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15th July 2016

Local Plan Team,
Magdalen House,
Trinity Road,
Bootle
L20 3NJ

Issued via email to CIL@sefton.gov.uk

Dear Sir/ Madam,

Sefton Community Infrastructure Levy Representations

Please find below representations made by Bilfinger GVA to the Sefton Preliminary Draft Charging Schedule for Community Infrastructure Levy (CIL) on behalf of Morris Homes Northern.

These representations make comments on the overall approach and evidence base of the Preliminary Draft Charging Schedule, with a particular focus on two sites allocated for residential development in Formby in which Morris Homes Northern have an interest. These sites are:

- MN2.16 – Land at Liverpool Road, Formby (part of); and
- MN2.17 – Land at Altcar Lane, Formby.

Morris Homes also has an interest in a small housing allocation in Blundellsands off Hall Road.

Background

Financial viability has become increasingly important in both plan making and decision taking. Specifically, paragraph 173 of the National Planning Policy Framework states that plans should be deliverable and that the scale of obligation and policy requirements identified in the plan should not threaten the viability of development.

National Planning Policy Guidance on Viability (2014) (PPG) states that a site is viable if the value generated by its development exceeds the cost of developing it, whilst also providing a sufficient incentive (i.e. provide an acceptable rate of return) for the land to come forward and the development to be undertaken. The planning system accepts that without sufficient incentives development is unlikely to come forward.

It is therefore essential to ensure that the cumulative impact of policy and planning obligations (including CIL) does not increase the costs of development to the point that a site becomes unviable to develop.

These representations have considered the Preliminary Draft Charging Schedule for Sefton in this context. It will need to be ensured that the CIL charges proposed do not negatively impact the viability of developments.

Sefton are preparing the Sefton Local Plan which is currently under examination. Proposed modifications were published for consultation on 22nd June 2016 and the Council is anticipating adoption of the Local Plan in January 2017.

Alongside the preparation of the Local Plan, the Council have now prepared a Preliminary Draft Charging Schedule for the Community Infrastructure Levy (CIL) in the borough. The CIL will be used to provide new infrastructure to support the emerging Local Plan. Following the current consultation on CIL, the Council intend to update the draft charging schedule to take account of any comments made, updates to the Local Plan, the impact of starter homes and an update of the financial evidence including house prices and build costs. The charging schedule is intended to be submitted for examination in early 2017.

In preparing our response, we have had consideration to the following documents:

- Community Infrastructure Levy – Economic Viability Study (Feb. 2016) (CILEVS);
- Community Infrastructure Levy Addendum Report – Apartments (May 2016);
- CIL Charing Zones Map;
- Community Infrastructure Levy Frequently Asked Questions;
- Draft Community Infrastructure Levy Instalments Policy;
- Draft 'Regulation 123' List;
- Local Plan & Community Infrastructure Levy – Economic Viability Study (Dec. 2014) (LPEVS); and
- Sefton Local Plan – Matters and Issues – Questions 6.1 and 6.8 Clarifications (November 2015).

Charging Zones

Paragraph 4.48 of the CILEVS states that for the purposes of assessing CIL, the values determined within the LPEVS of £220 per sq. ft. are being adopted within Zone 5. Table 4.10 within the CILEVS confirms that Zone 5 includes Birkdale, Formby and Blundellsands.

We would first query how the zones have been determined in the first instance. The LPEVS looks at the prices achieved within the three digit postcode areas across Sefton. This is not detailed enough to distinguish Birkdale or Blundellsands from within their three digit postcode area and no further evidence or justification is provided as to why these areas have been extracted and placed into Zone 5.

Paragraph 4.53 of the CILEVS states that the viability testing results from the LPEVS have been carried forward, however that the wards contained in the different value zones have been adjusted to include Crosby and Hightown in the highest value zone.

Crosby and Hightown have been moved to be included within the highest value zone, however no evidence is provided to substantiate or support that the sales values have indeed sufficiently increased in these areas. Further no evidence has been provided to show what impact the inclusion of Crosby and Hightown has on the sales values for Zone 5 and whether £220 per square foot remains appropriate.

