
Sefton Council Community Infrastructure Levy Preliminary Draft Charging Schedule

Consultation response on behalf of a Developer Consortium



Sefton Council CIL PDCS

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1. Executive Summary



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1. Executive Summary

1.1. This representation has been prepared by Savills (UK) Limited (hereafter “Savills”) on behalf of a Developer Consortium. It is made in respect of Sefton Council’s Preliminary Draft Charging Schedule (PDCS) for the Community Infrastructure Levy (CIL). The representation specifically relates to generic residential proposals, of non specific locations to reflect wider interests of some of the Consortium members.

1.2. The CIL Guidance contained within the Planning Practice Guidance (PPG) is clear on the narrow focus of the CIL examination process permitted by the Regulations:

“The Examiner should establish that:

- **The charging authority has complied with the required procedures set out in part 11 of the Planning Act 2008 and the CIL Regulations;**
- **The charging authority’s draft charging schedule is supported by background documents containing appropriate available evidence;**
- **The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority’s area; and**
- **Evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole”¹**

1.3. This representation explores whether Sefton Council has presented appropriate evidence, come to reasonable conclusions and is able to demonstrate that it “*strikes an appropriate balance*” in accordance with Regulation 14(1) of the CIL Regulations.

1.4. The Consortium has fundamental concerns with the approach proposed by SC, notably:

- The publication of a PDCS is premature given the Local Plan has not yet been adopted;
- There have been limited viability testing of generic typologies (max. 100 units) which is concerning since there is no guarantee the draft allocations will be delivered during the plan period;
- The viability testing of the proposed rates adopt incorrect assumptions and ultimately causes an overestimation of the development viability. The key areas of concern relate to the lack of allowances for abnormal and site opening up/ infrastructure costs, out of date build costs, low Section 106 assumptions and low benchmark land values.
- It is very unclear how the results of the viability testing have been interpreted into the proposed CIL rates and the Charging Zones. The Consortium therefore ask for further explanation in this regard;
- In light of the above, the Consortium are concerned that the proposed CIL rates will exacerbate the consistent under delivery of housing and affordable housing within the Borough and ultimately risks the delivery of the emerging Local Plan.

¹ Paragraph 038, Reference ID 25-038-20140612, Planning Practice Guidance, revision date 12 June 2014



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- 1.5. For the reasons outlined in the representation, the Consortium strongly urge SC to revisit the evidence and approach to infrastructure funding and delivery within the SC area.

Structure of this Representation

- 1.6. This representation is structured as follows:

Section 2 gives an introduction to the representation.

Section 3 gives planning and legal background.

Section 4 outlines specific points about the available evidence bases, notably in respect of infrastructure delivery and the emerging Local Plan.

Section 5 provides scrutiny of the available viability assessment study (KM/WYG, 2016).

Section 6 outlines the position of the Consortium in respect of the effective operation of CIL.

Section 7 provides conclusions.

- 1.7. Where relevant this representation provides comment on the supporting evidence/existing guidance and also makes reference to policy documents, a list of which can be found at Appendix 1.

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2. Introduction



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2. Introduction

Overview

- 2.1. This representation has been prepared by Savills on behalf of a Developer Consortium comprising the following developers hereafter referred to as the 'Consortium':
 - Redrow Homes Ltd (NW Division);
 - Taylor Wimpey UK Ltd; and
 - Wainhomes (NW).
- 2.2. This representation has been submitted in response to the Sefton Council Community Infrastructure Levy (CIL) Preliminary Draft Charging Schedule (PDCS), published for public consultation in the period to 15th July 2016.
- 2.3. The Consortium has come together owing to certain concerns with the approach proposed by Sefton Council, notably regarding the viability of the proposed rate for residential development. The Consortium's members have interests across the Borough in a number of the proposed housing allocations within Sefton Council's emerging Local Plan including, but not limited to:
 - MN 2.2 Land at Bankfield Lane, Southport;
 - MN 2.4 Land at Moss Lane, Churchtown;
 - MN 2.12 Land north of Brackenway, Formby;
 - MN 2.19 Land at Andrew's Close, Formby;
 - MN 2.20 Land at Elmcroft Lane, Hightown;
 - MN 2.21 Land at Sandy Lane, Hightown;
 - MN 2.27 Land at Turnbridge Road, Maghill
- 2.4. Combined these sites are allocated to provide 1,213 residential units within the plan period and thereby contribute to the maintenance and delivery of the housing land supply (to meet identified housing needs). The rate of CIL is therefore of critical importance to the Consortium.
- 2.5. The highest proposed residential rate of £125 psm is significantly higher than many other adopted CIL rates in the north of England / outside Central London, and one of the highest for greenfield strategic land. **Table 2.1** below provides a comparison between the proposed CIL rate for Sefton 'Central' with CIL rates in the area:

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Table 2.1: CIL Rates Comparison

Authority	Stage	Max Residential (psm)	Sefton Proposed Max Rate: £125 (% Difference)
Leeds	Adopted	£90	+39%
Sheffield	Adopted	£80	+56%
Hambleton	Adopted	£55	+127%
West Lancashire	Adopted	£85	+47%
Wakefield	Adopted	£55	+127%
Ryedale	Adopted	£85	+47%
Chorley	Adopted	£65	+92%
Preston	Adopted	£65	+92%
Selby	Adopted	£50	+150%
Trafford	Adopted	£80	+56%

Source: Savills Research, July 2016

- 2.6. The desirability of funding from CIL is a key test of the Regulations. The purpose of CIL is to facilitate the delivery of development, including new housing to meet the key National Planning Policy Framework (NPPF)² objective for a significant boost in the supply of housing. The NPPF provides perspective on how desirable CIL funding may or may not be, in relation to the range of legal and planning mechanisms available to secure infrastructure delivery. There is no obligation on the Council to pursue CIL; should it do so, it should be minded that the initiative is new, and that existing tools are available to secure site specific mitigation costs.
- 2.7. The objective of this representation is not to oppose CIL; it merely seeks to ensure a reasonable rate, based on the evidence, and a collective interest to deliver well planned, viable and feasible development in the Borough.
- 2.8. In submitting this representation, the Consortium is only commenting on particular key areas of the evidence base. The lack of reference to other parts of the evidence base cannot be taken as agreement with them and the Consortium reserves the right to make further comments upon the evidence base at the DCS stage.
- 2.9. Section 211 (7a) of the Planning Act (as amended), requires Councils to use “appropriate available evidence” to inform their Charging Schedules. In the case of the PDCS, we have assumed the Council has relied upon the Viability Assessment Study³ produced by Keppie Massie / WYG (KM/WYG) as their “appropriate available evidence”. We have critically examined the report as part of this representation to determine if Sefton Council has sufficiently met the requirements of Section 211 (7a) in preparing their rates.

² Communities and Local Government, National Planning Policy Framework, March 2012

³ Viability Assessment Study, Keppie Massie/WYG, October 2015.



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Savills Research

- 2.1. Savills in January 2014 published research that assessed the impact of CIL on development viability⁴ (**see Appendix 2**). The research focused on the level of CIL balanced against affordable housing provision and demonstrated that there is a trade off required to enable a deliverable five year housing land supply. The key finding of the report is that *"for local planning policies to be viable, there is a three way trade-off between the costs of CIL, Section 106 funding of infrastructure and affordable housing policy, with the costs of local standards and the move to zero carbon being additional costs to be factored into the trade-off"* (emphasis added).
- 2.2. The research notes that the ability of an area to afford CIL largely depends on the strength of its housing market. Where the housing market is stronger (higher £ per sq ft) the total "pot" available for these contributions is higher. In contrast, lower value areas see reduced viability and subsequently a reduced "pot". It therefore becomes a question for local authorities to consider the appropriate trade-off.

