Leeds
CITY COUNCIL

Report author: Lora Hughes
50714

Report of the Director of City Development

Report to: Development Plan Panel

Date: 19th December 2012

Subject: Leeds Community Infrastructure Levy – Results from the Leeds Economic Viability Study

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): District Wide	☒ Yes	☐ No
Are there implications for equality and diversity and cohesion and integration?	☒ Yes	☐ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of Main Issues

1. At Development Plan Panel on 11th September Members were informed that the consultancy GVA had been appointed to undertake the key piece of evidence to inform the development of the Leeds Community Infrastructure Levy (CIL); an Economic Viability Study.

2. The Study has just been completed and GVA are attending the Panel in order to present an overview of their key findings, and recommendations.

3. Members will also be updated on other evidence sources and issues which need to be taken into account in setting the CIL rates.

4. The key results arising out of the Viability Study are:
    a. A zoned basis for residential development: City Centre, Inner Areas, Outer Southern Area, and the Outer Northern / Golden Triangle Area, with a range of maximum CIL rates from a zero charge, to £100 per sqm.
    b. A zoned basis for within or outside the City Centre for offices and retailing, with a range of maximum CIL rates from a zero charge, to £275 per sqm.
    c. No charges for any other uses.

5. Members will be shown in detail the current proposed zone boundaries, and Members' views will be sought regarding where there needs to be minor changes to these boundaries based on ward boundary anomalies.

6. Members should be aware that the purpose of this report is broadly for information, with a view to presenting a follow up report to the 14th January 2013 Development Plan Panel. The purpose of the subsequent report will be to consider the Leeds Preliminary Draft Charging Schedule, including the proposed zones across the District for different rates. This will take into account the advice and evidence in the Viability Study, alongside national guidance, local aspirations including infrastructure needs, and other issues including equality implications.

Recommendations

Development Plan Panel is requested to:

i) Note the information relating to the Economic Viability Study for the Leeds Community Infrastructure Levy, with view to receiving a further report setting out the Preliminary Draft Charging Schedule.

1.0 Purpose of this Report

1.1 This report gives an overview of the findings and recommendations of the Economic Viability Study undertaken by consultants GVA as the key evidence base for the development of the CIL for Leeds.

2.0 Background Information

2.1 The Community Infrastructure Levy Regulations (2010 and amended 2011, final Regulations expected early 2013) set out that a charging authority can choose to charge the CIL on new development in its area. The charges must be set out in a Charging Schedule, and must be based only on viability evidence. The CIL Regulations have also changed the use of S106 planning obligations. From April 2014 it will no longer be possible to secure S106s for District wide requirements such as greenspace, transport schemes and education facilities.

2.2 In December 2011 the Executive Board agreed to progress work on developing a CIL for Leeds.

3.0 Main Issues

3.1 Consultants GVA were appointed to undertake the key piece of evidence to inform the CIL, an Economic Viability Study. Members will recall that GVA attended Development Plan Panel on 11th September to answer any initial questions. Following the completion of the Study, GVA will be attending Panel in order to present a brief overview of the methodology and to focus on the findings and recommendations. GVA have previously presented the Study's methodology to Scrutiny Board (Housing and Regeneration) on 25th September.

<u>Methodology and Consultation</u>

3.2 GVA in discussion with the City Council agreed the various assumptions and inputs to be used in the Study. They tested a range of uses across the District using a residual appraisals methodology of hypothetical sites based on appropriate sample sizes and typologies. This took into account the Council's current and potential future policy requirements, such as for affordable housing, greenspace, Code for Sustainable Homes, and other relevant assumptions. This included the policy requirements for new development in the emerging Core Strategy. The methodology was in line with Government CIL guidance and Royal Institute of Chartered Surveyors guidance on viability appraisals.

3.3 A development industry workshop was held on the 14th September, with 60 attendees. They were invited to submit any comments regarding the methodology and the detailed assumptions in it. Whilst a number of useful comments were received, these did not require any major changes to the Study's approach. This frontloading aimed to understand developers' concerns at an early stage and attempt to reduce subsequent objections. Useful comments were also received in relation to other related information to be released at the Preliminary Draft Charging Schedule stage, which officers are taking into account.

