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Critique of Keppie Massie & WYG Community Infrastructure Levy (CIL) Economic Viability Study:

Sefton Preliminary Draft Charging Schedule

Contract Ref. No: 162EGW00

July 2016

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1. Introduction

1.1. This Financial Viability Critique of an Economic Viability Study has been commissioned by Bellway Homes in response to an area wide CIL Viability Study, prepared by Keppie Massie and White Young Green ('WYG'), on behalf of Sefton Council as part of their justification for the appropriate level of Community Infrastructure Levy that can be supported by residential developments in the Borough.

1.2. Keppie Massie have produced a CIL Economic Viability Study, dated February 2016 which is an update to, and should be read alongside a "Local Plan & Community Infrastructure Levy, Economic Viability Study" (LPEVS) again prepared by Keppie Massie on behalf of Sefton Council and dated December 2014. Following the February 2016 report, Keppie Massie issued an addendum report, relating specifically to CIL charging for apartment schemes.

1.3. The critique is based on an accepted industry methodology which has been tested by key stakeholders from both the private and public sectors. It is based on up-to-date, local information which will stand up to public scrutiny.

1.4. This report is produced for the purpose of critiquing Keppie Massie's Economic Viability Study, we do not provide our opinion of the appropriate threshold land values nor the appropriate CIL level that we believe should be adopted by the Council.

1.5. It is important to ensure that any impacts resulting from new development should be mitigated with appropriate contributions to local infrastructure; however, Government's objective of boosting the supply of new housing will not be achieved if new developments prove unviable. It is therefore key to ensure that the adopted CIL level does not compromise the viability of development and undermine the deliverability of much needed new homes, while also ensuring the landowner receives a fair and reasonable price for the release of land for development.

2. Community Infrastructure (CIL) Regulations

Background to CIL Setting rate

2.1. CIL Regulation 14 was amended as part of wider CIL Regulation amendments as at 24 February 2014, for the purposes of this work CIL regulation 14 is the most important change and has been updated as follows:

14.—(1) "*In setting rates (including differential rates) in a charging schedule, a charging authority must strike an appropriate balance between—*

(a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and

(b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area".

2.2. In March 2010 CLG published Community Infrastructure Levy Guidance, Charge setting and charging schedule procedures to support the CIL Regulations. These were replaced by Community Infrastructure Levy, Guidance (December 2012 and April 2013). These were then replaced by Community Infrastructure Levy, Guidance (February 2014) and then on 12th June 2014 were incorporated into the PPG. On preparing the evidence base on economic viability the CIL Guidance now says[1]:

"*A charging authority must use 'appropriate available evidence' (as defined in the Planning Act 2008 section 211(7A)) to inform their draft charging schedule. The Government recognises that the available data is unlikely to be fully comprehensive. Charging authorities need to demonstrate that their proposed levy rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole.*

A charging authority should draw on existing data wherever it is available. They may consider a range of data, including values of land in both existing and planned uses, and property prices – for example, house price indices and rateable values for commercial property. They may also want to build on work undertaken to inform their assessments of land availability.

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[1] [1] How should Development be valued for the purposes of the levy: Planning Policy Guidance: ID 25-019-20140612

In addition, a charging authority should directly sample an appropriate range of types of sites across its area, in order to supplement existing data. This will require support from local developers. The exercise should focus on strategic sites on which the relevant Plan (the Local Plan in England, Local Development Plan in Wales, and the London Plan in London) relies, and those sites where the impact of the levy on economic viability is likely to be most significant (such as brownfield sites).

The sampling should reflect a selection of the different types of sites included in the relevant Plan, and should be consistent with viability assessment undertaken as part of plan-making".

2.3. The test that will be applied to the proposed rates of CIL are set out in Section 2.2 of the CIL Guidance, putting greater emphasis on demonstrating how CIL will be used to deliver the infrastructure required to support the Plan.

2.4. The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.

2.5. This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1)), charging authorities should be able to show and explain how their proposed levy rate *(or rates) will contribute towards the implementation of their relevant plan and support development across their area.*

2.6. As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), 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. The same principle applies in Wales.

2.7. The test[2] is whether the sites and the scale of development identified in the Plan are subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened by CIL. This is somewhat more cautious than the approach set out in earlier guidance. In the March 2010 CIL Guidance, the test was whether the Plan was put at '*serious risk*', and in the April 2013 CIL Guidance, the test was whether CIL 'threatened the development plan as a whole' – although it is important to note that the CIL Regulation 14 is clear that the purpose of the viability testing is to establish '*the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area*' rather than in specific sites.

[2] Appropriate Balance - Planning Policy Guidance: ID 25-009-20140612

3. Critique of Keppie Massie & WYG Appraisal Inputs - Sefton CIL Economic Viability Study

3.1. Cushman and Wakefield have reviewed the Local Plan, Economic Viability Study Reports (LPEVS), produced by Keppie Massie (KM) and White Young Green (WYG), dated December 2014 and February 2016, plus an addendum report relating to CIL charging on apartment schemes. In addition to these reports, we have also reviewed the accompanying document: Sefton Council's initial Draft Regulation 123 List.

3.2. This report analyses and critiques the appraisal assumptions made by Keppie Massie in order to conclude their opinion of appropriate CIL charging bands for different areas within the Sefton Borough.

3.3. In the LPEVS (December 2014) report, KM have tested the viability of 14 developments identified in the 2013 SHLAA that vary in size and location across the Borough.