⁴ CIL – Getting it Right, Savills (UK) Ltd, January 2014



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3. Summary of National Policy and Legal Context



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3. Summary of National Policy and Legal Context

Introduction

3.1. In respect of the preparation of Charging Schedules and supporting documentation, it is important to have regard to the Government policy, guidance and law. This includes:

- Part 11 of the Planning Act 2008; Community Infrastructure Levy Regulations 2010 (as amended)
- National Planning Policy Framework (NPPF)
- Planning Practice Guidance (PPG) CIL Guidance 2014 (as amended)
- Non-statutory Guidance

Planning Act 2008 (as amended)

3.2. Section 205 (2) of Part 11 of the 2008 Act (as amended by the Localism Act 2011) states that:

"In making the regulations the Secretary of State shall aim to ensure that the overall purpose of CIL is to ensure that costs incurred in supporting the development of an area can be funded wholly or partly by owners or developers of land in a way that does not make development of the area economically unviable."

3.3. Section 212 of the Planning Act requires the examiner to consider whether the "*drafting requirements*" have been complied with and, if not, whether the non-compliance can be remedied by the making of modifications to the DCS. The "*drafting requirements*" mean the legal requirements in Part 11 of the Planning Act and the CIL Regulations so far as relevant to the drafting of the charging schedule. In considering the "*drafting requirements*", examiners are required in particular to have regard to the matters listed in Section 211(2) and 211(4). This requires examiners to consider whether the relevant charging authority has had regard to the following matters:

- Actual and expected costs of infrastructure;
- Matters specific by the CIL Regulations relating to the economic viability of development;
- Other actual and expected sources of funding for infrastructure; and
- Actual or expected administrative expenses in connection with CIL.

3.4. Regulation 14 of the CIL Regulations (as amended) expands on these requirements, explaining that charging authorities must, when striking an appropriate balance, have regard to:

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



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- 3.5. The Examiner will need to determine whether appropriate evidence on infrastructure needs and development viability has been presented by the Council.

National Planning Policy Framework

- 3.6. It is important that the preparation of CIL is in the spirit of the NPPF, notably that it is delivery-focused and “*positively prepared*”⁵.
- 3.7. The NPPF outlines 12 principles for both plan making and decision taking, notably that planning should “*proactively drive and support sustainable economic growth*”⁶. Plan making should “*take account of market signals such as land prices and housing affordability*” and that “*the Government is committed to ensuring that the planning system does everything it can to support sustainable economic growth*”⁷.
- 3.8. Furthermore, the NPPF refers to the “*cumulative impacts*”⁸ of standards and policies relating to the economic impact of these policies (such as affordable housing) and that these should not put the implementation of the Plan at serious risk. Existing policy requirements should therefore be considered when assessing the impact of CIL on development viability.
- 3.9. The NPPF calls for local authorities to boost significantly the supply of housing⁹. It requires local authorities to:
- Meet the full, objectively assessed needs for housing, including identifying key sites;
 - Identify deliverable sites to provide five years worth of supply and developable sites further ahead;
 - Provide a housing trajectory for the plan period describing how the five year supply is to be maintained.
- 3.10. The NPPF expressly states that CIL “*should be worked up and tested alongside the Local Plan*” and “*should support and incentivise new development*”¹⁰. To comply with this policy, CIL Charging Schedules must be demonstrated to have positive effects on development and have regard to an up-to-date Local Plan. The absence of adverse effects on the economic viability of development, whether serious or otherwise is not enough to justify CIL proposals. Charging Authorities have a positive duty when it comes to setting CIL rates and formulating their approach on the application of CIL.
- 3.11. CIL Examiners’ reports, such as those for Mid Devon (February 2013) and Winchester City Council (October 2013), have set a clear precedent for CIL to be considered in the round, including the testing of policy-compliant levels of affordable housing and other policy costs.

⁵ Paragraph 182, National Planning Policy Framework, March 2012

⁶ Ibid, Criterion 3, March 2012

⁷ Ibid, Paragraph 19, March 2012

⁸ Ibid, Paragraph 174, March 2012

⁹ Ibid, Paragraph 47, March 2012

¹⁰ Ibid, Paragraph 175, March 2012



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3.12. In the case of Mid Devon, the Inspector concluded the use of a reduced affordable housing figure by the Council would put the provision of affordable housing at serious risk.¹¹ The Inspector outlined:

*“If the Council wishes to reduce the percentage of affordable housing to be provided (assuming such an approach could be justified, bearing in mind the advice in the NPPF that in principle the full objectively assessed needs for market and affordable housing should be met) then this should be achieved through a review of the adopted policies”.*¹²

3.13. The Inspector also had concerns that Mid Devon had a historic significant undersupply of affordable homes. This is also identified as an issue for Sefton which has also has an undersupply of affordable homes in some areas (alongside market homes). This is discussed in further detail in Section 4 of this report.

Planning Practice Guidance (PPG)

3.14. In 2014 the Government published an online resource of Planning Practice Guidance (PPG) which provided technical guidance on a series of planning related topics. Relevant to CIL, the PPG (2014) states:

- Charging schedules should be consistent with, and support the implementation of, up-to-date relevant Plans¹³.
- The need for balance (as per Regulation 14¹⁴).
- The need for “*appropriate available evidence to inform the Draft Charging Schedule*” (as per Schedule 211(7) (a) of the 2008 Act¹⁵).

3.15. The PPG re-affirms the requirement of paragraph 175 of the NPPF which states that, where practical, charging schedules should be worked up and tested alongside the Local Plan. It also states that “*a charging authority may use a draft plan if they are proposing a joint examination of their relevant Plan and their levy charging schedule*”¹⁶.

3.16. The policy direction from central government is very much towards facilitating development. This policy imperative should have a major material bearing on the CIL rates. This applies to the evidence to support the balance reached between the desirability of funding infrastructure through CIL and the potential effects on economic viability of development across that area.

3.17. The Guidance states that it is up to charging authorities to decide how much potential development they are willing to put at risk through CIL (the “appropriate balance”). Clearly this judgement needs to consider the wider planning priorities. Furthermore, the CIL Guidance outlines that CIL receipts are not

¹¹ Paragraph 14, Mid Devon Council Draft CIL Charging Schedule, Examiners Report, February 2013

¹² Ibid., paragraph 14

¹³ Paragraph 10, Reference ID: 25-010-20140612, Planning Practice Guidance, revision date 12 June 2014

¹⁴ CIL Regulations 2010 (as amended)

¹⁵ Paragraph 19, Reference ID: 25-019-20140612, Planning Practice Guidance, revision date 12 June 2014

¹⁶ Paragraph 11, Reference ID: 25-011-20140612, Planning Practice Guidance, revision date 12 June 2014



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expected to pay for all infrastructure but a “significant contribution”¹⁷. The overall approach and rate of CIL will have to pay attention to the development plan and intended delivery.

3.18. The Guidance also states that charging authorities may adopt differential rates in relation to:

- Geographical zones within the charging authority’s boundary
- Types of development; and/or
- Scales of development¹⁸

3.19. It explains that where a particular type or scale of development has low, very low or zero viability, the charging authority should consider setting low or zero rates for that type of development. The opportunity to define a CIL rate by development scale is important in this instance.

