Plan Design Enable

Hertfordshire Infrastructure Investment Strategy

&

ATKINS

SUMMARY REPORT

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Report Structure

1.1 This is a summary of the findings of Hertfordshire Infrastructure and Investment Strategy (HIIS) Study, drawn from the HIIS Final Technical Report (August 2009), the HIIS Transport Technical Report (May 2009) and the HIIS Historic Infrastructure Deficit Report (March 2009).

1.2 This document is structured as follows: this section sets out the context for the study and identifies the key findings; Section 2 outlines the study approach and the key tasks undertaken; Section 3 provides the rationale for CIL and the basis for the funding model; Section 4 summarises the viability assessment; Section 5 provides detailed conclusions from HIIS; Section 6 examines infrastructure by service; Section 7 examines a number of underlying issues and Section 8 sets out the Consultants' recommendations.

Why HIIS was commissioned

1.3 The Hertfordshire Local Authorities, comprising the ten District Councils and the County Council, commissioned Atkins Ltd, Roger Tym and Partners and URS to undertake the HIIS Study, an assessment of Hertfordshire's future infrastructure requirements and the identification of funding mechanisms necessary to secure its provision.

1.4 The HIIS Study was commissioned to address the infrastructure implications of the East of England (RSS) which identifies significant growth for Hertfordshire for the period up to 2021 including 83,200 new homes and 68,000 jobs. Four Key Centres for Development and Change (KCDC) are proposed, three of which will be subject to strategic scale housing growth.

1.5 The East of England Plan was submitted to Examination in Public without an Implementation Plan and with therefore little understanding of the infrastructure requirements of growth, particularly at specific growth locations.

1.6 The absence of any one agency to take responsibility for assessing the requirements for growth-related infrastructure and removing gaps in the evidence base led the Hertfordshire Local Authorities to take the initiative and commission the HIIS Study to determine the County's future infrastructure and investment requirements.

Study Objectives

1.7 A number of study objectives were identified by the Hertfordshire Authorities at the outset of the study:

- To provide District Councils with the evidence base required in the preparation of Local Development Documents;
- To inform local authorities and public sector agencies and service providers in their future service planning;
- To assist utility companies in establishing and articulating their views;
- To establish an Infrastructure and Investment Funding Model that incorporates a Community Infrastructure Levy (CIL) approach to funding services and infrastructure needs arising from growth in the County to 2021 and proposes a levy for incorporation in Local Development Documents (LDD);
- To assist in bids for public funding;
- To provide an evidence base for infrastructure requirements for the Review of the Regional Plan to 2031;
- To provide an understanding of infrastructure requirements at strategic growth locations;
- To inform the development of a new Sub-Regional Economic Strategy; and
- To ensure that the strategy is clear, robust and has the flexibility to allow for changes in the future.

The wider achievements of HIIS

1.8 By commissioning the HIIS Study the Hertfordshire Authorities are leading the way in terms of preparing for a CIL regime in accordance with the provisions of the Planning Act 2008. Once the relevant Regulations are in place, Hertfordshire Authorities will be able to adopt a CIL within a few years, if they choose to do so. Early adoption of a CIL will be instrumental in funding and delivering the infrastructure that is required to support planned growth in the County.

1.9 The HIIS Study is notable for several achievements that will help to move infrastructure planning in the County forward, including:

- **Full stakeholder engagement -** a wide range of stakeholders have been involved in the study which has been important in raising the awareness amongst the key service providers of the challenges of delivering growth-related infrastructure;
- **Location of growth -** the study has contributed significantly to discussions on both the location and characteristics of growth, especially in the KCDCs;
- **Collaboration -** it has encouraged a growing consensus around the need for a collaborative approach to infrastructure planning; and
- **Long term planning -** it has developed an appreciation amongst service providers of the need for long term service planning. At present service providers tend to forecast needs only over the relatively short term: the study has raised awareness that, in order for service provision and infrastructure to meet the needs of future growth effectively, service providers should consider requirements up to 20 years ahead.

How has the study been adapted to reflect changing circumstances during the course of the commission

1.10 Since the study was commissioned in spring 2008, there have been significant changes in economic circumstances which have influenced the outcomes of the study The rapid deterioration of the housing market, as a result of the global financial crisis, has brought the issue of viability - which influences the ability to charge CIL - into sharper focus. Consequently the viability assessment undertaken as part of the study has been reviewed and varying levels of house price decline have been tested in order to inform the most appropriate level of CIL charges that could be adopted across the County.

1.11 As the study progressed the Hertfordshire Authorities extended the scope of the study to include a full assessment of historic infrastructure deficits in more detail. There was an understanding amongst the Authorities that the County has a substantial historic deficit and that a comprehensive assessment of these deficits should be undertaken so that the scale of the problem could be quantified.

1.12 With the help of Hertfordshire's service providers a rigorous assessment identified a range of infrastructure needs that could both be quantified and justified (to exclude for instance day to day revenue costs and items not normally funded from the public purse).

