Leominster has different (lower) market values. In view of feedback received, the values had been checked many times.

5.14.4 Market values had a major influence on land values.

5.15 GS identified the differences between benchmark land values given in paragraph 7 of the Executive Summary to the EVA 2013. LC apologised for the wording in the executive summary, explaining that Ledbury and Ross was assessed against the higher benchmark land values of £800,000 to £1,000,000 per hectare; so, it was not the case that £500,000 to £600,000 was being used in the towns and £800,000 to £1,000,000 outside the towns. It was acknowledged that there was an issue with terminology, LC had been referring to Hereford and Leominster as being 'urban', with some of the market towns being classified as 'more rural and higher value areas'. For assurance about the testing undertaken, LC drew attention to the notional one-hectare scheme results provided from page 18 onwards in the report.

5.16 Further to point 3.1, GS said that many agents were puzzled by the extent of the 'Blue Zone' for CIL which stretched from Ross, north to Bromyard and then west to the Welsh border; they considered that there were large differences in terms of market values and there were perhaps three distinct pricing zones within that area.

5.17 LC acknowledged that there was a trade-off between numerous charging zones, with resulting boundary issues, and a more simplified approach. This was discussed at length in the workshops and it was considered that the market value area differences were broadly correct.

5.18 On large-scale strategic sites, LC advised that:

5.18.1 The benchmark was arrived at on a different basis, as these were a different form of development.

5.18.2 There were additional costs for greenfield sites over and above urban or edge of village locations.

5.18.3 The benchmark varied between £250,000 and £300,000 per hectare, depending on location. This was based on the guidance available and in discussion with the industry.

5.18.4 Attention was drawn to the case study results provided at page 67 of the EVA 2013.

5.18.5 In response to questions from the Chairman, LC confirmed that the benchmark was a gross figure, with up to £200,000 per net hectare modelled for 'opening up costs'; this would include, for instance, site remodeling and bringing services into the site.

5.18.6 Greenfield sites were expensive to develop because of the net area that could be developed; additional opening up costs and the impact of time on finance costs etc.

5.19 EPJH said that the opening up costs for large-scale sites should be referenced in the Residential Development Assumptions annex to the EVA 2013.

6. T&FG Draft Report, ii. Differences in Approach

6.1 EPJH commented on the usefulness of the Viability Testing Local Plans report. In view of this, EPJH questioned how modelling was undertaken of the impact of plan policy requirements on viability. LC commented that the authority did not have many plan policies that had a direct bearing on costs. EPJH queried the impact of place shaping policies, particularly requirements in terms of Section 106 local infrastructure. LC advised that this had not been looked at in the way described, a general assumption had been made about the level of Section 106 costs, of £2000 per dwelling, and modelled accordingly.

6.2 Referring to the place shaping policies, EPJH asked for further clarification about the costs of local infrastructure that were a burden on developers at those sites. LC said that there had been discussions about the best way to handle this, it had been dealt with as a single Section 106 cost, with certain implicit assumptions about how other things would get funded. Yvonne Coleman [YC] advised that this was the direction of travel, with many local authorities looking at strategic sites in isolation, adding that officers might need to talk to some of those authorities on their handling of CIL. Consideration would also need to be given to the new government guidance that had been issued following the consultation period.

6.3 EPJH said that the Viability Testing Local Plans report was clear on need for CIL and Section 106 to be included in the viability modelling. She also noted that the previous EVA had given a much higher Section 106 figure which appeared to be fully costed.

6.4 MAFH expressed a concern about the potential impact of major infrastructure projects on the funds available for local infrastructure and community needs. With lower Section 106 and higher CIL, he was also concerned that there would also be pressure on affordable housing.

6.5 In response to further questions and comments, LC advised that the authority would need to balance Section 106 and CIL, noting that different authorities were coming to different conclusions.

6.6 In response to a question from AA about the new government consultation paper, LC said that the authority might want to look at, in technical detail, what was assumed should be paid for by Section 106 and what was assumed should be paid for by CIL. YC added that Section 278 (highway agreements) might also need to be considered, at this had been consulted upon.

6.7 LC noted that CIL could be collected from all types of development, whereas Section 106 was less likely to be sought on smaller schemes. LC also noted that, in due course, the authority could not pool more than five planning obligations for the same item.

6.8 MAFH said that it was regrettable that a recommendation to work on a locality basis for infrastructure had not been taken forward, as this would have provided more community buy-in.