Non-Statutory Guidance

3.20. In addition to the regulations and statutory guidance, two specific non-statutory guidance documents have been published which are directly relevant to the CIL rate setting process. These two guidance documents have been recognised by Inspectors elsewhere as valuable sources of advice regarding the approach to, and assumptions to be used in, the setting of CIL levy rates for residential development. The two documents are:

- Financial Viability in Planning, RICS (August 2012) and
- Viability Testing Local Plans, Local Housing Delivery Group (June 2012) (‘Harman Report’)

3.21. Reference is made to these guidance documents where relevant throughout this representation.

¹⁷ Paragraph 95, Reference ID 25-095-20140612, Planning Practice Guidance, revision date 12 June 2014

¹⁸ Paragraph 21, Reference ID 25-021-20140612, Planning Practice Guidance, revision date 12 June 2014



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4. Planning Overview and Housing Delivery



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4. Planning Overview and Housing Delivery

The Development Plan

- 4.1. The Development Plan comprises the Sefton Unitary Development Plan (UDP) (2006).
- 4.2. Most of the policies from the UDP were saved in 2009 under the Planning & Compulsory Purchase Act 2004. Those that were not saved are as follows:
 - H1 - Housing Requirement
 - R5 - Edge-of-Centre Retail Development: TAVR site, Strand Road, Bootle
 - R8 - Upper Floors in Defined Centres and Shopping Parades
 - T3 - Pedestrian Priority on Chapel Street, Southport
- 4.3. Sefton Council is currently preparing a new plan, A Local Plan for Sefton. The new Local Plan will shape the future of Sefton for the plan period which runs until 2030. The Plan, which includes a Policies Map showing site allocations, was submitted to the Secretary of State for independent examination on 3 August 2015 by a Planning Inspector. A series of examination hearings took place between November 2015 and January 2016. The Inspector has indicated that the Plan is sound subject to some modifications. The Council is currently consulting on those Proposed Modifications which ends on 3rd August 2016.
- 4.4. The Council anticipates that the emerging Local Plan for Sefton will be formally adopted in January 2017. As the emerging Plan is at such an advanced stage and the Inspector has found it largely to be sound, some weight can be given to its policies. In particular, the housing requirements are relevant as these were not saved under the previous UDP.

Housing Needs

- 4.5. Draft Policy MN1 – ‘Housing and Employment Requirements’ of the emerging Local Plan sets housing needs for the Borough for the Plan period from 2012 – 2030. It identifies a total requirement to deliver a minimum of 11,520 new dwellings during this period. It states that the housing requirement will be met at the following average annual rates:
 - 2012 - 2017: 500 dwellings per annum
 - 2017 - 2030: 694 dwellings per annum
- 4.6. The need for housing in the Borough as set out in draft Policy MN1 has been established through key studies which form part of the evidence base for the new Local Plan. Total housing needs were originally identified through the objective Housing Requirement Study (2012 - 2015), prepared by Nathaniel Lichfield and Partners. The successive Strategic Housing Market Assessment (SHMA) (2014), prepared by Justin Gardner Consulting identified a need to provide additional affordable homes,



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two and three bedroom homes and older persons homes. The Council's Strategic Housing Land Availability Assessment (SHLAA) (2015 update) identified a number of suitable and deliverable housing sites but showed a shortage of urban and brownfield sites to meet housing needs. It is therefore necessary to release some Green Belt land for housing development.

4.7. Draft Policy MN1 sets out that the housing requirement will be met from the following sources:

- The housing allocations identified in Policy MN2;
- Sites with planning permission for housing development;
- Other sites identified in the Strategic Housing Land Availability Assessment; and
- Unanticipated or 'windfall' sites.

4.8. Policy MN2 – 'Housing, Employment and Mixed Use Allocations' sets out the housing allocations for the new Local Plan and includes a schedule of all of the allocated sites. These sites are distributed throughout Sefton, and include brownfield sites, other urban land, and sites in the Green Belt. In terms of the Consortium's particular areas of interest, the policy identifies the following total indicative capacities for the allocated sites:

- Southport: 1,821 dwellings;
- Formby: 1,184 dwellings;
- Hightown: 130 dwellings; and
- Maghull: 2,105 dwellings.

4.9. It is clear from the above that the allocated sites in these areas make a significant contribution to the housing growth and to enabling meeting Local Plan targets for housing delivery. Collectively, the areas of interest represent 45% of the total housing requirement for Sefton across the Plan period.

4.10. The schedule of allocated sites set out at Policy MN2 includes sites which have been promoted by the Consortium. Some of those sites fall within the Central Sefton area where a CIL rate for new housing of £125 per sq.m is proposed, others sites fall in areas outside the Central area where lower CIL rates from £40 – 60 per sq.m are proposed.

4.11. Allocated sites are imperative to meeting identified housing needs. The Council should therefore seek to ensure that the allocated sites are delivered during the plan period. The total number of sites allocated in the emerging Local plan for Sefton have an indicative capacity of 7,290 new dwellings. The allocated sites are therefore the cornerstone of the housing land supply and will make a significant contribution to delivering the overall housing target of 11,520 new dwellings during the period.

4.12. The delivery of allocated sites is therefore imperative. Ensuring viability and maximising the contribution which allocated sites can make towards the housing land supply is fundamental to the successful delivery of the Local Plan. The Consortium strongly recommends that the Council ensures that CIL requirements do not hinder the viability and deliverability of allocated sites.



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Affordable Housing

- 4.13. As outlined in paragraph 2.7 of this report there is a three way trade off with regard to CIL, Section 106 and affordable housing provision. If the CIL rate is set too high and site specific infrastructure is necessary to bring a development forward, this often results in an adverse impact on affordable housing provision.
- 4.14. There is currently a need to provide additional affordable housing in Sefton. Policy HC1 – ‘Affordable and Special Needs Housing’ from the of the emerging Local Plan sets out that the Council is seeking 30% affordable housing provision on sites above 15 dwellings, aside from in Bootle and Netherton where only 15% is sought.
- 4.15. Affordable Housing requirements for the Borough were established through the Council’s Strategic Housing Market Assessment. Local Plan draft Policy HC1 seeks 30% affordable housing contributions from developments of 15+ dwellings for all of Sefton, outside of Bootle and Netherton. Within Bootle and Netherton draft Policy HC1 seeks a requirement of 15% for developments of 15+ dwellings.
- 4.16. Figure 8.1 – ‘Affordable Housing Need in Sefton’, shows affordable housing needs across the areas that comprise the Borough. Figure 8.1 demonstrates that of all of the areas within Sefton, Formby has the second highest net need per 1,000 households at 6.31. In addition, Crosby also has significant affordable housing needs at 4.28 per 1,000 households.
- 4.17. There is undoubtedly a significant need for affordable housing within the area therefore it is imperative that the CIL rate is set at a level whereby affordable housing can continue to be delivered. If the levy remains too high at £125 per sq.m as proposed for the Central area in which Formby and Crosby are located, the Council ultimately risks the viability of schemes being able to deliver affordable housing.
- 4.18. This has been the case for neighbouring authority West Lancashire, where the delivery of affordable housing has been stifled by CIL rates that were underpinned by viability work which, as with for the Sefton CIL, was undertaken by Keppie Massie.
- 4.19. An example in practice is Grove Farm, which is an allocated site in Ormskirk. The Local Plan allocated the site for 300 units including 35% affordable housing provision. An application to develop the site was submitted in July 2015. The application was accompanied by a detailed viability assessment and Keppie Massey were instructed by the Council to review. The affordable housing provision on the site was subject to long and protracted negotiations with the Council and the applicant.
- 4.20. In the months leading up to the planning committee various revisions to the viability assessment were undertaken. The officer’s report to committee states: *‘It has been concluded that a developer profit of 20% is acceptable having regard to recent appeal decisions and that a competitive return to incentivize the landowner to release the land for development may well be more than Keppie Massey suggest’*. Ultimately it was agreed between the applicant and planning officers that only 20% affordable housing could be provided as part of the scheme, which is not policy compliant and represents a significant under delivery of affordable housing on that site.