1.13 In total the county's potentially fundable historic infrastructure deficit comprises an extensive list of requirements totalling some £2.4bn. In practice very little of this deficit is likely to be tackled using funding from the CIL regime. Instead the conclusions from this work will be chiefly directed towards identifying the need for mainstream public funding (requiring bids for funding from a range of government programmes) and to inform and assist the Hertfordshire Authorities in their LDF work and in the RSS Review.

Key features of the study

1.14 The HIIS has been developed through a collaborative approach to the identification of issues and solutions. Strong management arrangements were put in place from the start of the study. These included regular meetings of the HIIS Reference Group (a regular forum comprising the consultants and a range of public sector agencies, which had the responsibility for overseeing progress on the study and reviewing outputs) and the appointment of a Client Project Manager to co-ordinate responses and day to day communication between the eleven authorities and numerous stakeholders. These arrangements facilitated continuous interaction between the Client and the Consultants throughout the study.

1.15 There has been a high level of political engagement with regular progress reports to the Hertfordshire Infrastructure and Planning Partnership (HIPP), which acts as an overall client for the study and which comprises representatives of each of the Hertfordshire Local Authorities. This political engagement has kept Hertfordshire politicians informed and has helped to steer the study.

1.16 Stakeholder involvement has been a key feature of the study throughout. Stakeholder workshops explored issues such as historic infrastructure deficit and the funding model and face-to-face meetings with key service providers have been crucial in developing an understanding of existing infrastructure and service provision and future growth requirements.

Key findings of the study

1.17 The chief study findings are as follows:

1. Following an intensive analysis of future needs in close conjunction with Hertfordshire's service providers, the total growth-related infrastructure bill to 2031 is estimated at £2.666bn at current prices.

2. Few public service providers know their longer term needs, particularly beyond 2021, so this figure is more likely to be an underestimate than an overestimate.

3. There will be opportunities for some of these costs to be met by mainstream public funding. Contributions might also be obtained from Central Government's special purpose funding programmes such as the Growth Area Fund (GAF) and through the Regional Funding Allocation (RFA). We have taken a measured approach to the latter opportunities and have concluded that service providers could secure in the order of £485m from such funding streams.

4. After deducting public funding which might offset the overall cost, there remains a growth-related infrastructure funding requirement of £2.181bn if growth targets are to be met. This is the figure that we recommend needs to be sought from the Community Infrastructure Levy (CIL) between 2011 (when we propose it is introduced) and 2031.

5. In setting CIL, the Hertfordshire authorities do need to be aware of the critical tensions there are between setting a rate to deliver all the necessary public infrastructure, ensuring that the viability of development sites is not compromised, and maintaining the supply of affordable housing. As we reflect below, CIL charging cannot be considered in isolation and some compromises are inevitable.

6. We estimate that this equates to a CIL charge of approximately £23,000 per dwelling. This comprises £18,000 towards the need for strategic infrastructure (which we recommend should be managed collaboratively by the Hertfordshire local authorities) and a further £5,000 provision for various needs that should be defined locally by individual district councils, such as open space, sports and community facilities. This combination of the £18,000 strategic charge and the (as yet undetermined) local charge will be the overall CIL charge. The assessment of local needs should be done as soon as possible.

7. We have not in our study distinguished between dwelling sizes and types, although there would be the potential to vary charges depending on indices such as floorspace or numbers of bedrooms. The draft CIL Regulations and guidance propose a calculation based on a charge per square metre and the conclusions reached in our study can readily be converted to this unit of charge if confirmed.

8. In the short term it must be accepted that CIL cannot make a significant contribution towards infrastructure needs until the housing market has emerged from its current downturn and house prices have recovered sufficiently. Based on the market research available, our view is that house prices will not recover to the peak levels achieved in 2007, until 2014.

9. However, delays in introducing CIL will have significant consequences in terms of raising finance for growth-related infrastructure. It could be introduced as early as 2011, by which time we are anticipating that house prices might have recovered to 90% of peak levels. However, our analysis suggests that with house prices at that level and a CIL set at £23,000 per dwelling, the viability of development in low and medium value areas would be challenging.

10. During this period we estimate that the maximum amount of CIL that it would be practicable to charge between 2011 and 2014 would be £10,000 per dwelling in middle value areas and no charge could be levied in low value areas. Put another way, an effective public subsidy of infrastructure would be required of £13,000 per dwelling in middle value areas and £23,000 per dwelling in lower value areas, aggregated by the number of houses permitted. Note that this is a generalisation of the economics of development across the entire County. These figures do not represent the effective shortfall in relation to any particular site or indeed any district.

11. We assume that a deficit at this level, even if only experienced for a few years, would result in a critical shortfall of funding for infrastructure. So, the issue then becomes how to deal with viability issues between 2011 and 2014. We have identified three ways of dealing with this:

    - The introduction of a CIL could be deferred until 2014.