A fundamental area of concern with regard to the CIL charging zones is that there is no explanation or justification of how the sales values zones set out within Table 4.10 (CILEVS) correlate to the CIL charging areas. Of particular concern is that some wards, such as Birkdale, are within Zone 5 with the highest sales values but are then placed within a lower CIL charging zone (North). We therefore request that justification is provided as to how the CIL charging areas have been determined and why specific wards within Zone 5 have been placed into lower CIL charging areas.

Charging Rates

Our client does not support the proposed CIL charges. As set out at the start of this letter, viability is an important theme in the NPPF, which specifically states at paragraph 173 that plans should be deliverable and that the scale of obligation and policy requirements identified in the plan should not threaten the viability of development.

The CILEVS and LPEVS both prepared contain a number of assumptions that do not reflect normal or current development costs or competitive returns to a willing land owner or developer. Our main areas of concern are set out below.

Residential Revenues & Sales Rates

The 2016 CILEVS proposes no changes or update to the residential sales values adopted for each zone in the 2014 LPEVS. Whilst there is some examination of new build sales that have taken place since the 2014 LPEVS, there is no analysis provided into how these impact the sales values adopted for each zone. In particular, and as referenced above, there is no evidence provided of recent new build sales values in Crosby and Hightown and the impact their inclusion within zone 5 has on the adopted sales values for zone 5 as a whole.

Paragraph 019 (ref. 25-019-20140612) of the Planning Practice Guidance states that the charging authority must use appropriate available evidence to inform the draft charging schedule. We do not consider that the proposed sales values reflect the current market position, nor are the sales values of each zone clearly evidenced, and thus we do not consider the draft charging schedule to be in accordance with national guidance. We would request that the sales values for each ward and zone are revised to be based upon current market evidence.

Keppie Massie state in the 2014 LPEVS (paragraph 5.31) that the residential sales values adopted are net of any sales incentives. Sales incentives can commonly include payment of SDLT, inclusion of carpets and landscaped gardens, which in our experience, is normally approximately 3% - 5% of the sale price per dwelling. Having examined local comparable evidence[1], we consider that the sales values identified by Keppie Massie are reflective of the gross sales values, not the net. We would therefore request that the residential sales values are discounted by at least 3% - 5% to reflect sales incentives.

Keppie Massie have accounted for a residential sales rate in the 2014 LPEVS of between 3 and 5 per month, depending on the size of the development. When consulted, developers unanimously commented that a sales rate of 5 dwellings per month was unrealistic, and it should be reduced to between 2 and 2.5 per month.

This view is reinforced by our own research into the new build market, which has shown that new build residential developments in Formby achieve average sales rates of 3 dwellings per month. Further, table 4.8 in the 2016 CILEVS report shows a sales rate of between 1-2 sales per month on the Orchid Meadow development in Formby, demonstrating that a lower sales rate is appropriate.

We have also identified that the Land at Liverpool Road, Formby appraisal in the 2014 LPEVS shows a highly unrealistic sales rate of 6 per month, which is not in keeping with the sales rates referenced within the main body of the 2014 LPEVS. We would request that the appraisal is revised to include for a sales rate of no higher than 3 dwellings per month.

We note that Keppie Massie state in the LPEVS in 2014 that larger sites would command higher sales rates as brands 'double up'. Although we agree that more brands would equate to a higher sales rate, we do not believe that it would be possible for the sales rate to reach 5 or 6 dwellings per month. This assessment is based on the above analysis of comparable development and the increasing post BREXIT economic uncertainty with house builders already reporting reservation cancellations.

[1] Our analysis of local sales comparables suggests the average sales value of a new build property in Zone 5 is £221 per square foot.

In conclusion, we would request that further evidence is provided of the justification for the revenues and sales rates as they do not appear to be consistent with the evidence we have seen.

Affordable Revenues

Keppie Massie has included an assumption in the 2014 CILEVS for social rented properties at 40% of market value and intermediate properties at 65% of market values. Keppie Massie has based these values on consultation with Registered Providers. It is unclear which Registered Providers were consulted and the details of this consultation are not provided. We would request that further details on the consultation with Registered Providers are provided.