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4.21. In light of the above example in West Lancashire, where the maximum CIL rate is implemented at a much lower rate than proposed in Sefton at £85 sq m, the Consortium are concerned that the proposed CIL rates will significantly risk the delivery of affordable housing within the Borough. It should be highlighted that CIL should not compromise the ability of other policy being deliverable and should therefore should not be set at the margins of viability.

Housing Delivery

4.22. Analysis of viability results should always be considered in the context of the relevant Development Plan and the identified housing supply. In local authorities where there has been an under delivery of housing (both private and affordable) in recent years, as is the case in Sefton, greater attention needs to be paid to the proposed CIL rates as, if they are set at unviable levels, the Development Plan once adopted will be put at risk.

4.23. The introduction of CIL represents an additional obligation and therefore must be assessed holistically to establish the cumulative impact of CIL and existing planning obligations, to ensure that the delivery of development would not be threatened by its introduction. Savills has therefore reviewed the identified housing supply to determine whether the proposed CIL rates would threaten the delivery of the development during the plan period.

4.24. In addition to this, the CIL guidance confirms that LPAs must have an “up-to-date” development strategy for the area in which they propose to charge CIL. It states that a Charging Authority must be able to demonstrate how the proposed levy rates will contribute towards the implementation of the Local Plan. In terms of Sefton, although not yet formally adopted, the housing requirements and objectively assessed housing needs have been independently examined by a Planning Inspector and his Proposed Modifications have been approved by the Council’s Cabinet. Policies within which are therefore afforded some weight. Notwithstanding this, however, the Consortium considers that the Council is premature in bringing forward its CIL PDCS in advance of formally adopting its Plan. With adoption of the emerging Local Plan anticipated in early 2017 the Consortium do not consider there to be any significant issues in delaying the CIL production by six months to enable the Plan to be adopted first in accordance with CIL guidance.

4.25. The 2015 update of the objective Housing Requirement Study by NLP shows the cumulative housing backlog in Sefton generated against the previously set Regional Spatial Strategy targets since 2003/04. These figures are replicated in the table below.

Table 4.2: Housing Delivery in Sefton 2003 - 2014

Year	New Build	Conversions	Demolitions	Deliver (net completions)	Target (RS)	Backlog
2003/04	469	63	53	479	500	-21
2004/05	308	157	78	387	500	-134
2005/06	425	102	101	426	500	-208
2006/07	475	46	243	278	500	-430
2007/08	703	156	295	564	500	-366
2008/09	424	176	336	264	500	-602

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2009/10	429	131	159	401	500	-701
2010/11	247	242	222	267	500	-934
2011/12	471	138	137	472	500	-962
2012/13	372	86	53	405	500	-1,057
2013/14	274	49	11	312	500	-1,245

Source: Housing Requirement Study by NLP (2015)

4.26. Table 4.2 shows that the rate of delivery in Sefton has fallen short of planned supply every year with the exception of the year 2007/08. At the time the Housing Requirement Study was published the backlog was at 1,245 homes. The under delivery identified above further strengthens the argument that Sefton's CIL PDCS is premature. The backlog means that housing sites will need to be brought forwards as quickly and easily as possible and the introduction of CIL charging may create some uncertainty in the market and prevent the backlog from being further addressed in the short-term.

Applying the Guidance

4.27. The PPG CIL Guidance¹⁹ must be followed in the preparation of a charging schedule. The Consortium wishes to outline a number of observations against relevant aspects of the Guidance.

Table 4.3: CIL PPG Extracts and Implications for Sefton

Paragraph and Reference ID	Topic	Guidance	Implications for Sefton
Paragraph 008, Reference ID: 25-008-20140612, CIL Guidance (revision date 12 June 2014)	Rate setting	<i>"Charging authorities should set a rate which does not threaten the ability to develop viably the sites and scale of development identified in the relevant Plan."</i>	It is imperative that a CIL rate is not set which could have a negative impact on housing delivery. The contribution of allocated sites to the housing supply puts greater importance on the testing of a wide range of residential development scenarios.
Paragraph 009, Reference ID: 25-009-20140612, CIL Guidance (revision date 12 June 2014)	Positive duty	<i>"The levy is expected to have a positive economic effect on development across a local plan area."</i>	To be a success, CIL must facilitate development and enable infrastructure delivery required to support development.
Paragraph 010, Reference ID: 25-010-20140612, CIL Guidance (revision date 12 th June 2014)	Positive duty	<i>"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."</i>	Reliance must therefore be had on infrastructure evidence and viability evidence, with reasoned consideration of the views of the key stakeholders and delivery agents.
Paragraph 010, Reference ID: 25-010-20140612, CIL Guidance (revision date 12 June 2014)	Positive duty	<i>"Charging schedules should be consistent with, and support the implementation of, up-to-date relevant Plans."</i>	The approach to viability testing must be grounded on the viability of allocated sites and other developments needed to support the delivery of the housing requirement identified in the emerging Local Plan which supports the PDCS.

¹⁹ PPG CIL Guidance, 2014 (as amended)

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Paragraph and Reference ID	Topic	Guidance	Implications for Sefton
Paragraph 011, Reference ID: 25-011-20140612, CIL Guidance (revision date 12 June 2014)	Spending	<i>"Charging authorities should think strategically in their use of the levy to ensure that key infrastructure priorities are delivered to facilitate growth and economic benefit of the wider area."</i>	A difference must be distinguished between "scheme mitigation" infrastructure and "strategic infrastructure" required to address the delivery of the whole plan (i.e. to address cumulative impacts).
Paragraph 019, Reference ID: 25-019-20140612, CIL Guidance (revision date 12 June 2014)	Viability assessment	<i>"...A charging authority should directly sample an appropriate range of types of sites across its area...The exercise should focus on strategic sites on which the relevant Plan relies, and those sites where the impact of the levy on economic viability is likely to be most significant."</i>	As above, the Viability Assessment evidence should test allocated sites in the emerging Local Plan. The viability inputs and assumptions in the testing of the generic site typologies must though be realistic and reasonable.
Paragraph 020, Reference ID: 25-020-20140612, CIL Guidance (revision date 12 June 2014)	Viability assessment	<i>"A charging authority should take development costs into account when setting its levy rate or rates, particularly those likely to be incurred on strategic sites or brownfield land. A realistic understanding of costs is essential to the proper assessment of viability in an area."</i>	Reliance must therefore be placed on infrastructure and viability evidence, with reasoned consideration of the views of the key stakeholders and delivery agents. The additional costs of strategic development must be recognised.
Paragraph 028, Reference ID: 25-028-20140612, CIL Guidance (revision date 12 June 2014)	Infrastructure list	<i>"It is good practice for charging authorities to also publish their draft infrastructure lists and proposed policy for the associated scaling back of section 106 agreements at this stage [Preliminary Draft Charging Schedule] in order to provide clarity about the extent of the financial burden that developments will be expected to bear so that viability can be robustly assessed."</i>	Infrastructure evidence on the onward use of Section 106 contributions should be published. It is clear that Section 106, whilst potentially scaled back in some cases, will continue to play an important role in relation to infrastructure delivery. The updated Guidance is clear that the sharing of infrastructure evidence should be earlier in the process.
Paragraph 038, Reference ID: 25-038-20140612, CIL Guidance (revision date 12 June 2014)	Examination	<i>"The examiner should establish that the charging authority has complied with the legislative requirements set out in the Planning Act 2008 and the Community Infrastructure Levy Regulations as amended; the draft charging schedule is supported by background documents containing appropriate available evidence; the proposed rate or rates are informed by and consistent with the evidence on economic viability across the charging authority's area; and evidence has been provided that the proposed rate or rates would not threaten delivery of the relevant Plan as a whole."</i>	"Appropriate available evidence" must be published by the Council. This requires the full detail of the viability appraisals to be made available. A relevant input to the evidence of economic viability is the likely use of "scheme mitigation" Section 106.
Paragraph 061, Reference ID: 25-061-20140612, CIL Guidance (revision date 12 June 2014)	Payment in kind	<i>"...where an authority has already planned to invest levy receipts in a project there may be time, cost and efficiency benefits in accepting completed infrastructure from the party liable for payment of the levy. Payment in kind can</i>	The operation of Payment in Kind needs to consider the implications of the 2014 Regulations, which make clear that reductions in the CIL rate are not possible for infrastructure which is