3.4. We have summarised the pertinent appraisal inputs KM adopt with our comments in the overleaf table.

Appraisal Input	Modelling Adopted / KM Appraisal Assumption	C&W Comments
Sales Values	KM detail their opinion of average sales values for different wards and areas in the Borough on a per net sq.ft (LPEVS Dec 2014) Zone 1: £150 psf Zone 2: £170 psf Zone 3: £190 psf Zone 4: £200 psf Zone 5: £220 psf	Having reviewed the comparable market evidence, and considering our own experience of analysing sale values in the area, the adopted values for each location broadly appear to be appropriate to adopt. However KM have adjusted 2 areas into a higher value 'zone' and we provide further analysis of this later in the report.
Affordable Housing	KM adopt a policy position of a 30% affordable housing provision and a tenure mix of 80% Social rent and 20% Intermediate with a value based on 40% of MV for the social rent properties and 65% of MV for the intermediate housing.	We understand Registered Providers are acquiring property at a lower % to MV than that stated by KM. Expectations are 60% of MV for those with an intermediate tenure.
Construction Costs	KM rely on WYG to determine base construction costs which include external works, services, preliminaries, fees and a contingency. WYG have provided site specific abnormal costs and commuted sums.	We have analysed the base build costs stated by WYG for each site and compared with build cost evidence we have been provided with from national housebuilders as a cross check. Each site is impaired by unique ground and access conditions therefore abnormal costs will vary from site to site. We provide further analysis on the build costs later in this report.
	Contingences @ 5%	A 5% contingency is a typical level that national volume housebuilders would adopt, however this could be higher on smaller, more bespoke schemes due to greater unknowns.
	Professional Fees @ 5%	KM adopted 8% professional fees in their review of Cheshire West and Chester's CIL economic Viability Study. We believe 8% is a more appropriate figure to adopt rather than 5%.
Sales and marketing Costs	KM adopted a disposal cost of £3.5% of GDV for the marketing housing and a £500 per unit cost as a transfer of the affordable housing unit to a registered provider.	3.5% appears to be a reasonable typical market level to adopt
	Finance Rate: Smaller Sites: 6% Larger Sites: 7%	Typically smaller sites would be developed from smaller, more local house builders who would likely be perceived as more risky to banks and as such wouldn't benefit from a discount rate to finance borrowing rates. Therefore a rate of 7% should be adopted across all sites.
	Developer's Profit: Smaller Sites: 15% Larger Sites: 20%	The market tends not to differentiate between the return a developer would look to seek. A developer would typically look to achieve a return of 20% of GDV

	Development Profile and rate of sale: 5 month build period followed by a sales rate of 3-5 units per month depending on size of the site	The market is showing a sales rate of 30-36 units pa (2.5 - 3 units per month). A rate in excess of 36 units pa is typically too aggressive, even with two housebuilders on site. KM's CIL rep for Cheshire West and Chester stated a sales rate of 2.5-3.3 units per month (50-40 units pa) therefore by adopting a rate of 4-5 units per month is inconsistent with other CIL consultation reports KM have produced. We believe the first house sale commencing 5 months after a start on site is fundamentally incorrect. The market typically recognises there is a period where any planning pre-conditions must be full-filled and there is site preparation and remediation periods prior to house build commencement. This pre construction and site preparation period could run for a minimum of 12 months, prior to house build commencement begins. This is then followed by a 6 month build period before first house completion. It is more realistic to therefore assume an 18 month construction period before first sale rather than a 5 month. While it is acknowledged that site preparation and set up periods can vary from site to site depending on ground conditions, demolition works, contamination remediation measures etc, A 5 month build period is not a realistic position to adopt.
Reasonable Landowner's expectation of value	KM have formed an opinion of greenfield and brownfield land value dependant on where the site is located. This is summarised under two tiers (higher or lower) depending on value of the area	Having reviewed the greenfield and brownfield land values that a reasonable land owner would receive, we have cross checked these with the land values from other North West CIL charging boroughs have adopted and transactional evidence, and believe the KM figures to be low. We provide further analysis on threshold land values later in this report.
Acquisition Costs	KM adopt a 1% agency fee and 0.75% legal fee	We expect the land acquisition costs to total 1.8%. This is calculated from an agent's fee of 1% and a legal fee of 0.5% + VAY at 20% (i.e. 0.3% to the 1.5%). Plus Stamp Duty

3.5. Having reviewed the appraisal methodology rationale in the KM study, the key areas where KM differ from the market are the timescales of the delivery of the residential units, the land owner's expectation of land value (Threshold Land Value) and build costs which we explore in greater detail in sections 4&5 of this report.

3.6. A build programme of 5 months after site acquisition prior to first sale completion is not a realistic assumption to adopt. We have worked with several regional and national house builders on Viability and Expert Advice, and never come across this profiling. There will be a period to satisfy all planning conditions and mobilisation of contractors. Following this, there is a period of site set up/site preparation and site remediation works that must be undertaken prior to the construction of the dwellings can commence. From our experience, these two initial phases often last in excess of 12 months followed by a 6 month build programme prior to first sale, however these periods can differ from site to site depending on a number of factors.

4. Critique of Methodology and Calculation of CIL Stated by Keppie Massie

4.1. In order to understand how KM concluded their opinion of CIL surplus to the 14 site typologies on a Greenfield and brownfield basis, we have reviewed the appraisal methodologies which we assume KM have then used to generate a residual land value through the Argus Developer Appraisal Software.

4.2. KM have split the Borough into 5 Zones depending on value which broadly appear to be in line with our expectations. In the February 2015 report, KM have obtained Land Registry Information to show the shift in house prices within the region. Although the KM report is showing an increase in house prices since 2014 they have not uplifted values in their appraisal due to an offset in build cost increases and as such continue to rely on the WYG build cost figures from December 2014. Furthermore KM have moved the sites in Crosby and Hightown from Zone 4 to the higher value Zone 5. It is not appropriate to shift values without re-visiting build costs to show the CIL surplus adjustments in these locations.

Keppie Massie's Calculation of CIL

4.3. KM do not explicitly show how the CIL surpluses or deficits are calculated, however we have run test appraisals using the assumptions in the Keppie Massie December 2014 study, to understand how they conclude their opinion on CIL, using our appraisal Argus Developer software. We provide analysis of our test appraisal in section 6 of this report.

4.4. Pages 81-88 of the LPEVS (December 2014) report, KM state baseline CIL surpluses and deficits for each of the 5 zones, adjusting the densities and number of units. The impact of the affordable housing and code for sustainable homes is then deducted from the baseline figure to show whether there is still a surplus for CIL. They also provide headline CIL figures on a site by site testing basis. Again, KM do not explicitly show how the CIL surpluses or deficits are calculated.