<u>Key Recommendations</u>

3.4 The overall market context of the Economic Viability Study is that for both residential and commercial development the market remains fragile as a result of the economic recession affecting demand. There have been some periods of short lived stability, but little evidence that represents a solid signal of sustained market recovery. Land values have been subject to a marked decline since mid-2007 as landowner expectations of value have been affected by the recession and implications of the slow down in demand. Values for potential residential land have also been somewhat artificially supported by the availability of grant funding which will be less easily available in the future. Market demand for business and employment floor space remains sensitive to the national and regional economic situation. It is a fragile position that shows only slow signs of recovery in terms of demand and the values achievable.

3.5 Provided the effects of introducing design standards and policy requirements, including CIL, do not result in a reduction in land values of more than 25% it is the Study's view that landowners will not ultimately withhold their land from the development market beyond the immediate period when the CIL is introduced. Where land value is affected by a greater proportion it is considered that that landowners will reasonably seek alternative uses for their land or will withhold it from development.

3.6 The key recommendations of the Economic Viability Study are the maximum CIL rates which could be set across a range of development types.

Residential

3.7 Appendix 1 shows a map of the housing market areas used as the basis of the residential modelling zones. Four zones were used; City Centre, Inner Areas, Outer Southern Area, and the Outer Northern / Golden Triangle Area. For consistency these are the same as used in the previous Economic Viability Assessment for affordable housing and the Strategic Housing Market Assessment update 2010, as these 4 broad areas are considered to be broadly representative of different housing characteristics, land values and house prices within Leeds.

3.8 The CIL is not feasible within the City Centre or Inner Areas, both for greenfield and brownfield sites. Within the Outer Area greenfield sites are feasible at rates between £25psm and £50psm although some sites, particularly large sites, may not come forward for development at the highest rate. Brownfield sites could be charged £25psm although site values are very low/marginal at best. Because the outer area has a very diverse value geography, it is recommended that consideration is given to splitting this zone further into two, and setting two rates to reflect the differences in values. This work is underway to determine this on a map base.

3.9 Within the Golden Triangle Area the CIL is considered feasible at rates between £75psm and £100psm on greenfield sites and £50psm on brownfield sites. As development will primarily come forwards on greenfield sites in this area then it is considered appropriate to set the CIL rate at the greenfield level.

Type of development in Leeds	Viability Study Recommended Maximum CIL Charge per sqm
Residential – Golden Triangle	**£100 /sqm**
Residential – Outer Area	**£25 - £55 /sqm**
Residential – City Centre, Inner Area	**£0 /sqm**

Commercial

3.10 For commercial uses GVA advised that the markets and values are broadly the same across the District, other than for offices and retailing in the City Centre. Greenfield sites allow a higher CIL charge than brownfield sites across all the development types, but due to new commercial development likely to be primarily only on brownfield land, brownfield rates have been recommended.

3.11 For retail, a range of sizes and types of units were modelled, including within and outside the City Centre. As a result it is proposed that a distinction is made as to the size of unit to which a charge would apply, and also a different rate within and outside the City Centre. The size distinction arises from the type of occupier likely to take a larger unit, bringing a stronger covenant and better rents and yields. A 500sqm threshold is proposed as this allows flexibility for both slightly larger convenience stores and smaller supermarkets to be developed providing an appropriate margin between different types of store able to support a CIL charge. 500sqm has also been recognised as an appropriate threshold in other authorities.

3.12 In setting the rates it also needs to be remembered that retail development often acts as enabling development, and therefore it is again recommended that rates be set with reference to brownfield land so as to maximise this enabling potential.

3.13 For other commercial uses, the summary table below shows the maximum rates proposed across the District.

Type of development in Leeds	Viability Study Recommended Maximum CIL Charge per sqm
Retail: < 500 sqm	**£0 /sqm**
Retail: City Centre ≥ 500 sqm	**£175 /sqm**
Retail: Outside of City Centre ≥ 500 sqm	**£275 /sqm**
Offices: City Centre	**£100 /sqm**
All other uses	**£0 /sqm**

3.14 Hotels, residential care homes, and student accommodation were specifically modelled but show that a CIL rate would not be viable. All other uses that do not fit within other categories are legally referred to as sui generis. It is not anticipated that there will be a significant provision in the market for new build of other uses not discussed previously. There are also no allocations made for these uses in the Core Strategy. Therefore these uses were not modelled in the viability assessment and should be subject to a zero CIL charge.