    - It could be accepted that development would only take place, in the short term, on the easiest sites to develop, which in practice means that they would be vacant and not present any physical obstacles to development.

    - Steps could be taken to enhance viability by modifying the arrangements for procuring affordable housing, either by reverting to the practice of accepting free serviced land to satisfy the obligation or by focusing HCA support on the lower value areas.

12. All three have their drawbacks. Deferring the introduction of a CIL would almost certainly reduce the overall sums available for investment in necessary infrastructure, so we discount that option.

13. In the short term in middle value areas, it is accepted that the level of CIL might deter development of some sites that are marginal in terms of viability. However, we doubt that the number of potential housing starts affected will be significant. The same approach should also be adopted towards lower value areas and in addition steps should be taken to reduce the net cost to developers of providing affordable housing, perhaps by focusing HCA support in these areas.

14. Viability problems are projected to persist in lower value areas beyond 2014 in which case either:

    (a) districts will have to reassure themselves that development remains viable in the context of the specific characteristics of the sites allocated for development in their area; or

    (b) the effort to reduce the net cost of affordable housing to developers will have to continue.

15. Given the above, then in the early years of its introduction, a CIL charge set across the county at the equivalent of £23,000 per dwelling to meet Hertfordshire's infrastructure needs can expect to be challenged unless there is financial support for the provision of affordable housing, or a general increase in the availability of mainstream public funding (or a combination of the two). Moreover there is likely to be a considerable timing mismatch between the need for infrastructure and the collection of funding and we anticipate a particular problem in the latter part of the next decade, when infrastructure need is expected to considerably outstrip likely revenues. We anticipate a 'gap' between projected income and expenditure of perhaps £230m during the period 2016 to 2020, but believe that this can be substantially alleviated with careful financial management, if attention is paid to service planning by the infrastructure providers and if the Government makes supportive changes to mainstream funding streams.

16. In order to manage the implementation of new infrastructure in a rational way, it will be necessary to pool CIL receipts across the County. Our report emphasises the benefits of the Hertfordshire authorities working together collectively to set infrastructure priorities and to oversee infrastructure investment. We believe that the Hertfordshire Funding Model which has been provided as part of this study should help to underpin collaborative working and facilitate good financial planning.

17. We conclude our report with a series of recommendations to the Hertfordshire authorities on how to take the HIIS findings forward. In the short term there needs to be discussion with a number of key agencies; the commencement of a process which will see a step change in the way in which infrastructure providers plan for service growth and development (with long term service planning becoming the industry standard); and the exploration of appropriate models to manage, distribute and account for expenditure of CIL revenue on infrastructure projects.

18. In the medium to longer term, infrastructure planning needs and the CIL needs to be embedded in the development plan system. The HIIS report provides a starting point for this effort but a lot needs to be done.

1.18 It is vital that new growth in the County is supported by the infrastructure that it needs if successful and sustainable communities are to be created. By providing an important part of the evidence base the HIIS Study will underpin the justification of an appropriate funding mechanism to help achieve the goal of creating the sustainable communities of the future.

