Levvel

INNOVATION IN HOUSING AND PLANNING

East Herts Strategic Assessment of Development Viability

Executive Summary

Stage 1B - Paper One: Residential Viability

Stage 1 B – Paper Two: Commercial Viability

For East Herts Council

By Levvel and Aitchison Raffety

January 2013

Executive Summary

The Brief and Project Overview

1. Levvel Ltd was appointed in September 2012 to undertake a Strategic Assessment of Development Viability (Stage 1B) on behalf of East Herts Council. Levvel is supported by Aitchison Raffety Group who have undertaken the viability analysis of commercial/ non-residential uses. Lambert Smith Hampton (LSH) published the viability report, "Assessing Viability Community Infrastructure Levy: A Stage 1 Economic Viability Assessment prepared for 8 Hertfordshire Authorities" in September 2012 (Stage 1A).

2. The LSH Report is an initial assessment of potential CIL rates developed in consultation with each of the Hertfordshire authorities. The report suggests that subject to suitable evidence of infrastructure need that the commissioning partners (particularly early CIL promoters) could use the Report to inform the CIL charging schedule. The LSH Report advises that the authorities could carry out additional work and consider the balance of priorities between CIL, site specific infrastructure, affordable housing and other Section 106 requirements. This is particularly relevant to East Herts (East Herts is a late CIL promoter) as less work had been carried out at the time on infrastructure analysis compared to some of the other local authorities studied.

3. The Council recognises that further work is required and have therefore commissioned Levvel to carry out further economic viability analysis to establish the cumulative policy cost on development, to enable it to consider its policy priorities in the future as part of a Stage 1B Study. Stage 1B comprises of the following papers:

   - **Stage 1 B: Paper One** – Residential Viability (Levvel Ltd)
   - **Stage 1 B: Paper Two** – Commercial Viability (Aitchison Raffety Group)

4. This technical work will help to inform the development strategy for the district covering the period up to 2031. Viability assessment in plan-making is a 2-stage process, because it is not possible to determine the viability of the 'basket' of policies until it is known what the broad location of development is likely to be, so that collection of more detailed information in respect of specific infrastructure needs can commence.

5. The main purpose of Paper One (Residential Viability) is to establish land values and standard costs and to consider the balance of policy priorities between CIL, site specific infrastructure, sustainability, affordable housing and other S106 requirements on residential sites. Paper One also considers the impact of different affordable housing and sustainability costs on the level of Community Fund (for definition – see Overleaf) available in 5 identified Value Areas across East Herts. Paper 2 (Commercial Viability) examines the viability of non-residential and mixed use developments and this separate paper has been prepared by Aitchison Raffety Group.

The Community Fund

As the District Plan Development Options and levels of Section 106 payments/ on-site infrastructure have yet to be determined, the results produced in this study of residential development provide evidence of the "residual surplus" over and above threshold land values. This residual surplus is labelled a **'Community Fund'** and includes contributions (on a £ per m2 basis for private units only) towards:

1. **The Community Infrastructure Levy (CIL):** CIL costs have not been assumed as a cost to development and instead form part of the Community Fund.

2. **Section 106 Costs:** Section 106 costs have not been assumed as a cost to development as part of the development appraisals. However, some of these costs may be covered by On-Site Infrastructure (Below);

3. **On - Site Infrastructure**: This includes on-site infrastructure in addition to assumed on-site infrastructure costs. £10,000 per unit has been tested on the 5, 15 and 50 unit sites. On-site infrastructure of £15,000 per unit has been assumed on the 200 unit development built on industrial land. The 200, 500 and 1,000 unit developments built on greenfield land each assume on-site infrastructure at £25,000 per unit; and

4. **Sustainability Costs** in addition to Code 4 and Code 6 which have been tested separately on each notional site.

This report has examined the impact of varying levels of affordable housing upon the level of Community Fund available. For the purposes of the study, we have been able to assume affordable housing costs and revenues. For this reason, the affordable housing has been assumed in the viability appraisals and is not assumed to form part of the Community Fund. In lower value areas, it was generally found that lowering the level of affordable housing can improve viability and increase the level of Community Fund. Given that there are a greater number of private dwellings to cross-subside the affordable units, schemes become more viable.