Construction Costs

Paragraph 4.50 of the CILEVS report recognises that the BCIS All-In Tender Price Index (TPI) increased from 256 in Q4 2014 to 267 in Q3 2015. This increase of 4.3% was however considered to be diminimus and the cost assessments prepared by WYG were thus not amended.

Our client does not support this view that the TPI increase is diminimus. A 4.3% increase is considered highly significant. Using the appraisal prepared by WYG for Land at Liverpool Road, Formby, this 4.3% represents an increase in build costs of £997,365.

Further, an examination of the TPI from Q1 2016 shows that it has increased to 272, representing an increase of 6.2%. This signifies an increase in build costs from the WYG appraisal of £1,438,061. This is not considered diminimus and we request that the CIL viability study is updated to account for the increase in construction costs since the WYG appraisals were first produced in 2014.

Separately, paragraph 022 of the Planning Practice Guidance states that build costs should be based on appropriate data, for example that of the Building Cost Information Service (BCIS). The Harman Report (Viability Testing Local Plans – June 2012) also recommends that build costs should be based on BCIS or other appropriate data.

BCIS data for Sefton (June 2016) shows that the average costs for new build estate housing (generally) is £1,017 per square metre. BCIS construction costs include for substructures, superstructures and preliminaries. WYG's cost assessment for Land at Liverpool Road, Formby for these items totals £667.31 per square metre.

The BCIS costs are therefore £349.69 higher than the comparable costs in the WYG construction cost assessment for the Land at Liverpool Road, Formby within the LPEVS. Including this increase within the WYG appraisal increases the total construction costs by £9,129,706.

In conclusion the build costs included in the CILEVS do not reflect normal, current construction costs in Sefton and is therefore contrary to NPPF.

Lifetimes Homes/ Building Regulation M4 (2) Construction Cost

WYG state that an inclusion for Lifetime Homes was included in the original assessment of build costs and that the costs of achieving Building Regulation Requirement M4 (2) is consistent with the cost of constructing a Lifetime Homes.

The original report does not set out the extra over cost associated with Lifetime Homes and, consequently, we are not able to comment on WYG's assessment of cost.

We request further information on how this cost has been assessed.

Planning Gain & Obligations

NPPF paragraph 174 states that during plan making, Local Authorities '*should assess the likely cumulative impacts of development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to the nationally required standards*'.

We have reviewed Sefton Council's local planning policy obligations and we do not believe that all planning obligations contained within Local Policy have been properly considered by Keppie Massie and WYG in their assessment of development costs.

We note that Section 106 costs have been included at a rate of £500 per residential property. We assume that this cost has been calculated in line with evidence provided by Sefton Council on the '*scale of historic planning obligations*', which is the approach set out in PPG Viability. There is no evidence provided to substantiate the £500 per dwelling cost and we would request that this is provided.

The LPEVS states that it has had regard to the site specific requirements identified by the Council's Transportation Team, and that those requirements have been reflected in the cost assessments. We would also request further details of the site specific requirements identified by the Council's Transportation Team with regards to the site 'Land at Liverpool Road, Formby'.

Furthermore the Proposed Modifications draft of the Local Plan (June 2016) sets out site specific allocations for Land at Liverpool Road, Formby within Policy MN2 Housing, Employment and Mixed Use Allocations. We note that these site specific abnormal costs/ planning obligations have not been included within the site specific development appraisal included within the 2014 CIL EVR report.

The Liverpool Road, Formby site has been identified as one of the 'sample sites' for site specific testing. However, the site specific testing exercise completed in 2014 failed to consider these site specific abnormal costs/ planning obligations and is therefore not in line with CIL Guidance in PPG.

Site Value

The report does not specify which areas within Sefton are considered 'high value' areas and which are considered 'low value' areas. Additional justification is required to support the land value assumptions for the different zones (1 to 5).