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Paragraph and Reference ID	Topic	Guidance	Implications for Sefton
		<i>also enable developers, users and authorities to have more certainty about the timescale over which certain infrastructure items will be delivered."</i>	provided to mitigate the impacts of development (and hence typically "site specific").
Paragraph 062, Reference ID: 25-062-20140612, CIL Guidance (revision date 12 June 2014)	Payment in kind	<i>"This document [the Infrastructure Payments Policy Statement] should confirm that the authority will accept infrastructure payments and set out the infrastructure projects, or type of infrastructure, they will consider accepting as payment (this list may be the same list provided for the purposes of Regulation 123)."</i>	The Council must produce an Infrastructure Payments Policy Statement.
Paragraph 083, Reference ID: 25-083-20140612, CIL Guidance (revision date 12 June 2014)	Borrowing	<i>"Charging authorities are not currently allowed to borrow against future levy income. However, the levy can be used to repay expenditure on income that has already been incurred. Charging authorities may not use the levy to pay interest on money they raise through loans."</i>	The use of wider funding sources to enable infrastructure delivery should be considered.
Paragraph 093, Reference ID: 25-093-20140612, CIL Guidance (revision date 12 June 2014)	Planning obligations	<i>"...Charging authorities should work proactively with developers to ensure they are clear about the authorities' infrastructure needs and what developers will be expected to pay for through which route. There should be no actual or perceived 'double dipping' with developers paying twice for the same item of infrastructure."</i>	This is an important principle that the Council should be aware of.
Paragraph 094, Reference ID: 25-094-20140612, CIL Guidance (revision date 12 June 2014)	Planning obligations	<i>"The levy is intended to provide infrastructure to support the development of an area, rather than making individual planning applications acceptable in planning terms. As a result, some site specific impact mitigation may still be necessary in order for a development to be granted planning permission. Some of these needs may be provided for through the levy but others may not, particularly if they are very local in their impact. Therefore, the Government considers there is still a legitimate role for development specific planning obligations to enable a local planning authority to be confident that the specific consequences of a particular development can be mitigated."</i>	This is a key point, and distinguishes between the strategic infrastructure used to address cumulative impacts, which are required to deliver the plan as a whole and the scheme mitigation infrastructure used to mitigate the impact of the sites.
Paragraph 106, Reference ID: 25-106-20140612, CIL Guidance (revision date 12 June 2014)	Grampian conditions	<i>"In England, the National Planning Policy Framework sets out that planning conditions (including Grampian conditions) should only be imposed where they are necessary, relevant to planning and to the development to be permitted, enforceable, precise and</i>	Grampian conditions must be used sparingly. The Council should publish a policy on the use of Grampian conditions.



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Paragraph and Reference ID	Topic	Guidance	Implications for Sefton
		<i>reasonable in all other respects. When setting conditions, local planning authorities should consider the combined impact of those conditions and any Community Infrastructure Levy charges that the development will be liable for."</i>	
Paragraph 107, Reference ID: 25-107-20140612, CIL Guidance (revision date 12 June 2014)	Highway agreements	<i>"Charging authorities should take care to ensure that their existing or forthcoming infrastructure list does not inadvertently rule out the use of section 278 agreements for highway schemes that are already planned or underway, or where there would be clear merit in retaining the ability for developers to contribute towards specific local highway works through s278 agreements."</i>	The cost of Section 278 infrastructure is a relevant consideration for the viability evidence.
Paragraph 107, Reference ID: 25-107-20140612, CIL Guidance (revision date 12 June 2014)	Highway agreements	<i>"Where section 278 agreements are used, there is no restriction on the number of contributions that can be pooled."</i>	Pooled Section 38/278 Agreements may represent a feasible alternative to pooled Section 106 contributions in relation to new/improved roads.

Regulation 123 List and Infrastructure Delivery

4.28. The Planning Act 2008 (as amended)²⁰ defines infrastructure as:

- *"(a) roads and other transport facilities,*
- *(b) flood defences,*
- *(c) schools and other educational facilities,*
- *(d) medical facilities,*
- *(e) sporting and recreational facilities, and*
- *(f) open space."*

4.29. There is a requirement within the CIL Regulations to provide a list of *"relevant infrastructure"*²¹ to be wholly or partly funded by CIL. It is also lawful²² for CIL to be used to reimburse expenditure already incurred on infrastructure, a tool which could have useful implications in respect of the forward funding obtained for major strategic infrastructure.

4.30. The Consortium considers it imperative that the evidence supporting CIL:

²⁰ Section 216, Planning & Compulsory Purchase Act 2008 (as amended)

²¹ Regulation 123, CIL Regulations 2010 (as amended)

²² Regulation 60(1), CIL Regulations 2010 (as amended)



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- Clearly outlines the key infrastructure projects required to support development (this being a key test of the Regulations); and
- Produces an up to date, consistent and well informed evidence base of economic viability in order to test various development typologies against CIL rates.

4.31. The sequencing of the delivery of infrastructure is also an important consideration.

4.32. The CIL Guidance²³ places a strong emphasis on the need for local authorities to demonstrate when setting their Charging Schedule that they have been realistic when assessing what residual Section 106 and 278 requirements will remain. In order to do this it is therefore necessary for Sefton Council to prepare a draft list of relevant infrastructure (referred to as a 'Regulation 123 list') to establish what on-site infrastructure is anticipated to continue to be delivered through Section 106 planning obligations.

4.33. Sefton Council has published an initial Draft Regulation 123 List to support the PDCS which only sets out the 'types' of infrastructure which it currently envisages will be paid for through either CIL or Section 106 contributions. Whilst we welcome the publication of a Regulation 123 List at this initial stage in the CIL process, it is not clear which projects, if any, will be funded by CIL specifically. The draft Reg 123 list seems to focus on those infrastructure projects which are excluded from CIL funding, the Consortium would suggest a Reg 123 list is produced which states those projects which will be funded by CIL as opposed to a list of those which will not be funded by CIL. The Consortium would encourage the Council to steer away from generic infrastructure listed such as 'education provision' as the Council must consider what funds have already been collected to date through historic Section 106 obligations using such generic descriptions, the Council must comply with pooling restrictions.

4.34. The Consortium strongly believe that Section 106 agreements only should be used on any strategic sites with a £0 per sq.m residential CIL rate applied. There is both planning and viability justification for this. Such an approach would provide clarity in terms of the infrastructure delivery mechanism and also ensure its delivery in a timely manner through bespoke Section 106 agreements. The risk of 'double dipping' would be removed through a clear demarcation between CIL and Section 106. The PPG states that:

"Where the Regulation 123 List includes a generic item (such as education or transport), Section 106 contributions should not normally be sought on any specific project in that category".²⁴

4.35. It is considered that specific Section 106/278 Agreements are the most appropriate mechanism to ensure that all future infrastructure needs are delivered on Strategic Allocated sites. Furthermore, the Consortium advise that the Regulation 123 List is amended to provide greater clarity on the operation of CIL and Section 106 contributions.