4.5. In the February 2016 report, 6 Hypothetical development schemes ranging from 5 to 100 units have been tested by Keppie Massie and assessed within zones 2-5 (Brownfield) and 3-5 (greenfield). The level of the affordable housing is then deducted and assessed to show whether there is still a surplus for CIL. Table 5.3 in the KM February 2016 report shows 30% affordable housing can be justified for schemes comprising 15 or more dwellings in zones 3-5, on greenfield sites only. Their calculations are based on an aggressive pace of sale, a short development period prior to first completion and a low threshold land value which, if adjusted would impact on the CIL surpluses KM reported.

4.6. Headline CIL surpluses or deficits are tabulated by KM however the methodology is not made explicit and while KM have tested several scenarios, by simply stating the surplus, it is not possible to determine whether their calculations in arriving at these figures are correct. If an error is made in the calculations, it would be fair to assume this would be present in all their testing models.

4.7. We have further assessed the land value table on page 32 of KM's February 2016 report to understand their views on the impairment of CIL to land values. Using "Land at Broome Road, Southport" as an example, KM state this site is situated in a location that supports a CIL rate of £40 per sq.m, based on a threshold Land Value of £250,000 per acre. However their calculation of residual land value with CIL is £191,567 per acre therefore below the threshold value, and as such there is no justification that the site could support CIL and the landowner is sufficiently incentivised to release their land for development.

Build Cost Analysis

4.8. In assessing the appropriateness of the build costs adopted, WYG provided a breakdown of costs that KM relied upon. KM obtained BCIS cost indices (Tender Price Index) data to understand the shift in build costs from Q4 2014 to Q3 2015. A decision not to update WYG's costs by the BCIS index was taken by KM due to the increase in sale values. We would question the suitability of this. BCIS average price data was not used as a cost benchmark and it is not clear how the build costs are phased within the development programme.

4.9. In order to assess the build cost data provided by WYG in the Keppie Massie LPEVS (December 2014) we have benchmarked construction costs, abnormal costs and planning obligation costs against comparable data from 4 schemes in the North West.

4.10. Due to confidentiality, we are unable to reveal the comparable schemes from which the costs derive. The schemes are however within 30 miles of Formby, and have been undertaken by national volume housebuilders that will benefit from similar cost efficiencies as those in the LPEVS report. The costs were provided by the developers themselves in a detailed Developers Appraisal Tool (DAT) model, and were explicitly broken down into cost categories to make for accurate analysis. Base build costs, site specific abnormal costs and planning/commuted sum payments have been analysed as separate components and then assessed as a total all-in cost.

4.11. The table below benchmarks the WYG costs against the 4 other North West house builder's development site and analysed on a rate per square foot basis.

Comparison Table showing WYG Build Costs against 4 North West Housing Schemes

Build Cost Element		Site 1	Site 2	Site 3	Site 4	Comparable Sites Average	Land at Bankfield Lane	Land at Moss Lane	Land South of Moor Lane	Land North of Brackenway	Land at Liverpool Road	Land at Andrews Close	Former St Wilfrieds School	Kenyons Lane	Balmoral Drive	Lambshear Lane	Land adj Ashworth	Crowland Street	Land East of Maghull	WYG Site Average
		Q2 2014	Q4 2013	Q2 2015	Q2 2015		Churchtown	Churchtown South	Ainsdale	Formby	Formby	Formby	Bootle	Lydiate	Churchtown	Lydiate		Churchtown		
Construction Costs	Base Construction psf (Cost/Sqft)	£75.16	£65.01	£83.44	£87.00	**£77.65**	£63.68	£62.08	£66.43	£62.09	£61.99	£65.74	£64.71	£62.85	£64.82	£61.21	£62.73	£61.27	£60.83	**£63.11**
	External Works (incl. Standard Estate Roads, Sewers, Landscaping, Walls, and Drives)	£9.00	£4.23	£16.69	£20.66	**£12.65**	£15.03	£15.24	£14.83	£15.86	£15.33	£14.74	£15.11	£14.24	£14.63	£13.39	£15.99	£13.41	£15.03	**£14.83**
	Plot Connections (£/sqft)	£2.99	£1.95	£1.98	-	**£2.30**	£3.75	£3.69	£3.78	£3.69	£3.69	£3.79	£3.75	£3.69	£3.75	£3.68	£3.70	£3.67	£3.66	**£3.72**
	Garages (£/sqft)	-	-	-	-	**-**	-	-	-	-	-	-	-	-	-	-		-	-	**-**
	Professional Fees (Cost/Sqft)	£3.08	£2.40	£5.67	£4.31	**£3.87**	£4.70	£3.69	£5.88	£3.55	£3.58	£5.18	£4.49	£3.38	£4.80	£2.41	£3.49	£2.84	£2.47	**£3.88**
	Contingency (Cost/Sqft)	-	-	-	-	-	£4.94	£4.79	£5.20	£4.62	£4.66	£4.57	£4.72	£4.39	£5.04	£4.13	£4.54	£4.87	£4.62	**£4.70**
	Unadjusted Sub-Total	**£90.23**	**£73.59**	**£107.78**	**£111.97**	**£95.89**	**£92.10**	**£89.49**	**£96.13**	**£89.81**	**£89.25**	**£94.01**	**£92.78**	**£88.54**	**£93.06**	**£84.82**	**£90.45**	**£86.06**	**£86.62**	**£90.24**
	Adjusted to July 2016	**£97.20**	**£85.91**	**£108.56**	**£112.78**	**£101.11**	**£98.83**	**£96.03**	**£103.15**	**£96.37**	**£95.77**	**£100.88**	**£99.56**	**£95.01**	**£99.86**	**£91.02**	**£97.06**	**£92.35**	**£92.95**	**£96.83**
Abnormal Costs	Unadjusted Sub-Total	**£12.82**	**£6.13**	**£15.02**	**£22.01**	**£14.00**	**£10.15**	**£8.60**	**£9.90**	**£4.65**	**£5.13**	**£0.59**	**£4.90**	**£1.29**	**£10.70**	**£0.25**	**£0.89**	**£12.88**	**£9.20**	**£6.09**
	Adjusted to July 2016	**£13.81**	**£7.16**	**£15.13**	**£22.17**	**£14.57**	**£10.93**	**£9.27**	**£10.67**	**£5.01**	**£5.52**	**£0.63**	**£5.28**	**£1.38**	**£11.52**	**£0.27**	**£0.95**	**£13.88**	**£9.91**	**£6.56**
Commuted Sums/ Planning	Sub-Total	**£15.12**	**£10.29**	**£2.67**	**£7.33**	**£8.86**	**£1.35**	**£2.66**	**£2.55**	**£2.65**	**£3.48**	**£1.02**	**£1.45**	**£2.32**	**£1.35**	**£1.59**	**£3.93**	**£2.37**	**£1.37**	**£2.16**
	Grand Total	**£126.13**	**£103.36**	**£126.37**	**£142.28**	**£124.53**	**£111.10**	**£107.96**	**£116.37**	**£104.04**	**£104.78**	**£102.53**	**£106.30**	**£98.71**	**£112.73**	**£92.88**	**£101.95**	**£108.60**	**£104.23**	**£105.55**