3.15 ***Members' views are invited on whether different rates should be set on the zoned basis as outlined above, in order to proceed with the Preliminary Draft Charging Schedule*.**

<u>Other Issues to Consider</u>

3.16 It is recommended that there is an early review of potential charges in around 2016/2017 when there will be evidence as to how the local market, landowners and developers have responded to the charges.

3.17 The CIL Regulations state that the CIL should be set high enough to ensure that when combined with other sources of funding it makes a good contribution towards the infrastructure needed to support growth. However, it shouldn't be set so high that the growth set out in the Core Strategy is made unviable and become a serious risk the overall development of the area. This needs to be 'an appropriate balance'. The Viability study results do therefore have to be balanced alongside other information.

3.18 The impact on affordable housing also needs to be considered, as once adopted the CIL will not be negotiable, whereas affordable housing will remain negotiable and therefore there will be pressure to reduce provision where schemes are not viable.

3.19 It is therefore recommended that to create an appropriate balance a rate of £10 per square meter below the maximum rates in the Viability Study should be used.

3.20 ***Members' views are invited on the appropriate balance in setting the Leeds CIL, and whether this rate of £10 below the rates in the Viability Study is appropriate*.**

3.21 Other authorities' CIL rates can be referred to as a broad comparison, but caution must be used as they all have different cost assumptions and different policy requirements which must be factored in. Within this context, neighbouring authorities have been given an opportunity to contribute in order to share information and ideas. Where possible the EVS for Leeds has taken into account the same assumptions as for neighbouring authorities and is confident in the assumptions used where they vary. Bradford, Kirklees, and Harrogate are at the same stage as Leeds in finalising their viability evidence, and Wakefield, Selby, and Craven are beginning their viability studies.

3.22 The Government introduced the CIL in order to create significant new funding, so matching the historic S106 receipts is the least that should be considered. The average for the last two years of S106 monies received from all development types (excluding affordable housing) is £3.3m per year.

3.23 Based on the maximum Viability Study rates the average CIL receipt from residential development across Leeds could be around £5.7m a year (although this would be lower for the first couple of years after the CIL is adopted due to the amount of extant permissions which CIL would not be charged on, and for demolitions or changes of use). This projection of £5.7m does not take into account additional CIL from non-residential uses and additional S106 payments relating on site specific matters, which are assumed to be around £1 million, although this will be negotiable. The CIL should therefore bring in more infrastructure funding than under the current S106 system.

3.24 Other investigation of the S106 information shows that even in areas or types of development where the Viability Study shows schemes are generally unviable, some schemes have come forward which have signed S106s. Therefore there is a strong argument to state that in balancing this information against the Viability Study results, a nominal charge of £5 should be set on the locations and many of the rates the Study shows as zero charge. This would not only bring in more revenue overall, but would mean that local development would bring local benefits through providing a meaningful proportion to all local communities. However, the Charging Schedule needs to be as simple as possible, and it may not be appropriate to set this nominal charge against all other development types.

3.25 ***Members' views are invited on whether to set a nominal rate for all or some types of development which the Viability Study proposed as a zero charge, bearing in mind the considerations above*.**

3.26 In setting the Preliminary Draft Charging Schedule, there is some scope for the City Council to alter to a minor extent the CIL residential zone boundaries used in the Viability Study, based on local knowledge, the need to follow physical attributes rather than ward boundaries, and the detail of specific sites and where larger sites may be split across two zones. This does need to be balanced against the viability considerations, and will have to ensure that there is equality as far as possible based on sites and geographies with similar characteristics across the District.

3.27 ***Members' views are invited on the detailed residential zone boundaries, in order to proceed with setting an OS map base for the Preliminary Draft Charging Schedule*.**

3.28 The Council can choose to adopt an Instalments Policy, which allows developers to pay their CIL charges in phased stages. Without such a policy, the whole of the CIL charge is liable on the commencement of development. Generally, authorities have adopted an Instalments Policy for larger developments to reflect that phased payments can help developments to be more viable, which is especially important in the current market.