²³ Paragraph 017 Reference ID: 25-017-20140612, PPG CIL Guidance, revision date 12 June 2014

²⁴ Paragraph 097, Reference ID: 25-097-20140612, PPG CIL Guidance, 2014 (as amended)



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Historic Section 106 Contributions

4.36. The CIL Guidance states that: *“when a charging authority introduces the levy, Section 106 requirements should be scaled back to those matters that are directly related to a specific site... For transparency, charging authorities should have set out at examination how their Section 106 policies will be varied, and the extent to which they have met their Section 106 targets”²⁵.*

4.37. This information has not been published as part of the PDCS consultation.

4.38. The Consortium would therefore ask for further detail on the anticipated Section 106 contributions to be sought by the Council to ensure that a realistic figure is included in the viability assessments. This information should be broken down by scheme type to enable a comparison on a cost per unit basis. This will help ensure that the combined total cost of Section 106 and CIL is not in excess of historically

delivered Section 106 contributions and will not therefore adversely impact the deliverability of any sites coming forward.

²⁵ Ibid. Paragraph 098, Reference ID 25-098-20140612

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5. Viability Appraisal



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5. Viability Appraisal

Introduction

5.1 Keppie Massie and White Young Green (KM & WYG) were commissioned by Sefton Council to produce a Local Plan and Community Infrastructure Levy Economic Viability Study (LPEVS) in December 2014. An update of this evidence base was undertaken by the same consultant in September and October 2015 and the Economic Viability Study 'EVS' February 2016 was produced as part of the consultation material for Sefton Council's Preliminary Draft Charging Schedule (PDCS). KM & WYG state that the two reports should be read alongside each other. We note that no appraisals have been provided within either LPEVS (December 2014) nor the EVS (February 2016). Savills thereby requests that these appraisals be made available for the Draft Charging Schedule consultation.

5.2 We split our response in respect of the viability assessment into three parts:

Part 1 - Summary of KM & WYG Appraisal Inputs

Part 2 - Assessment of Appraisal Inputs

Part 3 - Interpretation of Results and Application of Differential Rates

5.3 The viability assessments undertaken by KM & WYG are based on a series of residual valuation scenarios that model the gross development value achievable from different uses, in different areas within the Borough, and discounts development costs, including the cost of the land, interest costs and developer profit. The residual sum that is left, if positive represents a surplus that is available to be paid as CIL.

5.4 KM & WYG have tested 6 hypothetical residential typologies ranging from 5 to 100 dwellings across 5 value zones. The typologies are based on work previously undertaken by the Council which has been informed by the Strategic Housing Land Availability Assessment (SHLAA) 2013 and the allocations contained within the emerging Local Plan. Each typology has been modelled against a Brownfield Benchmark Land Value and typologies 3-5 have been modelled against Greenfield Benchmark Land Values. A further 20 site specific typologies were tested based on strategic sites that have been proposed as allocations within the emerging Local Plan.

5.5 Using the typologies and methodology stated above, the following CIL charges are proposed for C3 development in the Borough:

Table 5.1 Sefton Council Proposed Charges for C3

Development	South	North	East	Central
New Homes (including Houses in Multiple	Zero	£40	£60	£125

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Occupation, but not Apartments)				
Small Apartments Schemes (14 or fewer units)	Zero	£48	£20	£125
Large Apartments Schemes (15 or above)	Zero	Zero	Zero	£15

Part 1 – Summary of KM & WYG Appraisal Inputs

5.6 We summarise below KM & WYG's viability assumptions taken from the December 2014 and February 2016 reports and highlight the initial areas of concern. Further detail on the specific areas of disagreement is set out in Part 2.

Table 5.2: Summary Table KM & WYG's Assumptions and Consortium Opinion

Appraisal Input	KM & WYG Assumption	Opinion						
Methodology and Typologies Tested	6 generic typologies ranging in size of between 5 – 100 dwellings across five value zones by geography. 20 site specific typologies tested.	Disagree – reference Part 2 for further detail.						
Values								
Benchmark Land Values	<p><u>Previously Developed</u> Highest Value Area - £450,000 per acre Lowest Value Area - £200,000 per acre</p> <p><u>Greenfield</u> Highest Value Area - £250,000 per acre Lowest Value Area - £150,000 per acre</p>	Disagree – reference Part 2 for further detail.						
Open Market Value (OMV)	Zone 1 - £150 per sq ft Zone 2 - £170 per sq ft Zone 3 - £190 per sq ft Zone 4 - £200 per sq ft Zone 5 - £220 per sq ft	Disagree – reference Part 2 for further detail.						
Affordable Housing Value	40% of open market value for affordable rented units. 65% of open market value for intermediate units.	Disagree – reference Part 2 for further detail.						
Densities								
Per Hectare	30 dwellings per hectare.	Disagree – Although it is noted that location will influence density, generally, density should be related to scale of development.						
Dwelling Sizes								
Open Market Housing and Affordable Housing	1 Bed – 603 sq ft (56 sq m) 2 Bed – 700 sq ft (65 sq m) 3 Bed – 925 sq ft (86 sq m) 4 Bed – 1,250 sq ft (116 sq m) 5 Bed – 1,700 sq ft (158 sq m) 1 Bed Apartment – 603 sq ft (56 sq m) gross 2 Bed Apartment – 750 sq ft (70 sq m) gross 3 Bed Apartment – 925 sq ft (86 sq m) gross	Clarification required as to inclusion of garages within these figures. Garages form part of the GIA and are therefore CIL liable. Unclear whether circulation space has been included for apartments.						
Net Developable Area (NDV)								
NDV per Gross Ha	<table border="0"> <tr> <td><u>Site Area (ha)</u></td> <td><u>Net Developable Area %</u></td> </tr> <tr> <td>Less than 0.4ha</td> <td>100%</td> </tr> <tr> <td>0.4ha to 2 ha</td> <td>90%</td> </tr> </table>	<u>Site Area (ha)</u>	<u>Net Developable Area %</u>	Less than 0.4ha	100%	0.4ha to 2 ha	90%	Disagree - reference Part 2 for further detail.
<u>Site Area (ha)</u>	<u>Net Developable Area %</u>							
Less than 0.4ha	100%							
0.4ha to 2 ha	90%							

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	Sites over 2 ha 75%	
Acquisition Costs		
Stamp Duty	1% of purchase price agent fees 0.75% of purchase price legal fees Stamp Duty Land Tax assumed at incorrect historic rate.	Disagree – agent fee, legal and VAT on professional fees should equate to 1.8% on top of additional % for the prevailing SDLT.
Planning Costs		
Planning Fees	Unclear if additional allowances have been made.	Disagree – an appropriate allowance should be made for the cost of planning, particularly for larger sites that require promotion.
Sales and Construction Timescale		
Construction	A range of between 3 – 5 per month (30 – 50 per annum).	Agree in principle.
Sales	A range of between 3 – 5 per month (30 – 50 per annum). First sales taking place 5 months after start on site.	Disagree - the sales period adopted should be based on market research and be reflective of current new build take in the relevant location. Larger typologies may see lower sales rates per month consistent with a diluted market. We would also advocate that a at least a 6 month pre construction lead in period is required before construction can start on site. Then an appropriate period for construction should be allowed for the provision of roads, infrastructure and construction of a show home before first sales.
Construction Costs		
Build Costs	Generic assumptions of base build costs not clear. Site specific base build costs and additional costs included.	Further detail required - reference Part 2 for further detail. Agree with approach for testing site specific typologies.
Abnormals	Unclear if an additional allowance for generic typology testing. Welcome site specific costings that WYG have provided for the site specific typologies. Dynamic compaction costs at £10 per sq m on Greenfield sites (Southport Greenfield only).	Clarification required.
Plot Externals / Servicing	Included within build cost.	Disagree - reference Part 2 for further detail.
Preliminaries and Demolition / Site Preparation	Included within build costs.	
Contingency	Included within build costs.	
Professional Fees	Included within build costs.	
Infrastructure Costs / Opening Up Costs Larger Greenfield Sites	It is not clear if any allowances have been made for the generic typology testing.	