4.12. In order to provide an accurate comparison, the costs must be taken as a whole. As a result of the varying way that developers define and group their costs, it may be that base construction costs differ greatly between schemes (as is the case here). However since the difference in these costs is often simply allocated elsewhere, this misrepresentation is mitigated by taking the construction costs as a whole. Although the build costs from the comparable schemes were obtained around December 2014, we have also adjusted all sites to today's level using BCIS TPI index to ensure comparable and consistent analysis.

4.13. When averaged, the total cost for all construction, abnormals and planning obligations for the 4 comparable sites is £124.53 per sq.ft of saleable space. When compared to the average for all of the schemes in the LPEVS, at £105.55 per sq.ft, this is a difference of 15% (c. £20psf). The most significant difference comes in the abnormal costs, where the comparables suggest a level of £14.57 per sq.ft, but the LPEVS report gives just £6.56 per sq.ft. We believe that the levels of abnormal costs are greatly underestimated by this report, and that construction costs are also too low (although to a lesser extent – c. £5psf).

4.14. These sites are situated in greenbelt or on urban green space land which will likely require significant site preparation, infrastructure and site specific abnormal costs in order to bring development forward. This is a position that Keppie Massie also adopt and state in their Dec 2014 report with the following: "*in addition many greenfield sites may require significant initial expenditure on services and infrastructure to enable them to be developed for residential purposes*"[3]

4.15. Therefore, having crossed checked the allowances WYG have made for site specific abnormal costs against the comparable development sites, we are of the view these are insufficient. Further site specific costs may be identified through additional site due diligence, however WYG and KM have not allowed for a buffer to account for these further possible unidentified costs.

Apartments

4.16. KM were asked by the Council's Cabinet to re-consider the nil CIL charge they recommended in their December 2014 report. To briefly summarise, KM were showing a positive CIL position for flatted schemes of 10 units or less with 0% affordable housing in the higher zones (3-5) on brownfield and greenfield development sites. Larger flatted schemes comprising 50 units were deemed unviable, which was further exaggerated with the inclusion of a 30% affordable housing requirement.

4.17. Having reviewed this position in 2016, KM have not adjusted the CIL levels for the smaller developments from what was reported in 2014, yet now believe there is justification for the implementation of CIL on brownfield and greenfield sites with less than 14 units, therefore not triggering the requirement for affordable provision.

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[3] KM LPEVS (December 2014), Pg 54, para 5.13

4.18. We disagree with KM's comment in Para 2.3 of their May 2016 report regarding the difficulties in securing sales due to the lack of mortgage finance. This comment may have been applicable during the recession in 2008 to circa 2012 but not in 2014, therefore their assumptions regarding the pace of sale are applicable today as they were in 2014.

4.19. It is also worth noting that should KM assume a quicker pace of sale, with 30% of units selling on completion, this would reduce the finance cost (assuming all other factors are constant) and as such increase the CIL surplus. KM however have not adjusted the figures from the Dec 2014 reports which brings into question whether the appraisal was re-run as at May 2016.

4.20. The apartment sizes and mix adopted broadly falls in line with our expectations however KM in their Dec 2014 report adopt a mix of 3 x 1 bed units and 7 x 2 bed units for an apartment scheme comprising 10 units[4], however WYG in their cost assessment adopt 10 x 2 bed apartments therefore showing inconsistences between the two.

4.21. WYG adopt a gross to net ratio of 85% which we consider to be highly efficient, and our experience, there is likely to be an 80% efficiency depending on the scheme. If 85% is not achieved, this would lead to an increase in build costs which would then reduce the CIL surplus (if any).

4.22. The breakdown of the apartment build costs is not provided in the December 2014 report, therefore we cannot critique the appropriateness of the costs adopted nor compare against other build cost evidence.

4.23. KM fail to provide sale rates for apartment schemes across the borough nor assess the threshold land value for apartment schemes which could differ from land suitable for estate housing.

4.24. Due to this lack of detail regarding sales, development costs, threshold land values etc, the CIL figures reported by KM are unsubstantiated and as such cannot be relied upon. Without appraisals showing how KM conclude their opinion of the CIL levels, it is our opinion that the CIL levels they report should carry little or no weight.

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[4] Dec 2014 Report, Page 23, Table 3.12

5. Critique of Reasonable Landowner's Expectation of Value - Threshold / Benchmark Land Value

5.1. KM propose that the appraisals will include a base land value along with other costs, to be assessed against GDV to determine whether there is any development surplus. In doing this, KM state that the base land value should not be treated as the full land owner's expectation due to making reasonable adjustments to reflect factors such as the land owner's aspirations, the developer's concerns, risks inherent in the development process and planning obligations.