Further information is also required on the assumptions Keppie Massie are using to arrive at their per acre values. The document refers, for example, to a hypothetical greenfield site in Formby (with a development option agreement in place but without planning consent) which achieves a value of £450,000 per acre. This, in the absence of supporting analysis, could be seen to be overly optimistic and more detailed consideration of the key issues to be considered in deriving this site value should clearly be set out.

Developer's Profit

The LPEVS 2014 has included a developer's profit (including overheads) of 20% for developments of over 20 dwellings and a 15% profit for developments of 20 dwellings and less. Keppie Massie state that the developer's profit has been assessed on '*the size and form of the proposed development and the likely risk associated with the development as a result*'.

As stated in the PPG on viability the level of profit will '*vary significantly between projects to reflect the size and risk profile of the development and risks to the project*'. Although small sites are relatively less risky than larger sites and we agree that they will attract a lower profit margin, we believe that 15% is too low a profit margin level to be included within this analysis.

In our experience the typical market return for residential development lies within the range of 17.5% – 20% of Gross Development Value. When assessing the correct level of developer's return a number of factors need to be included (beyond just the size of the site) such as sales risk, development risk and the stage in the economic cycle. As a consequence, some smaller sites within Sefton are likely to be delivered at a lower profit margin with others requiring a bigger profit margin to reflect specific site circumstances, as well as changing economic and market circumstances. On this basis, we believe that a 17.5% profit margin for these smaller sites is more appropriate and will more accurately reflect the likely variation in profit levels across the Borough. This is consistent with the profit margin level in the HCA Development Appraisal Tool guidance (17.5% to 20% of GDV), the Home Builders Federation's Briefing Note and recent appeal decisions.

A proper consideration of developer's return is particularly important considering BREXIT and the economic and property market uncertainties that are becoming increasingly prevalent (see below for further detail).

We note that the low profit level for the smaller development sites was an issue raised in the 2014 developer consultation. We do not believe that Keppie Massie properly reflected these concerns within their response.

<u>Instalments Policy</u>

Our client supports the Council's proposal for an Instalments Policy in recognition of the substantial upfront costs that may be experienced on large-scale development sites, in particular where there are long lead-in times for site remediation and provision of particular pieces of infrastructure in advance of bringing forward the proposed land use and realisation of any increase in land value.

Of the three options currently being considered by the Council, we would be in support of Option C. Alternatively we would suggest an approach that allows for large schemes to be assessed individually on a site by site basis. This would recognise that the costs and programme varies between schemes and allow for bespoke instalment options to be established for each large scheme.

<u>BREXIT from the European Union</u>

The LPEVS 2014 was completed prior to BREXIT from the European Union and, as a consequence, the report does not consider the impacts of BREXIT within its analysis. BREXIT, however, has already resulted in unprecedented economic uncertainty. The property market is demonstrating signs that it is weakening, with residential and commercial developers experiencing a dramatic drop in share prices.

As set out in the CIL EVS 2016 paragraph 6.19, there should be a continual review of the CIL Charging Schedule in order to ensure that it remains valid, '*particularly in the context of economic and market changes*'. Consequently, it is important that the CIL schedule is tested in line with the significant economic and market changes that we are currently experiencing as a result of BREXIT.

We request that the CIL charges proposed are tested in consideration to various possible economic cycles that may now take place post BREXIT to assess the impact on viability. In particular, consideration should be given to sales prices, sales rates, tender prices, finance rates and developer's profit levels. Post Brexit, there is anecdotal evidence to suggest that profit margins are decreasing as developers experience lower sales rates, cancelled reservations and a drop in market demand which have meant that they are likely to be delaying decisions on making potential land purchases. It will however take time for the full impact of Brexit on the property market to be assessed and this will need to be factored into the CIL charging schedule analysis in due course.

To conclude, we have set out above our concerns regarding the Sefton Community Infrastructure Levy Preliminary Draft Charging Schedule and the evidence base which is used as justification.

Yours sincerely

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Ian Griffiths BA (Hons) MRTPI, MRICS
Director
For and on behalf of GVA Grimley Limited