Study Approach 2

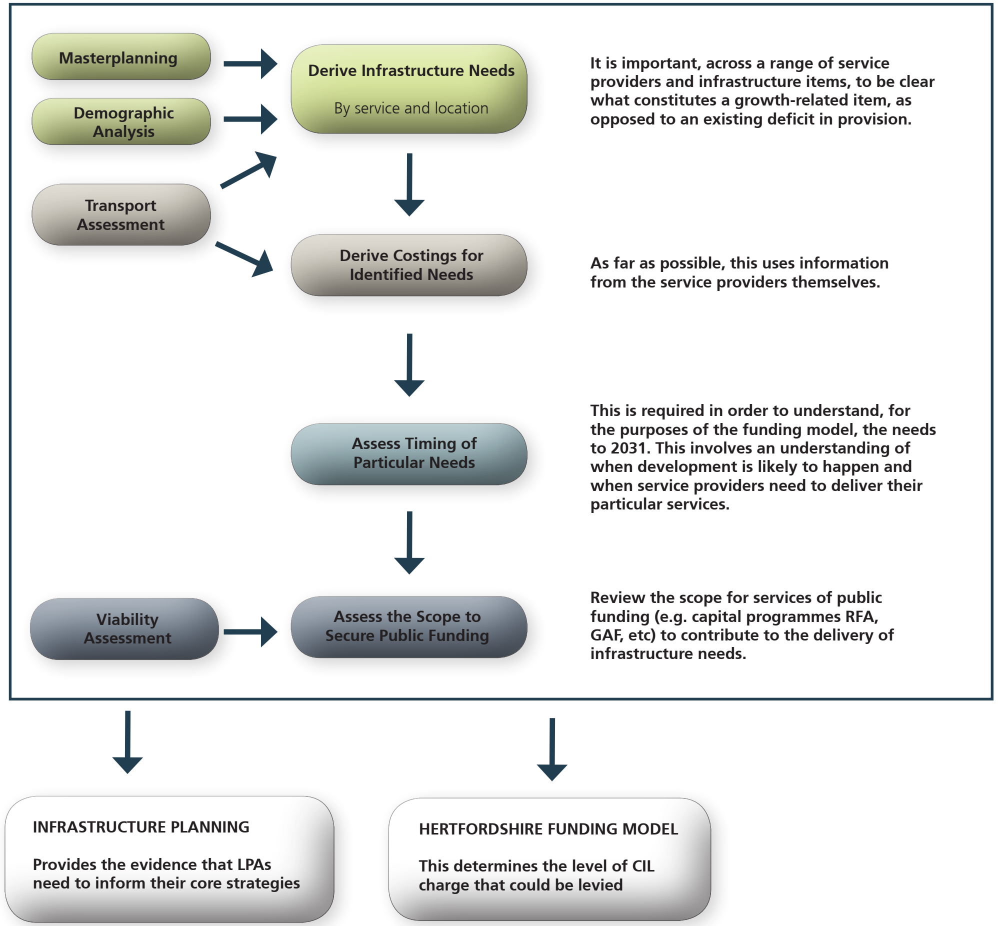
2. Approach

2.1 In summary the study adopted a 'bottom up' approach in which infrastructure needs at the local level have been identified, collected and added together in order to derive an aggregate view of the infrastructure required to respond to growth across the County. This has the significant advantage of producing a more robust outcome which is necessary to underpin sound planning at the local authority level.

2.2 In order to derive a CIL charge that is robust it is sensible to start with a good understanding of what is likely to achievable. The HIIS study has assessed viability and this viability assessment has informed the findings on the level of CIL charge which could be levied.

2.3 The study was undertaken in five broad stages:

Figure 2.1 - Study Stages



Tasks

2.4 The five stages of the study entailed several key tasks:

- **Dwelling Trajectories -** To derive robust dwelling trajectories for the period to 2021 it was necessary to make allowance for the effects, over the short term, of the current economic recession. It was considered that the housebuilding rate in 2009/10 is likely to fall to 35% of the 2007/8 rate and then not recover back to the 2007/8 level until 2013/14. In addition the assumption was made that current housebuilding rates, as required by the RSS, would continue from 2021 to 2031.
- **Demography -** Future dwelling requirements inform demographic projections which, in turn, directly determine the required levels of a range of infrastructure services. Indeed, most services are in some way determined by population change. The most important consideration for this part of the work was to understand the size and profile of the population associated with the additional housing. Total population change does not relate directly to the level of housing production, partly due to the long term decline in average household sizes. More information on this and the dwelling trajectories is included in Section 4 and appendix A of the Technical Report.
- **Masterplanning -** A masterplanning exercise was undertaken to understand where the principal housing growth might be located in the County. The exercise focused on the KCDCs (Stevenage/North Hertfordshire, Watford, Hemel Hempstead, Hatfield and Welwyn Garden City) and also included Harlow and Luton/South Bedfordshire, both of which are outside the County but are likely to have a growth impact within Hertfordshire. This work informed discussions with service providers and also provided location specific housing inputs into the transport modelling work. However service providers need to consider the masterplanning further to fully identify future infrastructure requirements from growth. More information on this and the masterplanning exercise is included in Section 3 of the Technical Report.
- **Growth Assignment -** Housing growth not included in locations for which masterplans were prepared was then assigned to other areas in Hertfordshire. Once existing commitments had been taken account of, assumptions were made about the location of growth by District. This focused growth on the existing urban areas.
- **Service Provider Engagement -** One of the major tasks in the study was working with service providers in order to identify the impacts of future growth on their particular service needs. Each service provider has different needs and determines their needs differently, so it was not possible to adopt a common approach: what works for the health service does not work for the emergency services. Regular dialogue was maintained with all service providers and this will need to be continued into the future in order to fully determine infrastructure required to support housing growth.
- **Establishing a Baseline -** Part of the work with service providers was to establish the baseline position i.e. what needs are related to growth and what represent existing deficits. A separate analysis of historic deficit was undertaken and this helped to separate out needs. In reality districts can plan to deal with existing deficits through infrastructure planning (as required by PPS12). However, the draft CIL Guidance is clear that, for the purpose of deriving a CIL, historic deficits cannot be included. Therefore a CIL charge will be unable to provide funding towards addressing these deficits which, as identified in the Historic Deficit Report, are significant. It is recommended that further work is undertaken to explore the potential for public funding to address these deficits.

Issues encountered

CIL Regulations not published

2.5 The draft CIL Regulations were published for consultation at the end of July 2009, after the completion of all the technical analysis undertaken as part of the HIIS study: we have agreed with the commissioning authorities that we would not revisit this work, and that the conclusions from our study should stand. Fortunately we have largely been able to anticipate the content of the draft Regulations, and there are no real conflicts of any substance between what they contain and our recommendations. There are however a few areas where we do not think the Regulations go far enough and we will return to these in the Recommendations section.