3.29 ***Members' views are invited on whether to have an Instalments Policy for phased payments of the CIL charge*.**

3.30 The Council can also choose to adopt an Exceptional Circumstances Policy, whereby developers can request through a viability appraisal for some of all of the CIL charge to be waived. This is intended to be for exceptional circumstances only, and has very narrow criteria. These criteria are that the development would pay a higher S106 charge than the total CIL charge, and that the relief would not constitute State Aid. This will be discussed in more detail at Development Plan Panel in January.

Next Steps

3.31 On January 14th, Development Plan Panel Members will consider the CIL Preliminary Draft Charging Schedule. This will include the proposed CIL rates and the proposed zones across the District for different rates. This will take into account all the considerations above including the advice and evidence in the Viability Study, alongside national guidance, local aspirations including infrastructure needs, and other issues including equality implications.

3.32 Subject to consideration at Executive Board on February 15th, it is anticipated that the formal public consultation period on the Preliminary Draft Charging Schedule will commence in March 2013. This will be a 6 week period of publication of all the relevant documents and background evidence, and will include stakeholder events as appropriate.

3.33 Following any amendments as a result of the Preliminary Draft consultation, there will be an opportunity for public representations on the Draft Charging Schedule currently anticipated in mid 2013, followed by Examination in late 2013. It is intended to adopt the CIL by April 2014 following resolution by Full Council.

4.0 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Executive Board agreed to implement a CIL for Leeds in December 2011, and Members have been kept aware of ongoing work since then. As yet there has been no formal consultation stages of the CIL. The first formal consultation will be on the Preliminary Draft Charging Schedule, anticipated in March 2013.

4.1.2 The current work on the Economic Viability Study as the key piece of evidence to inform the CIL has included informal consultation with the development industry by holding a stakeholder workshop in mid-September, and with neighbouring authorities through ongoing meetings and discussions. Following the completion of the Viability Study, Development Plan Panel will make recommendations to Executive Board on the final CIL rates to be set out in the Preliminary Draft Charging Schedule.

4.1.3 The initial findings of the Viability Study were also presented to Scrutiny Board on 25th September 2012. Briefings have been given in December 2012 which were available to all Members, to give a broad overview of the CIL, how the CIL rates are a separate decision making process from the spending mechanisms for the CIL receipts, and to outline the draft Study results.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 An Equality Impact Assessment Screening was undertaken on the Executive Board report in December 2011. This concluded that equality, diversity, cohesion and integration issues were being considered as part of the preparation of the CIL although it was too early to be able to have any meaningful consideration of specific effects.

4.2.2 A draft Equality Impact Assessment Screening has been undertaken to help work up the recommendations for the CIL rates to be set in the Preliminary Draft Charging Schedule. This is attached as a background document to this report for information, although it will be updated as a formal Screening document for the next Panel on 14th January to assist with Members' decision making and to give due regard to equalities implications.

4.2.3 The draft Screening sets out that there are three elements in considering equality in the Community Infrastructure Levy (CIL) charge setting process:

1) Equal and fair consultation throughout the charge setting process.
2) Equality for those who will have to pay the charge.
3) Equality as a result of decisions on spending the CIL and subsequent service and infrastructure delivery (which links back to a certain extent to the geographical locations where it is charged).

4.2.4 The consideration of most relevance to equality, diversity, cohesion, and integration will be relating to the choices to be made in spending the CIL, based to a large extent on geographical differences including infrastructure needs. This includes the 'meaningful proportion' to be given to the community for spending. The impacts would arise at the point at which money has been secured through CIL and new or improved infrastructure is actually delivered; they would not arise directly as a result of the Charging Schedule itself. Such matters will also involve extensive consultation and agreement with a wide range of stakeholders, and equality and cohesion will need to be fully integrated into decision making as there will likely be disproportionate impacts and mitigation. Therefore as the decisions to be taken on governance, spending, and service delivery cannot be fully considered until after the initial rates have been set and an estimate of potential revenues can be determined the Screening is primarily concerned with the first two elements set out above.