5.2. Additionally, KM also assess land value by applying a premium to the existing use value for greenfield sites but less than full market value due to the risk of achieving planning. KM state "it would be reasonable to assume a value in the region of £370,000 per hectare (£150,000 per acre) to £618,000 per hectare (£250,000 per acre) dependant on site, size and location as being the level at which a landowner would consider releasing a site for development"[5]

5.3. KM's view is un-substantiated and not based on any evidence. KM do provide land transactional evidence to the rear of their December 2014 report however fail to relate it back to their adopted threshold land values.

5.4. Keppie Massie have adopted the following benchmarks for the reasonable Landowner's Expectation of value, which have been applied on a net area basis:

	Previously Developed		Greenfield	
	(£ per ha)	(£ per acre)	(£ per ha)	(£ per acre)
Highest Value Area	1,100,000	450,000	618,000	250,000
Lowest Value Area	495,000	200,000	370,000	150,000

5.5. Planning Practice Guidance – Viability and Plan Making: ID: 10-015-20142036 states:

"*Any assessment should be based on a judgment about whether the proposed charging rate would still allow a price to be paid that would encourage a reasonable landowner to sell their land for development*".

5.6. A landowner must be sufficiently incentivised in order to release land for development. From our experience, landowners, especially those which are long term and generational, with greenfield land, will not sell their land unless a fair price is to be paid. It is our opinion that the threshold values Keppie Massie have adopted will not provide suitable incentive for landowners to release their land, and as such this would put the council at risk for not delivering the housing numbers identified in the Local Plan.

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[5] KM LPEVS December 2014,; page 54, para 5.13

5.7. When establishing market value for a site, prior to allowing for a risk adjustment, the Royal Institution of Chartered Surveyors (RICS) advise that Market Value as defined in VPS 4 1.2 of the "Red Book" and applying the conceptual framework which is set out in IVS Framework paragraphs 30-34. Under VPS 4.1.2.1, the term "Market Value" means

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

5.8. It therefore must be recognised that the landowner is recognised as a willing seller and as such must be sufficiently incentivised to sell their land for development.

5.9. Having considered the landowner's competitive return, we obtained viability studies prepared on behalf of other CIL charging North West Authorities. The table below summarises the benchmarked values:

LPA	Consultant	Date of Consultant's Report	Benchmark Land Value
Lancaster City Council	GVA	September 2012	£1,550,000 per ha
Bolton Council	Roger Tym & Partners	2012	Low - £650,000 per ha Mid - £1,000,000 per ha High - £1,350,000 per ha Reflect Varens Policy Requirements
South Ribble	Roger Tym & Partners	January 2012	£1,200,000-£1,500,000 per Ha Amended from October 2012 that previously adopted: Low - £600,000 per ha Mid - £750,000 per ha High - £900,000 per ha
Chorley CIL	Roger Tym & Partners	January 2012	£1,200,000 - £1,500,000 per ha
Preston CIL	Roger Tym & Partners	January 2012	£1,200,000 - £1,500,000 per ha
Trafford CIL	Roger Tym & Partners	July 2012	Low - £700,000 - £900,000 per ha Mid - £1,125,000 - £1,450,000 per ha High - £1,800,000 - £2,400,000 per ha

5.10. The table above therefore shows that the threshold land values range from £650,000 per ha to £2,400,000 per ha (£263,055 - £971,280 per acre) and do not differentiate between greenfield and brownfield development. Trafford is largely regarded as a higher value area, and as such it may be expected that the threshold land values to be higher, however, the neighbouring South Ribble and Bolton Councils threshold land values are more comparable to Sefton. Threshold land values in these boroughs are split into 3 – high, mid and low and range from £650,000 per ha to £1,350,000 (£263,055 - £546,345 per acre). This evidence suggests the land values adopted by KM are too low, with no justification as to how or why they adopt the figures they have.

5.11. Paragraph 173 of the National Planning Policy Framework (NPPF), which underlines the importance of viability of the delivery of housing, states that:

"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 landowner and willing developer to enable the development to be deliverable".

5.12. The RICS guidance on 'Financial Viability in Planning' reinforces this view when it states that:

"If sites are not willingly delivered at competitive returns to the market, development will not take place i.e. it will not be viable".

5.13. By way of further threshold land value analysis, in January 2011 Cheshire East Council considered an application for 650 dwellings at Coppenhall near Crewe (11/1643N). In the committee report the Council made the following statement:

"Discussions have taken place with Cheshire East Council Asset Management Service who have indicated that within Crewe in the past 6-8 months, land values achieved on residential sites were between £300,000 and £400,000 per acre.

It is considered that these figures represent what a fair and reasonable land value should comprise for Coppenhall East having regard to the sites characteristics and the sites importance to the Crewe housing market. It is also understood that these values align with those agreed within the Coppenhall East area".

5.14. By way of supporting their opinion of appropriate benchmarking the land value, KM have provided local comparable land transactions which also details the level of affordable housing, the planning contributions and the price of the land. They have then analysed this against the gross area of the sites. Much of the comparable is now dated. We have assumed this detail is correct and relied upon this when analysing these comparable land transactions.

5.15. KM state the comparable evidence on a gross acre basis, however the benchmarked values they adopt are on a net acre basis. KM fail to demonstrate which value area (zone) the schemes fall into, and have not determined whether they are greenfield sites or previously developed land. KM fail to provide any analysis from the comparable evidence nor draw any conclusions from the information which they apply to their adopted benchmarked values.

5.16. This is evidence that should relate to their opinion of a reasonable landowner's expectation of value, yet there is no further reference to this evidence by KM nor has it informed their adopted reasonable landowner's expectation of value. The Landowner's return must be a competitive value that incentivises the sale of the land for development. KM's approach and adopted threshold values (for greenfield sites) are based on a test which we believe is fundamentally wrong and does not reflect a sufficient incentive and competitive return as set out in the Practice Guidance ID 10-016-20140306 and ID: 10-023-20140306. The relevant test is to ensure that a landowner receives a competitive return in order to incentivise the release of the land for development.