6. Stage 1 B – Paper One examines the effects of affordable housing provision in more detail. The study assesses 40% affordable housing in all value areas. In cases where it was not possible to achieve a viable position 25% and then 10% affordable housing targets were then tested. Lowering the level of affordable housing ensures that schemes become more viable and increases the level of Community Fund contribution available. This report also examines a range of tenure mixes and it was generally found that including a greater proportion of intermediate affordable housing products improves viability and increases the Community Fund contribution. The site types tested as part of the study have been based upon the category of sites coming forward in the Council's Emerging Development Strategy.

7. Viability assessment is a requirement of the National Planning Policy framework, as shown in the box below:

> **National Planning Policy Framework, Paragraph 173**
>
> Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

8. Due to the volume of information we have shown only the key results that we have modelled within the main report and where relevant, some sensitivities that have been tested. In cases where a development scenario shows a viable result we have also shown a table which sets out for private units (in £ per m2) only the surplus value, that is the amount that could be used to form the 'Community Fund'.

9. Code for Sustainable Homes (Levels 4 and 6) have been assumed as a cost as part of the development appraisals. As such, the Community Fund rate available decreases when higher Code Levels are assumed. The viability results are presented to allow the Council to strike a balance between maximising the level of affordable housing and the revenue in the form of a Community Fund. The viability results found that the implementation of higher sustainability costs (Code Level 6 costs) has a significant impact on the level of community fund that is achievable in each Value Area.

10. This viability assessment of residential development also builds upon the approach set out in the 2010 Affordable Housing Viability Assessment for the Council by Levvel which assessed values by postcode areas. The Strategic Assessment of Development Viability assesses the likely cumulative impacts of a range of planning policy requirements on development viability. In the absence of more detailed guidance regarding the level of s106 contributions and infrastructure costs required for residential use, the output of this viability work identifies a "residual surplus" over and above the identified threshold land values.

11. A Stage 2 study will be needed prior to submission to Examination in Public. It is likely that by the time of such a study the "Review of Local Standards for the Delivery of New Homes" (Local Housing Delivery Group, forthcoming) will be available and this will provide clarification of the viability of particular policy requirements.

12. East Herts Council intends carrying out a consultation on a new District Plan with eventual adoption of polices in late 2014. The Council is currently progressing with its strategy selection process in order to consider the development options available and to identify suitable development sites. In addition, work is to commence on an Infrastructure Delivery Plan, which will lead to an assessment of any funding gap. Further viability work will be required at a later stage to assess the impact of applying a CIL charge on representative residential and commercial sites and provide the basis of a CIL charging schedule.

13. The refinement of on-site infrastructure and Section 106 costs (through the determination of the final Development Plan Options) will help to determine how the Community Fund 'Pot' is divided between Section 106 costs, on-site infrastructure and CIL. The Stage 2 Study will then be able to include more accurate infrastructure and Section 106 costs. These will then be tested as a cost to development which will help to establish the CIL rate.

Paper One - Methodology

14. The cross industry Harman Review[1] makes clear its view that, for the first five years, studies should assume steady costs and values and this is our study baseline projection - with the sole exception that known future costs arising from the introduction of elements of the Code for Sustainable Homes into the building regulations have been factored in. The viability results in this paper have applied these assumptions and focus on the first five years of the Study period (2012-2016). The viability results for each development scenario also present a range of community fund rates that are applicable when Code Level 4 costs and higher Code Level 6 costs are assumed.

15. In undertaking this viability assessment, we have assessed the viability of a range of housing developments across East Herts using a residual valuation appraisal tool. We have compared the residual land values produced for each site tested against the land value benchmarks (greenfield, industrial and residential).

16. Our assessment is based on the viability of delivering a Community Fund contribution across a range of notional sites. These notional sites were selected in consultation with each Council and with reference to work undertaken as part of the Emerging Development Strategy to determine land availability and supply. Our experience has taught us that notional site selection, is an important aspect in the delivery of a robust assessment of viability. Rather than test each individual 'actual' site identified in the Emerging Development Strategy, this study focuses on typical notional sites likely to come forward during the Plan period.