7. T&FG Draft Report, iii. Stakeholder Engagement

7.1 LC was concerned about the comment at paragraph 3.26 that '…industry participation does not appear to have given sufficiently meaningful feedback…'. She said that the team had worked very hard with the industry, with two well attended and lively workshops, and follow up discussions and feedback.

7.2 As a further piece of work, LC suggested that officers could identify consultees that had issues with the draft charging schedule and go and talk to them about issues they had raised.

7.3 EPJH acknowledged that there was only so much that could be done to get people to attend sessions and submit comments but there was, nevertheless, a need to address particular complaints. MAFH suggested that the further work identified at 7.2 be incorporated into one of the recommendations of the Group.

8. T&FG Draft Report, Paragraph 3.8, '… there may be benefit in considering an earlier adoption of more stringent build standards, in terms of the future running costs of homes built over the next few years'

8.1 LC made the following points on build standards:

8.1.1 Using the approach suggested in the Viability Testing Local Plans report, current values needed to be applied except for anything that was known to be imminent.

8.1.2 Anticipated changes to the Building Regulations this year were the only new costs taken into account; although these had not yet been published, the consultation version had been used.

8.1.3 Zero carbon remained a government objective.

8.1.4 The Code for Sustainable Homes is a voluntary code and, in any case, the code itself was currently being reviewed.

8.1.5 Given the uncertainties and lack of concrete information on the future direction of building standards, LC felt unable to recommend any different modelling for the purposes of CIL.

8.2 EPJH said that there was a difference between the cost to the developer and the lifetime running costs to the owner of a property. MAFH commented on the need for a discussion within the authority about this given local demographics.

9. T&FG Draft Report, paragraph 4, Phasing of CIL payments

9.1 Although a separate point to the comments in the draft report, LC wanted it to be clear that the type of installment payments referred to in the EVA 2013 related to the staggering of payments for larger schemes, to mitigate interest charges to developers over the life of the development. YC said that the latest consultation linked this to the phasing of reserved matters.

9.2 In response to a comment by GS that the number of bands should be more subtle, LC said that there was a lot of flexibility around this aspect.

10. T&FG Draft Report, paragraph 2.2, '… proposed charges for non-residential types of development…'

10.1 LC advised that the government's latest consultation advice now acknowledged that the size of different retail stores made a difference to viability and different CIL rates should be easier to justify at examination.

10.2 In response to a question from GS about retail land values versus housing land values, LC said that she did not have figures to hand but land values for supermarkets were well above those for residential. LC said that she would provide an answer to YC.

11. Viability Testing Local Plans report, Treatment of viability over time

11.1 In view of the themes in the report, EPJH sought clarification about the work undertaken on viability over time. LC reported that current values and costs had been used, with sensitivity testing around what would happen if values went up or down.

11.2 EPJH drew attention to page 27 of the report, particularly that '*… It is therefore necessary for planning authorities to give consideration to likely future costs and values.*' LC confirmed that current values and costs had been modelled and commented on the difficulties associated with forecasting; it was noted that no indications about future direction had been forthcoming at the workshops and few were available in the wider industry.

11.3 In response to a question from EPJH about broader viability modelling for the Core Strategy, YC advised that the authority would be commissioning Three Dragons to do some further testing in advance of the examination in terms of some of the strategic sites; the additional work would be identified in the reports to Cabinet and to Council.

11.4 EPJH commented that CIL needed to be set up correctly at the outset, with an appropriate transition to the new requirements. EPJH also commented on the need to address ingrained behaviour and to educate developers. Furthermore, the authority needed to maintain a robust stance on negotiations with developers. LC said that, in terms of making the transition, the clarity of adoption and implementation of the policy would provide the industry with the information it needed. It was noted that CIL could have an impact on smaller types of sites, where Section 106 had not been collected in the past, but developers of larger sites need not be paying substantially more.

11.5 YC reported that, as could be seen in the tracked changes to the Core Strategy, a section had been added to the explanatory text to the Infrastructure Delivery Plan, to reinforce the authority's position in respect of land values and viability.

11.6 Councillor Hardwick noted that agricultural land values were increasing. LC noted this point and that this might have some bearing in an area like Herefordshire but, nevertheless, residential land values were well ahead of agricultural land values.