2.6 In some relatively minor areas our conclusions do differ from the draft Regulations. We have recommended that CIL is levied only on residential development, because we have concluded that applying it to commercial and industrial development could negatively impact on the economy of Hertfordshire, particularly when coming out of a recession. The draft CIL Regulations propose applying the charge to nearly all classes of development with a few exceptions (householder development, buildings under 100 sqm). We think both approaches have their merits but also feel that if other forms of development are made subject to the charge, our conclusions could readily be applied (although clearly, it is much more difficult to predict the form and timing of non residential development); the effect will be to reduce the charge on residential development, although probably not significantly. In either event, our conclusions reflect the guidance available at the time the report was written.

2.7 Similarly, the draft CIL Regulations propose a charge per square metre for all classes of development including residential, whereas we propose a charge per dwelling. We think the government's justification for their approach is a dubious one (particularly a suggestion that a flat rate charge per dwelling will encourage larger dwellings to be built in preference to smaller ones) as this flies in the face of reality as this is far more likely to be influenced by market considerations, and the 'per dwelling' approach has found favour in most of the 'tariff' schemes that have been introduced. However if it proves necessary, our findings can easily be recalibrated to be expressed as a charge per square metre and it will not change our conclusions in any way.

2.8 The Draft Regulations also suggest allowing the level of charge to vary across a district to reflect variations in viability. In Paragraph 15, the consultation document seems to envisage that the prime purpose of this flexibility would be to allow charges to be set at a lower rate in regeneration areas rather than at a higher rate in wealthy areas; clearly in practice the rules they envisage could be used either way. As it stands, CLG values the support for the CIL proposals from key property industry organisations. This is given on the basis that Government will not resurrect the Planning Gain Supplement proposals which were seen as a tax rather than a contribution to meeting defined local needs. Since this element of the proposals can clearly be used to gear contributions to site values, we suspect that it will meet with objections from the industry. However, this will only come to light following the completion of the consultation.

Embedding HIIS into LDFs

2.9 It was important for the study to provide advice on how the HIIS may be embedded in the LDF process. The outputs of the study in this respect are twofold: firstly, to provide districts with sufficient information on which to undertake infrastructure planning to inform their respective Core Strategies; and secondly, to consider how best to embed the HIIS, including the Funding Model, in districts' LDFs in order to provide the basis for CIL Charging Schedules. Again, the uncertainty about the final Regulations for the CIL has been a drawback but recommendations have been framed such that they can be adopted flexibly by districts without compromising their LDF timetables, and in any event, as noted above, we see very little conflict between our conclusions and the recently published draft Regulations.

Information gaps

2.10 There are many gaps in the information supplied by the service providers. This is not in any way a criticism but rather a reflection of the fact that many service providers are being asked to provide information in a form that they are not used to and their approaches to operational planning are not capable of easily accommodating. Nevertheless, all service providers will need to provide this information in the near future and there is commitment to do so across the board. HIIS sets out further guidance as to what is needed from service providers along with a programme for completing this work. For now, though, the gaps in information mean that the analysis is necessarily incomplete and the study findings will need to be reviewed by Hertfordshire authorities in future.

Economic uncertainty

2.11 The uncertainty in the housing market, given the current economic recession, has had to be factored into the analysis. Inevitably, this requires assumptions to be made, as no one can be certain when the market will start to improve and to what level it will return over the medium to long term. As already discussed, the study has made assumptions about the possible impact of the recession on house building, based on previous recessions. However, given that the RSS requirements are fixed, this has meant that very high rates of growth in the latter part of the RSS period to 2021 are assumed. Whether these levels can be achieved is questionable. Any change to the dwelling requirements as part of the RSS Review will inevitably impact on the infrastructure requirements.

Demographic issues

2.12 A key demographic issue for the study is that of estimating the actual population profile arising from the new housing. It is important to understand that the population of a new development may not necessarily cause a large change in the overall population of the settlement or district in which the development occurs. Service providers need to determine which of their needs should be based on the overall population change, and which are needed for the local population change. It would be desirable to ensure that a consistent approach is taken by all service providers in future.

Management issues

2.13 The study provides a working draft of the Hertfordshire Funding Model. This will form the core of the evidence base for the CIL charge, as well as the basis of a charging schedule for individual Districts. As such, the management and updating of this model is important. The study recommends possible ways that the Funding Model can be managed in order to ensure that there is transparency, consistency and accountability. However, this (or an alternative way forward) will need to be agreed by all of the Authorities and service providers in advance of its testing and operation.