17. In discussions with the Council, Levvel has put together a site typology. The sites range in size from 5 to 1,000 units. In order to calculate the level of Community Fund contribution that is viable, we have carried out a set of appraisals of the following "typical" sites:

- 5 Units at 25, 40 dph
- 15 units at 25, 40 and 70 dph
- 50 units at 25, 40 and 70 dph
- 200 units at 40 dph
- 500 units at 40 dph
- 1000 units at 40 dph

[1] Viability Testing Local Plans – Advice for Planning Practitioners, Local Housing Delivery Group, June 2012

18. The typologies do not include the larger sites under consideration through the strategy selection process, a number of which are significantly over 1,000 dwellings. However, at this larger scale of development infrastructure costs are likely to be a significant factor, and therefore it is proposed that, in the event that such large sites form part of the development strategy, then more detailed work should be undertaken on such sites in the Stage 2 viability assessment. The 1,000 unit schemes give a good indication of a typical phase of development. However, when the final Development Strategy is published this will allow for the testing of more accurate site typologies. For example, if the final Development Strategy includes a 2,000 and 3,000 unit site, these can be tested as part of Stage 2.

19. A net density of close to 40dph has been chosen as a reasonable standard assumption for testing purposes for sites of 5 to 50 units. This reflects the standard baseline assumption used in the Council's Emerging Development Strategy. As a result, this development density informs the viability results. Paper 1 also considers the viability of higher and lower densities.

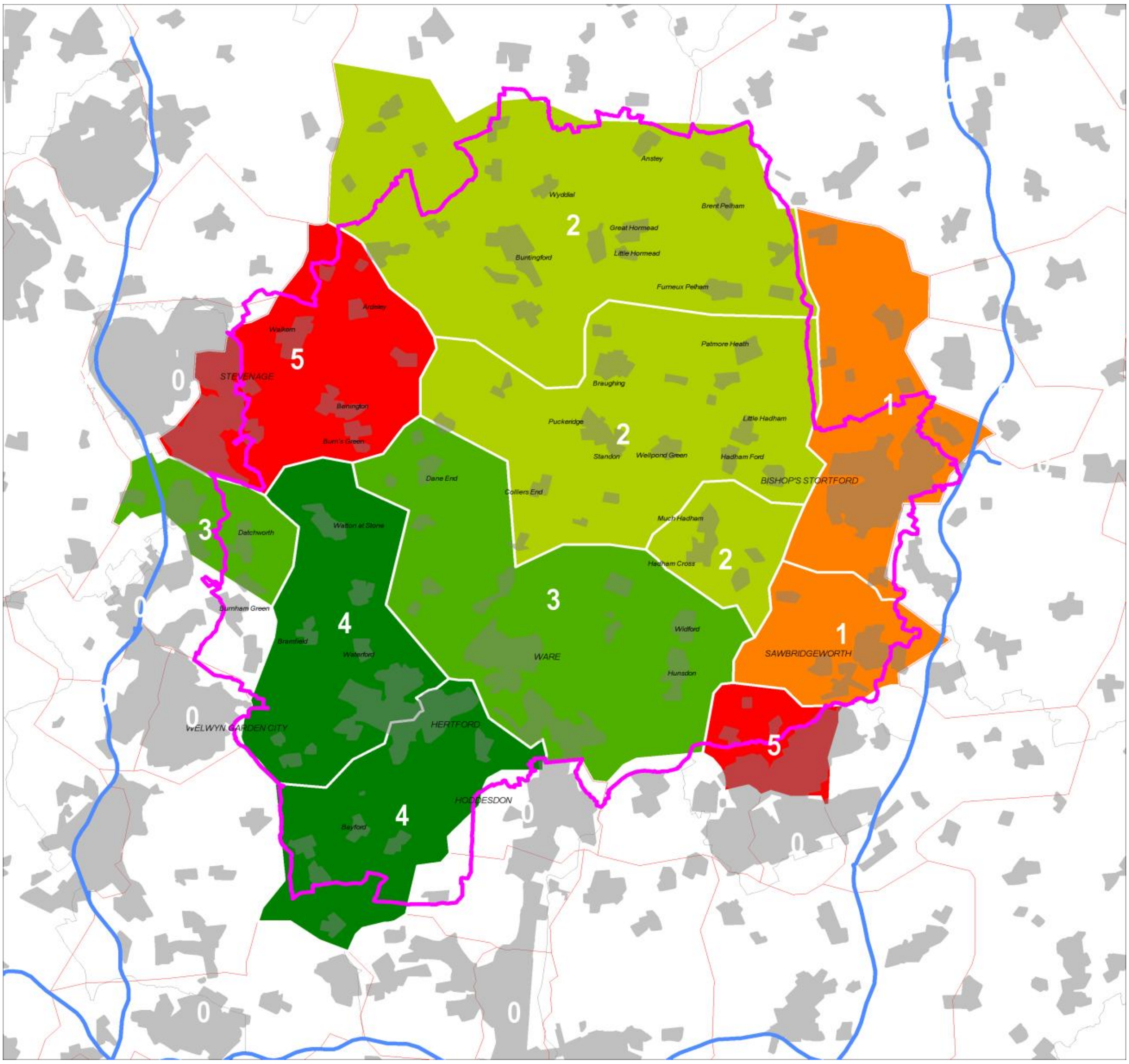
20. The larger development categories of 200, 500 and 1,000 units have been assessed at a net development density of 40 dph. The Council's strategy selection process suggests a gross density of 25 dph as a reasonable standard assumption, to include open space, roads, and other infrastructure. The viability appraisals have assumed an appropriate gross: net site area ratio to take this into account.