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Section 106		
Affordable Housing %	0% - 30%.	Disagree with testing of affordable housing at less than policy level.
S106 / S278 Financial Contribution	£500 per dwelling	Disagree - reference Part 2 for further detail.
Profit		
Developer Profit	21+ units – 20% blended	Agree in principle.
Finance		
Debit Rate	7%.	Agree in principle.
Marketing Fees		
Marketing Costs & Sales	3.5% of GDV for market housing + £500 per dwelling on affordable units	Agree in principle.

Part 2 – Assessment of Appraisal Inputs

5.7 As outlined in Table 5.2 above, there are a number of assumptions made by KM & WYG that cause concern. In the following section we have explored a number of these points further and made reference to evidence where appropriate.

5.8 The key areas of concern include:

- Typologies
- Benchmark Land Values
- Development Costs
- Build Costs
- Section 106/278

Typologies Tested

5.9 The key areas of concern for the Consortium is the lack of generic site testing. The typologies tested range from 5-100 dwellings which is reflective of the Council's previous work based on the SHLAA 2013 and the allocated sites contained within the emerging Local Plan. The Consortium would like to highlight that there is no guarantee that these sites will be delivered and recommend that a wider range of larger generic sites are tested to include 150, 250 and 500 unit schemes.

5.10 This is particularly important since the LPEVS (December 2014) outlined the anticipated 5 year housing supply, contained within Table 5.3, which highlights the Borough's heavy reliance on strategic sites for the planned housing supply.

Table 5.3 2013 SHLAA Estimated Site Delivery Typologies

Site Typology	SHLAA Estimate of 5 year housing delivery	Percentage
Strategic / allocated sites	1,225	47%



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Regeneration sites	427	16%
Surplus Council owned sites	196	8%
Small sites (less than 20 units)	444	17%
Conversion sites	299	12%
Total	2,591	100%

5.11 Larger sites, by nature, yield higher development costs. Depending on the size, the open market dwellings will usually be marketed by releasing phased development parcels. Often there are several house builders on site actively marketing separate phases at one given period creating a diluted market.

5.12 The combined impact of the lower sales values and the increased development costs have not been appropriately, nor consistently, modelled within the KM & WYG Appraisal. It is vital that a more robust analysis of larger sites is modelled, including strategic sites, before a levy can be proposed.

Benchmark Land Values (BLV's):

5.13 KM & WYG have adopted the following Benchmark Land Values (BLV):

Table 5.4 BLV adopted in Viability Appraisal

Area	Previously Developed		Greenfield	
	£ per Hectare	£ per Acre	£ per Hectare	£ 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

5.14 The key areas of concern are as follows:

Gross to Net Land Take:

- It is unclear if the BLV's are gross or net;
- The assumptions relating to gross to net land take, particularly for larger sites, are not reflective of the size and scale of development and likely open space being provided.

Comparable Evidence

- There is a lack of comparable evidence to support the BLV's adopted.
- The comparable evidence is out of date (with some of the transactions quoted dating back to 2001) and therefore not reflective of current market transactions.

Gross to Net

5.15 Large sites will be required to provide public open space and recreation space that will reduce the net residential acreage. These additional land uses are a necessary part of any planning permission and contribute towards the acceptability of the scheme from the Council's perspective. A recommended approach is factor in the gross land areas required for each scheme and adopt a reasonable minimum land value across the gross site area.



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5.16 It is unclear if the BLV are gross or net. We seek clarification on this point.

5.17 The LPEVS (December 2014) outlines the following gross to net land take assumptions that have been made which are deemed to be consistent with the Local Plan evidence base:

Table 5.5 Gross to Net Land Take Assumptions

Total Site Area (Hectares)	Net Developable Area
Less than 4 ha	100%
0.4 ha to 2 ha	90%
Sites over 2 ha	75%

Source: LPEVS (December 2014)

5.18 The Consortium are concerned that the net developable areas adopted for larger sites are much higher than expected.

5.19 Sites of 300+ dwellings are likely to yield a much higher land take for public open space than 25% of the gross site area. We would expect the net developable area for larger sites and particularly strategic sites to be as low as 50 – 60%. Savills are aware of a site of approximately 101 hectares which has planning consent for circa 2,000 dwellings. The site has been promoted through planning with a masterplan reflecting a gross to net land take of 58%.

5.20 The implications that incorrect gross to net land take assumptions will have to BLV's is demonstrated in the table below. Within our example we have modelled a site of 10 net hectares which could yield 300 dwellings at a density of 30 dph. For a 10 hectare site, KM & WYG have assumed a net developable area of 75% (as per Table 4.8 above). We have adjusted this down to 60% within our example. We note that this is indicative and is not reflective of any specific site.

Table 5.6 Effect of Gross to Net Land Take on BLV's Adopted

Tier / Location	BLV Adopted*	Net Developable Area % Adopted by KM & WYG	Net BLV at 75% NDA	Revised Net Developable Area %	Revised Net BLV at 60% NDA
High Zone PD*	£450,000	75%	£600,000	60%	£750,000
Low Zone PD	£200,000	75%	£266,667	60%	£333,333
High Zone GF	£250,000	75%	£333,333	60%	£416,667
Low Zone GF	£150,000	75%	£200,000	60%	£250,000

*PD = Previously Developed

**Assumed to be gross for purposes of our example



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- 5.21 Clearly, the £ per acre is higher when a lower net developable area is assumed (£50,000 - £100,000 per acre). Adopting a higher net developable area (75% of the gross site area) results in a lower 'land cost' (BLV) being modelled within the viability appraisals, resulting in a higher surplus, e.g. the amount that can be paid towards CIL. We strongly advocate that the assumptions made with regard to gross to net land take, particularly for larger sites, are revisited and evidence to support the land take assumptions for varying typologies is provided.
- 5.22 We would also add that gross to net land take assumptions need to be reflective of the current market as they correlate with the price paid to release the land for development, and hence the BLV. A larger net developable area would result in a higher price paid per acre and vice versa.

Supporting Comparable Evidence

- 5.23 Although at Appendix 1 of the KM & WYG LPEVS (December 2014) a selection of evidence is provided in relation to consented development land, no evidence has been provided to support the adopted BLV's.
- 5.24 In the absence of a robust evidence base which is reflective of the current market, Savills have researched a number of option and promotion agreements and the minimum price provisions set out within these in the local area. We set out comparables below of those agreed in comparable markets for Greenfield sites in the North West. Specific details remain confidential:
- Site A, North West England – a site of approximately 90 units. The minimum price per acre has been agreed at £500,000 per net developable acre in February 2016. The gross to net land take will be established through master planning later in the planning process. For the purposes of comparison, we have assumed 85% of the total site will be developable, which provides a £ per gross acre of £425,000.
 - Site B, North West England – a site with an anticipated capacity of 55 dwellings. The minimum price per acre has been agreed at £400,000 per net developable acre in January 2015. Similarly, the gross to net land take will be established through master planning later in the planning process. For the purposes of comparison, we have assumed 90% of the total site will be developable, which provides a £ per gross acre of £360,000.
- 5.25 From the evidence above, it can be seen that in comparable markets, minimum Green Field land values tend to be agreed within a range of £360,000 - £425,000 per gross acre (£400,000 - £500,000 per net acre).
- 5.26 In the absence of supporting comparable evidence, we recommend that KM & WYG adopt a BLV reflecting a minimum of £425,000 per gross acre for Greenfield sites with an appropriate viability buffer.