Separating growth needs from historic deficits

2.14 One of the big challenges for the service providers has been to separate out needs related to growth from those that are historic deficits. The only infrastructure area where it is not possible to separate out historic deficit from future need is transport. Therefore, many of the identified transport needs will also directly be addressing current congestion points. But for all other infrastructure needs, growth items need to be separated from deficits, in order to derive a robust CIL charge and it is evident that there is still work to be done by service providers in this respect.

Funding Model - Key Elements

3

3. Funding Model - Key Elements

The rationale for a CIL

3.1 The Hertfordshire Funding Model, as underpinned by the HIIS study, seeks to provide the evidence for a CIL charge. This is important because the CIL should provide more flexibility than the current planning obligations regime. In line with Government guidance and established case law, the requirement is for planning obligations to be directly related to the specific development in question. From a developer's point of view, this arrangement provides potential for negotiation; conversely, from the local planning authority's perspective, the planning obligation approach creates uncertainty about the level of contribution that can be achieved to deliver the required infrastructure for any particular development.

3.2 By contrast, CIL offers more certainty for both the local planning authority and the developer. The infrastructure requirements can be based on broad calculations, whilst at the same time ensuring that the required infrastructure can be delivered. Also by the very fact that these contributions are not tied to a particular site, receipts can be used to deliver a wider range of schemes that might, under the current system, not be possible to fund. This is because at present the funding gap for this wider range of schemes is not being contributed to by new development. In short, CIL appears to provide a sound basis for strategic infrastructure planning which is currently lacking under the planning obligations regime. Moreover, it is a further consideration that not all development is subject to s106 agreements yet still generates infrastructure needs.

Strategic and Local CIL items

3.3 The Funding Model includes both strategic and local CIL items. Strategic items are those that provide for infrastructure needs that cross a number of districts. Some of these, such as transport are obvious, whereas others have required more careful consideration to determine whether they are truly strategic in nature. Individual services may be locally delivered but planned and managed on a strategic scale - this includes Health and Children's Services/Adult Care.

3.4 We have concluded that investment decisions on strategic CIL should be undertaken collectively by the Hertfordshire local authorities - the 10 district councils plus the County Council. Local CIL covers those infrastructure needs provided locally where we consider investment decisions should most appropriately be determined by the particular district council in which the facility is located. This includes play facilities, sports pitches and community centres.

3.5 We there recommend that each Charging Schedule established by the Charging Authorities (the 10 Hertfordshire districts) should comprise a strategic CIL charge, managed collectively, and a separate local CIL charge, managed by the individual district.

3.6 As investment priorities will vary from district to district, it will therefore be the responsibility of each district to determine its own local needs, through a robust evidence base. The study was able to provide was possible costs for providing local CIL items, derived from comparable evidence from elsewhere. Each district can then either adopt the charges recommended in our study or derive their own charges in order to arrive at an overall charge for local CIL items in the Funding Model.

The basis and operation of the Funding Model

3.7 The essence of the Funding Model is quite simple. It brings together key infrastructure information from each of the service providers to understand:

- The infrastructure items required to facilitate new growth;
- The estimated costs of these infrastructure items;
- The estimated public sector (including mainstream) funding available to pay for this infrastructure;
- The anticipated timing of the infrastructure items, costs and public funding;
- A consideration of viability.

3.8 From the above information the Model can be used to calculate the CIL charge required in order to cover costs.

3.9 The Model will be able to provide the basis for each individual CIL Charging Schedule, showing the items that each district has identified through infrastructure planning as required by PPS12, along with how each item will be funded. In addition the Model shows the associated cashflow position for each infrastructure item.

3.10 We recommend that the Model should have a single administrator - the 'Modelmeister' - who will be in charge of inputting new information as it is provided. This new information will come in two forms:

- As growth/development information from the districts in their capacity as local planning authorities;
- As infrastructure requirements and funding information from the service providers.

3.11 The timing of infrastructure costs and funding is an important input into the model, as it effectively enables the Model to act as a 'cashflow' for infrastructure costs and funding.

3.12 The start date of the Model is 2011, a reflection of when it is likely that CIL could be operational. As most service providers currently only forward plan in detail for a limited number of years, the first five years of the Model are set out annually. Beyond that, the timing is set out in three blocks, each of five years.

3.13 The Funding Model is currently populated with the infrastructure and funding information gathered to date. As this information will require refinement and updating in the future, the Model has been designed to be able to do this.

Viability Considerations 4

4. Viability Considerations

Viability assessment

4.1 One of the key areas of our research has been the issue of development viability. An important consideration around any CIL charge will involve judgments around the ability of new development to meet the costs of the contributions sought through CIL; the draft CIL regulations identify this is a major consideration, and take the view that any CIL charge that compromises the delivery of anything other than a relatively small number of challenging sites is unlikely to be acceptable. Since in practice there will be a wide range of sites proposed for development and some of these (in particular those already in use) will be expensive to develop, CLG is effectively giving Planning Authorities the choice between (a) setting a low CIL which is unlikely to cover the cost of the infrastructure required for sustainability; (b) allocating sites for development that have a low value in their current use; or (c) compromising on other requirements such as affordable housing. The new draft regulations and Guidance offer no obvious way of mediating between these demands and tensions.