11.7 In response to a question from EPJH, LC made a number of comments about smaller sites, including:

11.7.1 A lot of modelling had been undertaken on small schemes.

11.7.2 Residual values depended on the type of properties that had been built.

11.7.3 Although, without the economies of scale, development costs could be higher, this might be offset by higher market values reflecting the greater degree of exclusivity of the housing.

11.8 GS commented that, by having a £0 per square metre CIL rate, Leominster would not benefit from being passed 25% of CIL funds as a result of having a Neighbourhood Plan. LC advised that there were no direct relationship in the regulations as to where CIL was collected and where it would be spent. AA advised that a Leominster Councillor had identified the issue; it was noted that Leominster had been a Neighbourhood Plan frontrunner.

12. Three Dragons responses to questions from the Task and Finish Group

12.1 EPJH asked for clarification about the example provided in the answer to question 7. LC identified that the figure given was incorrect because the authority excluded affordable housing for the purposes of Section 106 contributions. LC re-iterated that developers of smaller schemes, that did not pay Section 106 previously or had to include affordable housing, would perceive CIL as a new type of contribution.

13. T&FG Draft Report, paragraph 3.14, '*In EVA-2010 it states that 3-Dragons have assumed an average of ~£15k per dwelling for S106 packages paid for by developers in recent years. In EVA-2011 no figure is given for average S106 payments…*'

13.1 EPJH questioned if there was a current figure for average Section 106 payments, in order to understand what developers were used to paying. YC advised that a number of agreements had been reviewed and calculations made.

13.2 EPJH explained the difficulty the Group had, prior to the withdrawal of the draft report, to understand where money was going to come from for local infrastructure given that Section 106 costs of only £2,000 per dwelling were being assumed and given that CIL would go to a fixed number of projects.

13.3 In view of the recent government consultation, LC recommended that the infrastructure issues be looked at in considerable detail, alongside the relationship between CIL and Section 106.

14. Map Showing Proposed Residential Preliminary Draft Charging Schedule [Part 2]

14.1 Returning to the issues with the Blue Zone, see paragraphs 3.1 and 5.7 above, GS re-iterated that market values varied markedly and questioned whether the CIL rate should be adjusted accordingly.

14.2 LC said that more investigation would be needed but it appeared that the CIL rate for this entire area reflected the lower value areas. Although some of the higher value areas might be able to afford a higher level of CIL, uplift was not recommended as this might introduce difficulties into the local housing development market.

15. T&FG Draft Report, paragraph 6.9, '*Recommendation: That a very much lower CIL be proposed for initial implementation for a limited period of time - after which it should be stated up-front that the rate will be reviewed and increased.*'

15.1 EPJH said that, in view of the current financial environment and that the Core Strategy was for the period 2011 to 2031, a lower entry rate was suggested in order to encourage development.

15.2 LC said that she would not recommend this herself. It would potentially encourage early planning applications for schemes that would not be developed for some time. In any case, CIL should be set on the basis of viability evidence.

15.3 EPJH commented on the likely volume of applications ahead of CIL and the need to review it in due course in any case. LC advised that the review of CIL would be on the basis that there had been some change in the market; thereby reflecting what was happening, rather that indicating that the charge would increase at a certain point in time irrespective of market circumstances.

15.4 LC said that Three Dragons had not been asked for the kind of monitoring indicators that could be included in the review process but would be happy to provide some for consideration. MAFH suggested that some circumstances could be identified which might trigger a review.

16. Map Showing Proposed Residential Preliminary Draft Charging Schedule [Part 3]

16.1 In response to further comments by GS, LC agreed to review the evidence and report back to the Group.

16.2 YC noted that the issue was likely to have been picked up in the consultation responses. AA added that officers in the Development Control Team had also identified it as a potential issue, therefore a technical explanation would be helpful and, if necessary, changes could be made.

17. EVA 2013, Residential Case Study Details

17.1 LC commented that the case studies had been modelled with graduations of opening up costs, with case study 5 being modelled to include an element of demolition which might happen within a town.

17.2 In response to a question from EPJH, LC advised that the gross to net percentage figure referred to the area that was developable for residential and incidental open space, with the remaining area set aside for non-developable uses such as green infrastructure.

17.3 LC accepted that the assumptions for large-scale sites should be included in the Residential Development Assumptions, Annex 2.

18. Conclusion

18.1 In response to a question from LC, EPJH said that the Group's draft report would be amended to reflect the outcomes of this meeting, although several of the points around infrastructure were likely to remain.

18.2 EPJH thanked LC for her attendance and helpful input.