21. Detailed research on achieved sales values across the District has been undertaken using Land Registry data at a Postcode Sector level (e.g. SG 12) for each type of property (detached, semi-detached, terraced and flats and maisonettes). This analysis resulted in the formation of sales values on a per square metre basis for detached, semi-detached, terraces and flats and maisonettes for five different value areas across the District. The Strategic Assessment of Development Viability examines the following Value Areas:

Value Area and Postcode	**Value Area Description**
Value Area 1 CM21/CM23	(Sawbridgeworth and Bishop's Stortford)
Value Area 2 SG9/SG10/SG11	(Buntingford/ Rural North, Rural East, Rural Central)
Value Area 3 SG3/SG12	(Ware and Rural South Central)
Value Area 4 SG13/SG14	(Herford/ Rural South, Rural Southwest)
Value Area 5 CM20/ SG2	(Harlow, Rural West)

Table i: Value Areas Tested

The following map illustrates the five sub areas or 'value areas' within the East Herts Council area:



Land Value Assumptions

22. There is a minimum land value that schemes need to exceed in order to be brought forward for development, otherwise it becomes more economic for the site to continue in its existing (or alternative) use. The following benchmark land values have been assumed:

Greenfield Benchmark Land Value 1 - £480,000 per hectare

23. The Lambert Smith Hampton (LSH – 2012) report, 'Community Infrastructure Levy – A Stage 1 Economic Viability Assessment of 9 Hertfordshire Local Authorities' investigated values for agricultural land in Hertfordshire and have estimated an average of £24,000 per hectare. Based on HCA guidance on "Transparent Assumptions"[2] an allowance of 10 to 20 times agricultural value (existing use) was applied as an Alternative Use (namely un-serviced residential). Based on this approach LSH concluded that minimum greenfield land values would be c£480,000 per hectare and this figure has been applied to the results section of Paper 1. Lambert Smith Hampton also found that this conclusion is consistent with discussions they have had with the VOA in regards to unserviced residential land values.

Industrial Benchmark Land Value 2 - £1,600,000 per hectare

24. In respect of development occurring on industrial sites, we have had regard to the advice received from Thornes Chartered Surveyors and Estate Agents. A figure of £1,600,000 per hectare has been used. This figure also corresponds with the industrial land value assumptions applied as part of the Hertfordshire-wide CIL viability assessment undertaken by Lambert Smith Hampton (LSH). The LSH Report (Paragraph 4.43) found that, "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".

Previously developed residential Benchmark Land Value 3 - £2,000,000 per hectare

25. In respect of development occurring on previously developed residential land, we have had regard to the advice received from Thornes Chartered Surveyors and Estate Agents. This suggested residential land values range between £2,000,000 to £3,000,000 per hectare, depending on development density and the location of the site. Benchmark Land Value 3 reflects the lower end of this identified range, £2,000,000.

Previously developed residential Benchmark Land Value 4 - £3,000,000 per hectare

26. This benchmark has been applied and reflects the upper end of the range of residential land values based on advice received from Thornes Chartered Surveyors.

27. In summary therefore we have taken a wide range of land values as we recognise the wide range of alternative and existing uses within the District.