4.2 Our study has therefore proceeded on the basis that the level of charge must not significantly compromise the delivery of the overall number of new homes required. As noted elsewhere, the HIIS study aims to identify all anticipated infrastructure needs and costs and, having made a suitable allowance for other forms of public funding, concludes that an overall average charge of £23,000 per dwelling is required if all identified infrastructure to 2031 is to be delivered. This overall charge comprises a figure of £18,000 per dwelling for strategic CIL (as defined in Chapter 5) and a provision of £5,000 for Local CIL (for reasons explained elsewhere, this latter figure will be a variable one). This CIL charge would increase the level of charges incurred by developers to date, partly because of the overall scale of infrastructure required but also because other funding sources are currently expected to contribute relatively little to meeting these needs.

4.3 As explained in much further detail in the technical report, viability studies are based on an assessment of whether the 'residual value' of a proposed development site (the worth of the land for development after deducting development costs - including CIL, site specific planning obligations and the provision of affordable housing) is sufficiently high to incentivise landowners to sell their land. We have concluded that for Hertfordshire, a level of CIL charge should be considered affordable if it would result in a residual value of £1.5m per hectare generally or £1.0m per hectare in areas where the great majority of houses will be delivered on sites that will be relatively uncomplicated to develop.

4.4 In this case a major complicating factor has been the decline in house prices brought about as a consequence of the recent recession and the even steeper consequential fall in land values. House prices are the biggest single influence on land prices. In comparison, the impact of potential CIL requirements is modest. So changes in house prices, rather than marginal compromise in the level of CIL actually charged, will drive the viability of the CIL regime. By way of illustration, a 5% increase in the price of a £300,000 house (which might only be equivalent to the short term discounts that developers are offering potential buyers in the recession) would increase a developer's receipts by £15,000, whilst a 20% decrease in a £23,000 CIL to a level at which it would clearly be difficult to pay for all the infrastructure required, would only cut costs by £4,600 per house. (In practice the relationship isn't quite so straightforward for cash flow reasons).

4.5 However in the short term it is accepted that this decline will seriously inhibit the potential to introduce a CIL which is capable of making a significant contribution to meeting infrastructure needs. The expectation is that by 2011 house prices will recover to 90% of the peak levels achieved in 2007, and that they will fully recover (albeit without allowing for inflation in the meantime) by 2014. We believe that will make a CIL of £23,000 viable in all but the lowest value areas (such as the extension to Harlow and in parts of Stevenage) after 2014. So for the purpose of this analysis, 'short term' is the period between the earliest date at which a CIL might conceivably be introduced (i.e. 2011) and 2014.

4.6 It is important to note that the analysis for the HIIS was based on data about different levels of house prices in new developments across the County as a whole. It does not permit analysis by district, not least because each one has areas of higher and lower cost housing.

4.7 During this period we estimate that if the aim is to ensure that the great majority of sites are worth £1,5m per gross hectare after all planning requirements are met, then the maximum amount of CIL that it would be practicable to charge between 2011 and 2014 would be £10,000 per dwelling in middle value areas and no charge could be levied in low value areas. Put another way, an effective public subsidy of infrastructure would be required of £13,000 per dwelling in middle value areas and £23,000 per dwelling in lower value areas . It is important to note that this is a generalisation of the economics of development across the entire County. These figures do not represent the effective shortfall in relation to any particular site or indeed any district. In addition, because we do not know in practice how many sites will come forward for development during this period, we cannot quantify what this means in terms of an overall figure. But it is at least possible that if a lower CIL is proposed in these middle and lower values at the outset, and it is widely expected that the figure will increase on review and in the context of rising house prices, then developers will be keen to secure permissions as soon as is practicable and a substantial shortfall in the funds available to pay for the necessary infrastructure might arise.

4.8 For both this and for practical administrative reasons it is unlikely to be practical to introduce an evidenced-based CIL at one level in 2011 and to increase it in 2014, so an alternative approach is needed which deals with the problems in areas where viability is a challenge. There are three ways of dealing with this:

- The introduction of a CIL could be deferred until 2014.
- It could be accepted that development would only take place on the easiest sites to develop which in practice means that they would be vacant and not present any physical obstacles to development.
- Steps could be taken to enhance viability by modifying the arrangements for procuring affordable housing, either by reverting to the practice of accepting free serviced land to satisfy the obligation of by focusing HCA support on the lower value areas.

4.9 All three have their drawbacks. Deferring the introduction of a CIL would almost certainly reduce the overall sums available for investment in necessary infrastructure because Section 106 provides a relatively inefficient alternative in this respect. We discount this option because there is no obvious solution to the resulting financial problem.