5.17. KM's comparable land transactions are more in line with the higher threshold land values adopted by the CIL charging North West Authorities detailed above, and while a discount would be applied to allow for planning risk, the deduction KM view as appropriate, is excessive.

5.18. The North West CIL charging Authorities in the summary table above shows the proposed benchmarked values stated by KM are below the level of expectation adopted by other authorities in the North West. This would only be appropriate if Sefton is regarded as a lower value area to these, which it is not.

5.19. The lowest benchmarked net land value of the other North West Authorities of £650,000 per Hectare in Bolton is far greater than £495,000 per net hectare KM adopt for lowest value Greenfield sites. Sefton is considered a higher value area to Bolton therefore it would be expected that the lowest threshold values to be in excess of £600,000 per hectare.

5.20. The higher threshold land values of £1,100,000 per ha (brownfield) and £618,000 per ha (Brownfield) again are too low when compared against the benchmarked values of £1,350,000 per ha - £1,500,000 per ha of higher value sites at Bolton and South Ribble respectively. This further suggests the KM adopted land values, especially those on Greenfield sites are particularly low when compared to the evidence from the other NW CIL charging authorities.

5.21. The rates per square foot values, especially those in the Zone 5 locations are higher than those that could be achieved on the Coppenhall site in Crewe in 2011. It would therefore be reasonable to expect a landowner to have an expectation over and above the base position of circa £300,000/£400,000 per net acre as stated by the committee. When converted to hectares, the threshold land value in this case is £740,000 – £990,000 pa.

5.22. Based on all the evidence and analysis above, the KM benchmarked figures do not apply the correct test nor appear to be realistic and offer a sufficient incentive to a landowner to sell the land for development. The local comparable evidence shows that landowner's in the Borough would expect a competitive return in excess of the threshold values KM adopt.

6. Test/Check Appraisal – Land at Liverpool Road, Formby

6.1. In order to test KM's position on appropriate CIL level, we have produced a test appraisal based on the appraisal KM set their opinion of CIL to, 'Land at Liverpool Road, Formby – 319 units'. The site extends to a gross area of 14.16 hectares (35 acres) and comprises 319 units, with a net area of 10.65 hectares / 26.32 acres. Our test appraisal (appendix 1) is based on the rationale KM state in their report, and adopts WYG's position on build cost.

6.2. For clarification, the key assumptions in this appraisal are as follows:

- Sales Revenue at £220 psf for the market housing units (zone 5)
- 30% Affordable housing numbers with a tenure split of 80% Social Rent, and 20% Intermediate
- Affordable revenues set at 40% of MV for the social rented properties (£88 psf) and 65% of MV for the intermediate dwellings (143 psf)
- Build Costs as detailed by WYG (November 2014)
- Gross and net developable areas as detailed by KM
- Fees, Contingency, and Marketing costs as stated by KM
- Finance Rate at 7%
- Developer's Profit at 20%
- Sales rate at 6 units p/m, 72 units p/a (53 month sales period)
- 5 month construction period prior to first sale
- Threshold Land Value of £250,000 per net acre

6.3. KM adopt a net developable area of 10.65 hectares / 26.32 acres to which their threshold land value of £250,000 is applied, which equates to a total landowner's expectation of value of £6,580,000. By following the above appraisal inputs, we calculate a residual land value of £9,545,094 from which the £6.58m is deducted from to leave a gross CIL surplus of £2,965,094.

6.4. The net developable area of the scheme of 26,108sq.m is divided into the £2,965,094, which produces a CIL surplus of £114per sq.m. This is before a buffer is applied. Having reviewed KM's end values on page 154 of their December 2014 report, they show a baseline surplus position of £393per sq.m, with an affordable housing impairment (30%) of £240 per sq.m, therefore producing a CIL surplus of £153 per sq.m (assuming this is a CIL position before a buffer is applied). It is therefore not possible to understand how KM arrived at their CIL values.

6.5. KM fail to clearly demonstrate how they have concluded their opinion of a CIL surplus for this site as neither an appraisal nor clear breakdown is provided.

6.6. We have further assessed the land value table on page 32 of KM's February 2016 report to understand their views on the impairment of CIL to land values. For consistency with our analysis above, we have assessed KM's view on land value impairment by CIL at Land at Liverpool Road, Formby as an example. WYG state the total gross floor area as being 26,108 sq.m, therefore a CIL charge at £125 per sq.m (Zone 5, Formby), equates to a total impairment of £3,263,500. KM's table show a land value without CIL of £10,326,540 and £8,220,426 with CIL which equates to a land impairment of £2,106,114. This is a difference of £1,157,386 from the total CIL liability KM adopt at £125 psm. While there will be an offset to the finance cost due to a lower land value, it will not lead to over a £1m shift in land value, and as such it is difficult to understand how KM have concluded their views on land value and the impairment CIL has had on land value.

6.7. The pace of sale KM adopt at 6 units per month / 72 units per annum is too aggressive and contradicts their opinion "*in our extensive experience we anticipate that a developer would seek to construct and ell around 30-40 dwellings per annum*"[6]. This is a gross overstatement which impacts on the cost of finance over the development period.

6.8. C&W's experience and research clearly demonstrates that a rate of 2-3 units per month is appropriate. The implications of this are that higher sales rates will positively impact on overheads, preliminary costs, and finance costs, thereby artificially improving the viability position.

6.9. Our analysis of the appraisals thus far has been undertaken prior to considering benchmarked landowner's expectation of value, the development profile and the appropriate CIL buffer. Appendix 2, shows the re-working of the Liverpool Road site to demonstrate how land value and the CIL surplus can be significantly adjusted. The table below shows the impact of adjusting the landowner's expectation of value from £250,000 to £350,000, and a CIL buffer from 30% to 50%.