[2] HCA (2010 – Area Wide Viability Model (Annex 1 – Transparent Viability Assumptions)

28. The results of the viability analysis undertaken indicate that there is some geographical differentiation in levels of value throughout the district for residential development. This therefore indicates that differential rates may be appropriate for East Herts. The viability results indicate that the Council may need to strike a balance between maximising the level of affordable housing and the revenue required to deliver infrastructure in the form of a Community Fund to include Section 106 and CIL contributions. The viability results also found that the implementation of Code Level 6 costs has a significant impact on the level of community fund that is achievable in each value area.

Value Area	Postcode Sectors	Baseline Position
Value Area 1 (Sawbridgeworth and Bishop's Stortford)	CM21/ CM23	**Notional Sites of 15/50 units** When industrial land values of £1,600,000 per hectare are assumed, it may be possible to achieve 25% affordable housing and the 15/ 50 unit developments are able to contribute a community fund contribution of £111 per m2 when Code Level 4 is assumed. The introduction of Code Level 6 will make development less viable, in which case affordable housing provision could need to be lowered to 10% to ensure a community fund contribution of £45 per m2. Development on lower value previously developed residential land is less viable. When a land value benchmark of £2,000,000 per hectare is assumed, affordable housing provision has to be lowered to 10% to ensure a community fund contribution of £88 per m2, assuming Code Level 4 costs. Development on higher value residential land (£3,000,000 per hectare) proves to be unviable in this Value Area. **Notional Sites of 200/ 500/ 1,000 units:** The study found that larger sites (200 to 1,000 units) in Value Area 1 constructed on greenfield land (£480,000 per hectare) can deliver a community fund of £125 per m2 with an affordable housing contribution of 40% and Code Level 4 costs. When Code Level 6 costs are assumed, 25% affordable housing and a community fund of £75 per m2 is achievable. Viability testing of a 200 unit development against industrial benchmark land values of £1,600,000 indicated that this category of development is less viable and that a community fund contribution of £44 per m2 is achievable when the affordable housing

		target is reduced to 10% (this scenario assumes Code Level 4 costs). The Stage 2 Study will examine if there is additional scope for a community fund, particularly if lower infrastructure costs are assumed. It is also possible that larger sites may form a new 'Value Area' where an open market value premium can be applied.
Value Area 2 (Buntingford/ Rural North, Rural East, Rural Central)	SG9/ SG10/ SG11	**Notional Sites of 15/50 units:** Viability is relatively good. Development on industrial land can deliver a community fund contribution of over £250 per m2 when a 40% affordable housing contribution and Code Level 4 costs are assumed. However, Code Level 6 costs will make these schemes less viable and it was found that the affordable housing target had to be lowered to 25% to deliver a community fund contribution of £149 per m2. Development on lower value previously developed residential land may be able to contribute towards the community fund when benchmark land values of £2,000,000 per hectare are assumed. A community fund of £91 per m2 is achievable when 40% affordable housing and Code Level 4 costs are assumed. Code Level 6 costs will make development less viable, in which case the affordable housing contribution had to be lowered to 10% to ensure a community fund contribution of £135 per m2. Development on higher value residential land (£3,000,000 per hectare) proves to be unviable in this Value Area. **Notional Sites of 200/ 500/ 1,000 units:** The study found that larger sites in Value Area 2 constructed on greenfield land (£480,000 per hectare) can deliver a community fund of £230 per m2 with an affordable housing contribution of 40% and Code Level 4 costs. When Code Level 6 costs are assumed, 40% affordable housing and a community fund of £119 per m2 is achievable. Viability testing of a 200 unit development against industrial benchmark land values of £1,600,000 indicates that this category of development is less viable and that a community fund contribution of £88 per m2 is achievable when 25% affordable housing and Code Level 4 costs are assumed. When Code Level 6 costs are assumed, this scheme type becomes less viable and a community fund contribution of £39 per m2 is achievable when the affordable housing target is lowered to 10%.