4.10 However, the other possibilities are also problematic. Focusing development on the easiest sites might compromise the scale of development within existing urban areas. And changing the arrangements for procuring affordable housing might impact on the timing and spread of new social rented housing provision in particular.

4.11 Notwithstanding we propose that a combination of the second and third options is adopted as a short term expedient, with the lowest value areas probably needing both.

4.12 Reducing the target for the price that it is assumed landowners will want for their land in order to bring it forward for development from £1.5m per ha to (say) £1m per ha, would have the effect of deterring development of the following types of sites:

- Those that have significant value in their existing use (i.e. are not vacant or used for agricultural purposes).
- Those which require the most expensive levels of preparation and remediation.
- Those needing significant investment in local offsite access and servicing works.

4.13 It would also discourage landowners who simply believe that they might receive a higher price for their land if they wait until values improve further. But in areas where landowners are willing to sell or land is already held by developers under reasonably priced options agreements, and where developers should incur no significant, disproportionate and unusual costs, then £1m per hectare should be adequate.

4.14 Assuming that this target for the residual worth of development land is reduced to £1m per ha during 2011-2014, development in middle value areas should be viable even if CIL is levied at £23,000 per dwelling. We do not have enough information on the nature of the sites being proposed for allocation in each district, but our general impression is that although this might result in a short term reduction in the number of houses built, in quantitative terms the overall long term impact on a County-wide basis would be insignificant. However sites in the lowest value areas would still theoretically only be able to afford a CIL of around £13,000 per dwelling and further steps would need to be taken in these areas.

4.15 In middle value areas in instances where this would give rise to viability problems in relation to specific sites which planning authorities are motivated to address for specific local reasons, we recommend that they do so by modifying the affordable housing requirement.

4.16 Changing the approach to affordable housing procurement might, in any event, be necessary in low value areas in order to achieve the recommended level of CIL contributions. This is partly because the emerging proposals for the CIL suggest that that there will be less flexibility to vary CIL levels in the context of viability issues than there will be to modify affordable housing requirements. It is also because, in the short term, it might be easier to resolve problems by efficiently using potential HCA support for affordable housing costs and (in the context of lower house prices) by deferring, although not reducing, some of the planned affordable housing provision. Clearly one option is simply to reduce the affordable housing requirement but we do not consider that this is a desirable or realistic option. Two further options capable of a significant impact have therefore been identified:

- District Councils could revert to the historic practice of requiring developers to provide serviced land capable of supporting the development of the required number of affordable homes by others. This would place the onus on RSLs and the HCA to provide a greater proportion of the sum required for development.
- Arrangements could be negotiated with the HCA to focus their grant support for affordable housing procurement on the lowest value areas, perhaps using 'cascading agreements' which effectively gear the amount of affordable housing provided on a site to the amount of grant support provided.

4.17 After 2014, viability problems might still be experienced in areas where values are low and exceptional development problems might be encountered. In these cases we would suggest:

- Using focused HCA support as described above.
- Using the limited scope that it is anticipated that CIL guidance will provide to compromise on the amounts charged in individual cases.
- Changing land allocations to focus on sites that are inherently more viable.

Standard versus variable CIL rate

4.18 The above analysis is based on the concept of a standard CIL rate across the country. As CIL breaks the link between a development and a specific item of infrastructure, so it is reasonable to talk about the possibility of a standard Hertfordshire charge to meet all Hertfordshire's infrastructure needs.

4.19 However the alternative is differing rates within different parts of the county or even within districts. The draft CIL Regulations suggest that this is an option (see paragraph 2.8 above). There are various pros and cons around the establishment of either a standard or variable charge: here we look exclusively at the financial implications of each alternative.

4.20 Varying charges across the county could clearly allow higher rates in higher value areas of the county whilst accepting the need for lower rates elsewhere: in higher value areas a charge in excess of £23,000 could possibly be justified, which could allow reductions in the level of subsidy required in the lower value areas to enhance development viability.

4.21 However in effectively seeking to make judgments on CIL charges based on ability to pay, and in requiring, in effect, cross subsidisation across districts (with higher value districts making up a shortfall from lower charges elsewhere), a variable arrangement runs the risk of moving away from the universality that CIL is supposed to bring. Also, the CIL proposals are not at all clear about whether differing levels of charge can be expressly used as a means of cross subsidy.

4.22 Ultimately this is an issue that will need to be explored further. A number of factors will help this debate, but it is clear that the Hertfordshire authorities will need to build on this work as follows:

- By achieving a better understanding of development economics across the county, and in particular improving the understanding of:
    - any abnormal costs that will be incurred in bringing forward specific major sites; and
    - the mix of types of site within the housing allocations. We would anticipate significant issues with viability if, for instance, the majority of allocated sites have a significant value in their existing use, e.g. older industrial estates.
- By considering collectively infrastructure investment priorities, on the assumption that CIL and all other potential infrastructure funding sources will fail to match the cost of infrastructure needed.