	Appendix 1 – Threshold Value at £250,000 per acre	**Appendix 2 – Threshold Value at £350,000 per acre**
Net Residual Land Value (based on KM assumptions)	£9,545,094	£9,545,094
Landowner's Expectation of Value based on Net Land Area 26.23 acres (10.65 ha).	£6,580,000 (£250,000 per net acre)	£9,212,000 (£350,000 per net acre)
Surplus Land Value for CIL	£2,965,094	£333,094

[6] KM LPEVS, December 2014; page 57, para 5.26

Surplus Value Divided by total floor area of 26,108 sq.m	£114 per sq.m	£12.76 per sq.m
CIL Surplus after adjustment for CIL buffer	£79 per sq.m (30% adjustment)	£6.38 per sq.m (50% adjustment)

6.10. The table above therefore demonstrates that by simply adjusting the landowner's expectation of value from £250,000 to £350,000 per net acre and by applying a 50% CIL buffer as opposed to a 30%, this results in a CIL surplus shift from £79 per sq.m to £6.38 sq.m. This approach could be applied and tested to all the sites in the KM to show how the CIL surpluses adjust, which would ultimately lead to a re-assessment of the adopted CIL levels KM apply to each of the CIL charging zones in the Sefton Borough.

6.11. By way of a further update, we have also adjusted the timescales/phasing of the development to a more realistic/ marketing facing approach. Following our concerns regarding the adopted timescales KM has used in their appraisals, we have adjusted the pre-development period to 12 months which allows for sufficient time to satisfy any planning pre conditions, site set up, remediation and enabling works, site opening up works, compounding works, marketing suite set up etc, prior to house build commencement that will run for an initial 6 period prior to first house sale in month 18. The rate of sales has also been adjusted from 6 units per month to 4 units, which is still an aggressive rate of sale.

6.12. By adjusting the profile of the construction and sales programme, this has a subsequent impact on the finance required in order to deliver the scheme. On our worked example of Liverpool Road, appendix 3, the finance cost has increased which has cascaded through to show a negative CIL position based on a threshold land value of £350,000 per net acre.

6.13. For clarity, and as detailed earlier, we do not provide our opinion of threshold land value, however this test shows the impact on the CIL surplus should the land value adjust.

7. Conclusion to the Critique of Keppie Massie's CIL Economic Viability Study

7.1. In summary, we have provided a robust critique of Keppie Massie's CIL Economic Viability Study, prepared as part of Sefton Council's CIL draft charging schedule. The Critique and our appraisal have been undertaken with reference to the assumptions adopted in Planning Inspectorate decisions, wider viability guidance and evidence, and our extensive knowledge of the residential development market which has been gained through disposal of numerous sites on the open market for clients such as HCA, Manchester Metropolitan University and private individuals.

7.2. Our understanding of KM's appraisal assumptions and methodologies are detailed in this report, however KM's appraisal inputs from which they have calculated surplus for CIL are unsubstantiated and do not support or demonstrate the viability cushion from which the CIL payment can be taken.

7.3. It is difficult to understand exactly how KM have calculated the CIL surplus for each of the sites. The December 2014 and February 2016 reports show several CIL surplus levels depending on site and area, plus sensitivity analysis show how the CIL surplus is impacted by affordable housing requirements, density, number of units and the Code for Sustainable Homes requirements which was due to be adopted into house build but has since been scrapped. KM state the build costs have not been updated from the December 2014 report, yet state the build costs are equivalent to Code Levels 3 and 4. It is not clear how this is reflected as WYG do not apply an additional cost for CfSH Level 3 in their cost models.

7.4. This scenario testing by KM is extensive however without a clear methodology, it is not possible to determine whether these figures are justified and can be supported in the market.

7.5. We have provided evidence based analysis of build costs which show the build costs are under-stated, especially the abnormal costs. This is important as this impacts on KM's rationale when concluding their opinion of the appropriate threshold land values and the CIL buffer.

Planning Policy Guidance when setting CIL

7.6. When an LPA is setting CIL rates, it must be done so as not to risk development coming forward. An appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments. On this basis, LPA's should not seek to maximise CIL, but adopt a market facing approach that would have possible viability consequences on development.

7.7. Planning Practice Guidance ID-25-015 & ID-10-004 support this position:

"Whilst the Planning Practice Guidance does not prescribe any single approach to assessing viability it does require robust evidence and a realistic understanding of the costs and value of development and the operation of the market".

7.8. Furthermore, having reviewed the Planning Inspectorate's decision of the report on the examination of the draft Community Infrastructure Levy Charging Schedules of Chorley Borough Council, Preston City Council and South Ribble Borough Council, dated 24 June 2013, paragraph 30, he states:

*"Moreover, it is clear that in setting the levy rate for dwelling houses, the Councils have not sought to '**push the boundaries'** or levy the maximum level of CIL that the appraisals show to be theoretically possible"***.**

*It goes on to state***: "***In striking the balance between the need to fund new infrastructure and the effects on economic viability, the approach taken is appropriately measured. Given the nature of the appraisal work undertaken, dealing as it must with a range of variables and unknown factors, and making numerous assumptions, this is a commendable path. It significantly bolsters confidence that the rate proposed will not put at serious risk the overall development of dwelling houses across the three local authority areas envisaged in the CS".*

7.9. It is our opinion that KM are looking to maximise the CIL levy and as such a 30% buffer is insufficient. Site specific abnormal costs will reduce the residual value of each development site, therefore reducing the surplus for CIL. WYG claim to have identified abnormal costs and as such KM have reduced the buffer from 50% - 30%. However our build cost analysis of other North West Housing development sites show WGY have under-costed the abnormals and as such, it is incorrect for KM to only deduct by a 30% buffer margin.

Development Programme and Development Costs

7.10. Every development site is impaired by site specific issues which lead to abnormal costs that must be considered and net land offers adjusted accordingly. Therefore in reality, the development costs will be far greater than just the base build plus the minimal abnormal costs stated by Keppie Massie, and so a much greater buffer than 30% is required.

7.11. Our opinion of the assumed development programme and the landowner's expectation of value differ from Keppie Massie's view. We believe house build cannot commence from day one of the site acquisition with first house sale at month 5 of the development programme. Planning conditions, enabling works, site preparation works, show home/marketing set up etc will all be required before house build can commence.