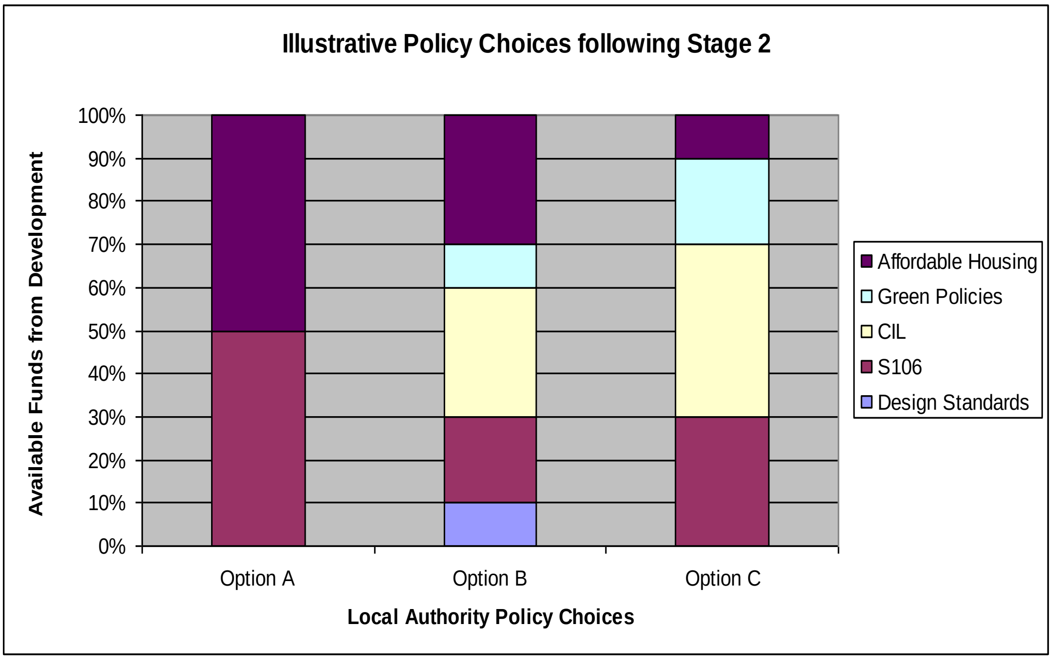
Value Area 3 (Ware and Rural South Central)	SG3/ SG12	**Notional Sites of 15/ 50 units:** Viability is relatively good. Development on industrial land (£1,600,000 per hectare) can deliver a community fund contribution of over £300 per m2 when a 40% affordable housing contribution and Code Level 4 costs are assumed. However, Code Level 6 costs and 40% affordable housing will make these schemes less viable and it was found that a community fund contribution of £95 per m2 is achievable. It was found that the affordable housing target had to be lowered to 25% to ensure a community fund contribution of £199 per m2. Development on land with lower previously developed residential land values (£2,000,000 per hectare) delivers a community fund of over £150 per m2 when 40% affordable housing and Code Level 4 costs are assumed. Code Level 6 costs will make development less viable, in which case the affordable housing contribution had to be lowered to 25% to ensure a community fund contribution of £45 per m2 is deliverable. Development on higher value residential land (£3,000,000 per hectare) proves to be less viable. It was found that a community fund of £40 per m2 is achievable when Code Level 4 costs and 10% affordable housing are assumed. The delivery of higher affordable housing targets and Code Levels is likely to be challenging. **Notional Sites of 200/ 500/ 1,000 units:** The study found that larger sites in Value Area 3 constructed on greenfield land (£480,000 per hectare) can deliver a community fund of £315 per m2 with an affordable housing contribution of 40% and Code Level 4 costs. When Code Level 6 costs are assumed, 40% affordable housing and a community fund of £204 per m2 is achievable. Viability testing of a 200 unit development against industrial benchmark land values of £1,600,000 indicates that this category of development is less viable and that a community fund contribution of £111 per m2 is achievable when 40% affordable housing and Code Level 4 costs are assumed. When Code Level 6 costs are assumed, this scheme type becomes less viable and a community find contribution of £99 per m2 is achievable when the affordable housing target is lowered to 25%.