4.2.5 The conclusions in relation to the screening for the current stage are that overall the CIL will be a benefit for the people of the District, and that no impacts are identified that cannot be mitigated against. The key mitigation is in considering whether to set a nominal CIL charge against all types of development in all locations to ensure that every community can benefit from local growth. The public consultation stages will ensure that interested parties will have an opportunity to comment and to influence the rates and zones. Zone boundaries need to be carefully considered in order to ensure equality alongside the key consideration of viability.

4.3.4 It will be necessary to continue to have regard to equality and diversity issues as part of the ongoing process of developing a CIL for Leeds, including arranging and responding to appropriate consultation stages, and in particular in the governance and spending arrangements which are still to be set up across the Council. Another formal Screening will be required at the point of decision making on such aspects.

4.3 Council Policies and City Priorities

4.3.1 The CIL is already a process which local authorities can use, as supported by the CIL April Regulations (2010, 2011, 2012). The CIL will be a document within the Local Development Framework. The intention to develop the CIL broadly reflects

Council policies and city priorities in that it emphasises incentivising growth, both to the development industry and local communities.

4.4 Resources and value for money

4.4.1 Executive Board gave agreement in December 2011 to progress work on the CIL, including the release of the necessary funds. The Government recognises that costs will be incurred and so the Regulations allow set up and administration costs to be reclaimed from future CIL receipts. The implementation of the CIL in Leeds is expected to result in increased funding for strategic infrastructure across the District. The impetus to deliver the CIL as early as possible would therefore provide the most value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The Community Infrastructure Levy Regulations (2010 and amended 2011 and 2012, final Regulations expected early 2013) set out that a charging authority can choose to charge the CIL on new development in its area. The charges must be set out in a Charging Schedule, and must be based only on viability evidence. The CIL Regulations have also changed the use of S106 planning obligations. From April 2014 it will no longer be possible to secure S106s for District wide requirements such as greenspace, transport schemes and education facilities

4.5.2 As this report is for information only, it is not subject to call-in, however the future Key Decision on setting the CIL rates for the Preliminary Draft Charging Schedule will be subject to call-in.

4.6 Risk Management

4.6.1 If the Community Infrastructure Levy is not brought forward in Leeds, then the Council is at risk of losing out on monies which under the present system are gained through the S106 mechanism, as this system will no longer be available. In addition, the introduction of the CIL is intended to bring in a greater amount of infrastructure funding than at present, alongside wider benefits to incentivise development such as more certainty to developers, and more acceptance by local communities. In order to manage this risk it is recommended that Officers continue to work on the development of the CIL as outlined in this report. The preparation of the CIL is a challenging process within the context of ongoing national changes to the Regulations, limited precedents nationally, and in responding to local issues and priorities. Consequently, at the appropriate time advice is sought from a number of sources, including legal advice and that from the Planning Advisory Service, Planning Officers Society, and neighbouring authorities as a method to help manage risk and to keep the process moving forward.

5. Conclusions

5.1 This report aims to update Development Plan Panel on the results of the CIL Economic Viability Study and to provide an overview of other considerations, to be taken into account in considering the Preliminary Draft Charging Schedule at the next Panel.

5.2 The Viability Study shows maximum rates which would be viable which leads to three zones for residential development (one of which is zero rated), a charge for city centre offices and large format retailing, and no charge for any other use. It is likely that based on historic S106 evidence, a nominal charge would be set for many of the uses and locations which the Viability Study shows as zero rated.

6. Recommendations

6.1 Development Plan Panel is requested to:

i) Note the information relating to the Economic Viability Study for the Leeds Community Infrastructure Levy, with a view to receiving a further report setting out the Preliminary Draft Charging Schedule.

7. Background documents[1]

7.1 Relevant background documents are the Executive Board report 14th December 2011, the Economic Viability Study Brief for Consultants, the draft Infrastructure Delivery Plan (February 2012), and the draft Equality Screening for Development Plan Panel on January 14th 2013. These documents can be obtained from Lora Hughes on 0113 39 50714.

APPENDIX 1

1. Map Of Housing Character Areas

[1] The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

APPENDIX 1 – MAP OF HOUSING CHARACTER AREAS USED IN LEEDS CIL ECONOMIC VIABILITY STUDY