7.12. KM and WYG fail to provide any cost and development regarding apartment schemes and as such it is not possible to benchmark this to other evidence. The CIL rates adopted for apartment schemes are un-supported and un-substantiated.

Threshold Land Values

7.13. Threshold land values have been adopted by KM. The Base Land Input is proposed to be applied at different levels dependent upon whether the site lies. There is no justification for the lower land values for Greenfield sites when compared with Brownfield, and KM's conclusion that greenfield sites will be impaired by significant infrastructure costs, hence a lower land value contradicts the low abnormal costs WYG adopt. KM go on to assume the abnormal costs have been identified and as such apply a lower CIL buffer from 50% to 30% is justifiable however this is not the case. This is a double hit as the greenfield threshold values are too low and the CIL buffer is not substantial. Hence the large CIL surpluses KM are showing.

7.14. By adopting a higher, more appropriate greenfield land value that would sufficiently incentivise a landowner to release their land for development, then apply a CIL buffer of at least 50% to account for the site unknowns, this would produce a more realistic CIL viability position.

7.15. KM failed to provide any analysis of the comparable land transactions nor reference as to how they relate to their adopted land values. We have considered these comparable sites with the benchmarked land values in consultants' reports prepared on behalf of other NW CIL charging authorities, and conclude a landowner in the Sefton Borough would expect to achieve a higher land value than those quoted by KM, even after allowing for the risk of achieving fully implementable planning permission.

7.16. Following our analysis of the comparable evidence and the detail of other CIL charging NW authorities, we believe that the threshold land values adopted by Keppie Massie do not reflect the evidence and as such are too low. There is also no justification for adopting different rates to greenfield and previously developed land, nor whether KM have conducted analysis into the threshold land values for flatted schemes.

7.17. The Planning Practice Guidance is clear that the test is a competitive return to the Landowner which incentivises the release of the land for development and the threshold values KM adopt do not reflect this.

7.18. A landowner must be sufficiently incentivised in order to release land for development. From our experience, landowners, especially those which are long term and generational, with greenfield land, will not sell their land unless a fair price is to be paid. It is our opinion that the threshold values Keppie Massie have adopted will not provide suitable incentive for landowners to release their land, and as such this would put the council at risk for not delivering the housing numbers identified in the Local Plan.

Benchmarking CIL

7.19. By adopting low threshold land values to their appraisals, and a low CIL buffer to the greenfield sites, KM have grossly over stated the margin available for CIL in all appraisals and therefore their opinion of the appropriate CIL rate is flawed and unsubstantiated.

7.20. KM have calculated the CIL rate up to 4.39% of GDV and around 5.47%[7] of cost which we consider too great.

7.21. We have obtained the Planning Inspectorate's decision on the Examination of the Draft Leicester City Council Community Infrastructure Levy Charging Schedule, dated 16 December 2015. Para 51 in the report states: *"Clearly, if development values were reduced by much more than 5%, the viability of such developments could be threatened. However, as the CIL charge would represent only around 1% of total development costs, less than that allowed for contingencies, it seems improbable to me that this would occur".*

7.22. Based on this comment, we believe the CIL rate should be adjusted from 4.39% of cost to a mark closer to 1% to minimise the risk of a declining market preventing development from coming forward due to the viability impact of CIL.

7.23. When assessing benchmarked and values to the other North West Authorities and their adopted CIL rates, Central Lancashire adopted a CIL charging schedule in effect from September 2013. This was adopted by three boroughs: Preston, Chorley and South Ribble Councils under the Central Lancashire umbrella.

7.24. A CIL rate of £65 psm has been adopted for housing, with a reduced rate of £35 psm for central Preston.

7.25. Trafford Council have adopted three development zones with CIL rates of £20, £40 and £80 per square metre.

7.26. Based on this comparative approach, a CIL rate of £40-£125per sq.m as proposed by KM appears to be grossly over-stated. It is important to note that this assessment based on a comparative approach is not intended to show our opinion to the appropriate CIL rate. Robust evidence and testing would be required in order for us to provide our opinion of CIL in the Borough.

7.27. Having considered the Borough in context with other North West CIL charging authorities, we conclude the proposed rate of £125 per sq.m (in the highest value areas) is significantly higher than the £65 per sq.m set for Central Lancashire and higher than Trafford's upper rate of £80 per sq.m.

7.28. By producing test appraisals, it is clear KM have made fundamental errors in the methodology and appraisal inputs which brings into question whether Sefton Council can attribute any reliance to KM report and appraisals when determining the appropriate CIL margin.

[7] February 2016 Report, Pg 34, Table 6.2

8. Verification of Inputs

8.1. Assumptions are in line with Industry Good Practice and are within acceptable parameters.

8.2. Since Britain's decision to leave the EU following the release of Keppie Massie's report. We are now in a period of uncertainty in relation to many factors that impact the property investment, sale and letting markets and viability.

8.3. Since the Referendum date it has not been possible to gauge the effect of this decision by reference to transactions in the market place.

8.4. The probability of our opinion of appraisal inputs within a financial viability exactly coinciding with the market realities, has reduced. Appraisal inputs that could be sensitive to the recent EU decision include; end sales price achieved, the pace of unit sales, Developer's profit targets, the cost and availability of finance, and development costs.

9. Disclaimer

9.1. The contents of this report do not constitute a valuation, in accordance with the appropriate sections of the Valuation Standards ("VS") and United Kingdom Valuation Standards ("UKVS") contained within the RICS Valuation - Professional Standards 2014 (the "Red Book"). This report is for the purpose of the addressee and its contents should not be reproduced in part or in full without our prior consent.

[redacted]

Derek Nesbitt, MRICS
Director
RICS Registered Valuer
For and on behalf of
DTZ Debenham Tie Leung

Appendix 1

Test Financial Viability Appraisal: Reproduction of Liverpool Road, Formby based on KM position

Appendix 2

Test Financial Viability Appraisal: Reproduction of Liverpool Road, Formby based on adjusted threshold land value

Appendix 3

Test Financial Viability Appraisal: Reproduction of Liverpool Road, Formby based on adjusted threshold land value and adjusted development programme.