Value Area 4 (Herford/ Rural South, Rural Southwest)	SG13/ SG14	**Notional Sites of 15/ 50 units:** Value Area 4 proved to be the most viable sub-market across East Herts. Development on industrial land (£1,600,000 per hectare) can deliver a community fund contribution of over £450 per m2 when a 40% affordable housing contribution and Code Level 4 costs are assumed. A community fund contribution of over £200 per m2 was also found to be achievable when 40% affordable housing and Code Level 6 costs are assumed. Development on lower value previously developed residential land (Benchmark 3 - £2,000,000 per hectare) proves viable and a community fund of £299 per m2 is achievable when 40% affordable housing and Code Level 4 costs are assumed. When Code Level 6 costs and an affordable housing target of 40% is assumed, this value area delivers a community fund of £50 per m2. Development on higher value residential land (£3,000,000 per hectare) proves to be less viable. It was found that a community fund of £155 per m2 is achievable when Code Level 4 costs and 10% affordable housing are assumed. The delivery of higher affordable housing targets and Code Levels is likely to be challenging. **Notional Sites of 200/ 500/ 1,000 units:** The study found that larger sites in Value Area 4 constructed on greenfield land (£480,000 per hectare) can deliver a community fund of over £300 per m2 with an affordable housing contribution of 40% and Code Level 4 costs. When Code Level 6 costs are assumed, 40% affordable housing and a community fund of £230 per m2 is achievable. Viability testing of a 200 unit development against industrial benchmark land values of £1,600,000 indicates that this category of development is less viable and that a community fund contribution of £160 per m2 is achievable when 40% affordable housing and Code Level 4 costs are assumed. When Code Level 6 costs are assumed, this scheme type becomes less viable and a community find contribution of £144 per m2 is achievable when the affordable housing target is lowered to 25%.

Value Area 5 (Harlow, Rural West)	CM20/ SG2	**Notional Sites of 15/ 50 units:** Viability is challenging on all sites in the Harlow and Rural West area (Value Area 5). The smaller development types are unable to make a contribution towards the community fund when industrial and residential land values are assumed. **Notional Sites of 200/ 500/ 1,000 units:** The study found that larger sites in Value Area 5 constructed on greenfield land (£480,000 per hectare) can deliver a community fund of £68 per m2 with an affordable housing contribution of 10% and Code Level 4 costs. The delivery of higher proportions of affordable housing and higher code levels is likely to be challenging. In Value Area 5 (Harlow and Rural West), property values were found to be skewed by values outside of the boundary of the district. The results presented for Value Area 1 may be more appropriate for this value area as house prices are approximately 15% to 20% greater. Values in this location will be greater if lower value units from outside the District were not assumed. An uplift in value will also be required for any future Major Development Area (MDA) sites which are likely to achieve greater property values and create a new 'Value Area'.

29. Sensitivity testing of affordable housing requirements at 40%, 25%, and 10% indicates that the amount of money achievable for the community fund increases as affordable housing percentage requirement reduces. This demonstrates that it will be necessary for the Council to decide what its priorities for planning policy costs are, once the Stage 2 viability study has been completed.

30. Although the land values are sufficiently high in East Herts District to deliver a significant level of funding as part of a community fund, there is nevertheless a ceiling above which development will become unviable. An illustration of the types of policy choices which the Council will need to make are provided in the chart below:



31. Options A, B, and C represent policy choices which East Herts Council could make. The different policy costs are purely illustrative, and do not in any way suggest what the Council's priorities should be. In each case, the same amount of money is available from development. Therefore, if the Council's priorities are to seek Section 106 and Affordable Housing contributions, for example, Option A could be pursued, although this option would limit the money available for other policy areas. Options B and C represent different ways of 'cutting the cake'.

32. It is unlikely that any future CIL charge will be set at the maximum level indicated by the viability assessments. This leaves a margin to allow for market fluctuations and site specific viability issues. The identified Community Fund also includes contributions towards Section 106 and infrastructure/ sustainability costs. The refinement of infrastructure costs and development options will help to determine how the Community Fund 'Pot' is divided between Section 106 costs, on-site infrastructure and CIL. The Stage 2 Study will then be able to include more accurate infrastructure and Section 106 costs. These will then be tested as a cost to development which will help to establish the CIL rate.

33. The viability appraisals indicate that residential development can make a significant contribution to the Community Fund in Value Areas 1 to 4. The Strategic Assessment of Development Viability has identified the following recommendations:

- The Council anticipate that over 70% of the units delivered through the District Plan will be built on greenfield land. A review of the final version of the Development Strategy will be required once finalised. The land use categories being developed will have an impact on the amount of Community Fund that may be chargeable. For example, it may be appropriate to implement a different Community Fund rate in a Value Area/ Charging Zone where the majority of development will be in the form of greenfield to residential (e.g. the development of a Strategic Site on greenfield land). The Stage 2 Study will be able to consider this in greater detail.

- In value areas where the future Development Strategy shows that the majority of development is likely to take place on industrial and previously developed land, a alternative Community Fund rate may be appropriate.

- In Value Area 5 (Harlow – Rural West), the private market values assumed are likely to be higher than tested as they may have been skewed by lower values in Stevenage and Harlow. Further analysis of values in this area will be required. Values in this location will be greater if lower value units from outside the District were not assumed. An uplift in value will also be required for any future Major Development Area (MDA) sites which are likely to achieve greater property values and create a new 'Value Area'. As such, the results presented for Value Area 1 may be more relevant to this Value Area as property prices are 15% to 20% higher.

- Viability analysis has suggested that there may be scope for smaller developments of 5 dwellings to provide a contribution towards the Community Fund and this will be further explored by Stage 2 of the Strategic Assessment of Development Viability.

- After the Development Strategy has been finalised, it is recommended the Council review the conclusions of the Infrastructure Deliver Plan. It is also recommended the Council prepare a costed schedule of infrastructure for inclusion in a draft charging schedule for the purposes of demonstrating the existence of an infrastructure funding gap in order to justify a CIL Levy.

- Care needs to be taken when interpreting the viability results, particularly on the larger sites which assume infrastructure costs of £15,000 to £25,000 per unit and external build cost set at 15%. The infrastructure costs for short term (years 1-5) requirements and the major physical infrastructure required to bring forward strategic development locations have yet to be determined. This will have an impact on viability and the development frameworks to be agreed with site promoters in advance of the new District Plan's independent Examination. If higher infrastructure costs are identified, this will affect viability and the level of Community Fund achievable.

- Further testing will be required in the form of a Stage 2 Study when infrastructure items and likely Section 106 costs have been identified. It is unlikely that any future CIL charge will be set at the maximum level indicated by the viability assessments. This leaves a margin to allow for market fluctuations and site specific viability issues. The identified Community Fund also includes contributions towards Section 106 and infrastructure/ sustainability costs. The refinement of infrastructure costs and development options will help to determine how the Community Fund 'Pot' is divided between Section 106 costs, on-site infrastructure and CIL. The Stage 2 Study will then be able to include more accurate infrastructure and Section 106 costs. These will then be tested as a cost to development which will help to establish the CIL rate.

- If the development options alter significantly to the site categories already tested, further viability analysis will be required. The results of the viability testing have shown enough variation on a spatial/ geographical basis to justify a differential CIL charge. The identified Value Areas may form the basis for different charging zones.

- Viability testing cannot take into account of every exceptional circumstance and there may be examples of sites within a zone which produce residual values contrary to the model results.

- It is recommended that a review of these recommendations will be required in the light of any changes to the policy context or to market conditions. Public consultation on a preliminary draft Charging Schedule will also be required prior to submission for independent examination.

Paper 2 – Commercial Development: Key Findings and Next Steps

- Paper 2 of this Stage 1B Report considers the viability of non-residential and mixed use development schemes. The Stage 1B - Paper 2 conclusions are that a community fund charge would not be appropriate due to the depressed climate in relation to industrial or office development.

- Although the Study indicates that there is not any scope for a Community Fund contribution on mixed use developments, there may be scope for a contribution when further tests are undertaken. The mixed-use results focus on a mixed use development in Bishop's Stortford. The residential element of the scheme is built at a net density of 65 dph. Mixed use development at lower density and in higher value areas may be able to contribute towards the community fund and it is recommended that the Stage 2 study examines this in more detail. This test was also undertaken using industrial benchmark land values. The viability of mixed use developments built on greenfield land will be explored as part of the Stage 2 Study.

- Paper 2 recommends that there could be scope for a community charge in respect of retail development and that the Local Authority may wish to give consideration to varying the rate to charge according to postcode with a recommendation of £150 per square metre for the town postcodes of Bishops Stortford, Sawbridgeworth and Hertford in respect of the rest of the area should be assessed no higher than £100 square metres.

  Paper 2 has tested Care Home development using typical costs and values for the District of East Herts. The study found that there was no scope for a community charge for this form of development at this stage. It is recommended that the Stage 2 Study examine the viability of these schemes in further detail to establish if a Community Fund contribution is achievable in some of the higher Value Areas.