Affordable Housing Revenue

- 5.27 Affordable housing is a key component of the CIL viability testing. It is therefore of paramount importance that the affordable housing assumptions are realistic and reflective of current market conditions. The Government has imposed rent controls on Housing Associations (Registered Providers) as a short term measure to reduce the cost of Welfare payments. The following has been imposed on the housing sector:



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- An absolute rent reduction of 1% per annum on social and affordable rents until 2020;
- A Freeze on Local Housing Allowance (the housing benefit cap);
- A reduction in the benefit cap to £23,000 in London and £20,000 in the rest of the Country, from the current £26,000; and
- The abolition of Housing Benefit for under-21's and the end of Social Rents for Local Authority and Housing Association tenants who earn more than £30,000 (£40,000 in London).

5.28 We are aware that Registered Providers are consequently renegotiating Section 106 packages, with a direct impact on land values. These amendments will subsequently have a significant impact on Registered Providers and the valuation of affordable / social rental products in CIL viability work. The impact will vary depending on the tenure split prescribed by the Local Planning Authority, as only social and affordable rental products are affected; however, we are aware of offers being reduced by £10,000 - £30,000 per plot.

5.29 For the purpose of viability appraisals these policy requirements will clearly result in a reduction in affordable revenues for developers. In light of this, we would strongly advocate KM & WYG and the Council undertaking additional viability testing to take account of these changes.

5.30 We note the method that has been adopted by KY & WYG applies a 40% discount to market value for affordable rented units and a 60% discount to market value for the intermediate units. Which, given the quantum of affordable housing on larger sites, is neither accurate nor sufficiently robust. We would either suggest that the RICS Guidance Note on the "Valuation of Land for Affordable Housing" is used, or that KM & WYG approach a selection of local RPs to offer a more informed view.

Development Costs

5.31 It is vital that baseline construction cost data accurately reflects current market sentiment and is reflective of the actual costs incurred by developers. Construction costs can also form the basis of other development costs such as the developers contingency and professional fees.

5.32 Within the Viability Appraisal, the construction costs have been provided by WYG Quantity Surveyors as part of a bespoke cost assessment (dated December 2014) prepared specifically for the 20 typologies tested (Appendix 2 of the KM & WYG Viability Appraisal).

5.33 It is however unclear what build cost assumptions have been made in relation to the generic typology site testing. The update EVS (February 2016) report states that since house price growth has occurred over the period since the build cost data was provided, the two inputs would balance each other out. The Consortium have fundamental concerns with this approach and highlight that build cost inflation has been significant over the past 12 months (discussed later). We also highlight to the Council that the proposed rates should be calculated on up-to-date evidence therefore we recommend that further analysis is undertaken and this information be provided at the Draft Charging Schedule consultation stage.

5.34 The adopted construction cost is inclusive of substructures, super structures, external works, services, drainage, preliminaries, contingencies and fees. Within the construction cost, an allowance has been made



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for recent changes to Building Regulations in respect of water usage, security and space standards. Abnormal costs, Section 278 works and incoming infrastructure is excluded.

- 5.35 Any increase to the development costs modelled within the KM & WYG appraisals will have a negative impact on the land value and influence the surplus / deficit afforded to CIL. It is therefore vital that realistic and reasonable assumptions are made as to the likely costs associated with bringing forward development within the Borough.

Opening Up Costs / Strategic Infrastructure

- 5.36 Owing to the fact that the largest generic typology tested was 100 units, there have been no viability appraisals of strategy sites that have significant up front strategic infrastructure and opening up costs. It is imperative that larger site typologies are tested to include an allowance for opening up costs and strategic infrastructure as these have significant implications on developer cashflows and viability. The Consortium would like to highlight that due to the nature of the ground conditions, as discussed below, significant infrastructure items are frequently required to deliver the units on their sites within the Borough. It is imperative that an allowance is made for these costs.

Abnormal Costs

- 5.37 Abnormal costs capture the impact of additional development costs such as archaeological investigation, water diversion, ground remodelling and stabilisation and pumping stations, which may be required on both Brownfield and Greenfield sites. The Consortium highlight that the ground conditions within Sefton Borough are constrained and enhanced foundations / flood risk mitigation measures are frequently required. KM & WYG make an allowance for dynamic compaction costs at £10 per sq.m however it is unclear whether this allowance has been applied to all of the generic typology testing or just the Greenfield site specific typologies. KM & WYG do acknowledge that the ground conditions within the Borough will need reinforcement works therefore we urge that an appropriate allowance is modelled within every typology tested.

Build Cost Inflation

- 5.38 The WYG cost assessment was prepared in December 2014. We would highlight that tender prices are forecast to rise by 28% in the next five years at a rate of 4.5% – 6% per annum, according to a report from RICS' BCIS Quarterly Briefing (April, 2015). It is anticipated that material prices will rise by 1.6% in the year to 4th Quarter 2016, dampened by steel prices remaining flat, and falling oil prices. Tender prices remained unchanged in 3rd Quarter 2015 compared with 2nd Quarter 2015, but rose by 5.4% on an annual basis. The General Building Cost Index rose by 0.6% in 3rd Quarter 2015 compared with both the previous quarter and a year earlier (BCIS Construction Briefing, February 2016).
- 5.39 Whilst the Consortium are pleased that an additional allowance has been made to allow for evolving Building Regulations to replace the Code for Sustainable Homes, there are a number of concerns with the overall development costs adopted by KM & WYG which are summarised as follows:

- It is unclear what build costs assumptions have been made for the generic typology testing;



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- No allowance for strategic infrastructure / opening up costs on generic typology testing;
- No allowance for abnormal costs on the generic typologies has been made.

5.40 We therefore urge that the construction costs are revisited and revised accordingly to account for any increases to ensure that they reflect current market conditions.

Section 106 / 278 Costs

5.41 The key to delivery of large Greenfield sites is the on-site mitigation required, such as education, POS other community infrastructure. CIL will not contribute towards on-site 'scheme mitigation' and hence the only way of accounting for these elements will be through a Section 106/278 obligation or contribution, or via a planning condition.

5.42 KM & WYG have allowed £500 per dwelling for both Greenfield and Brownfield sites. Based on S106 costs achieved in Sefton the Consortium consider this assumption to be far too low.

Part 3 - Interpretation of Results and Application of Differential Rates

Interpretation of Results

5.43 The Consortium have fundamental concerns about the interpretation of the viability testing into the proposed CIL rates across the four charging zones and recommend that further explanation be provided to justify how the proposed rates have been calculated. We welcome that £0 rate is proposed for the 'South' charging area however we question whether, based on the results of the viability testing, the other proposed rates are viable. We would recommend that a copy of the appraisals be provided for review and analysis.

5.44 The Consortium would like to highlight the results of the generic Brownfield typology testing which clearly show limited viability across all of the value zones when modelled at policy level affordable housing. In light of this, KM/WYG state that a flexible approach to affordable housing made need to be made to allow these sites to come forward. This particularly concerning since the CIL Regulations state that full policy must be factored into the viability testing and proposed CIL rates. We recommend that the Council reviews these typology appraisals to ensure this type of development remains viable, especially in light of the above Table highlighting the housing supply has a 28% reliance on Brownfield sites.

Application of Differential Rates

5.45 Under the CIL Regulations 2010 (as amended), Charging Authorities can apply differential rates by type, geography and scale across their areas. Sefton Council propose to charge differential rates by geography with a further differentiation based on type and scale (apartment schemes of 15 and above units).

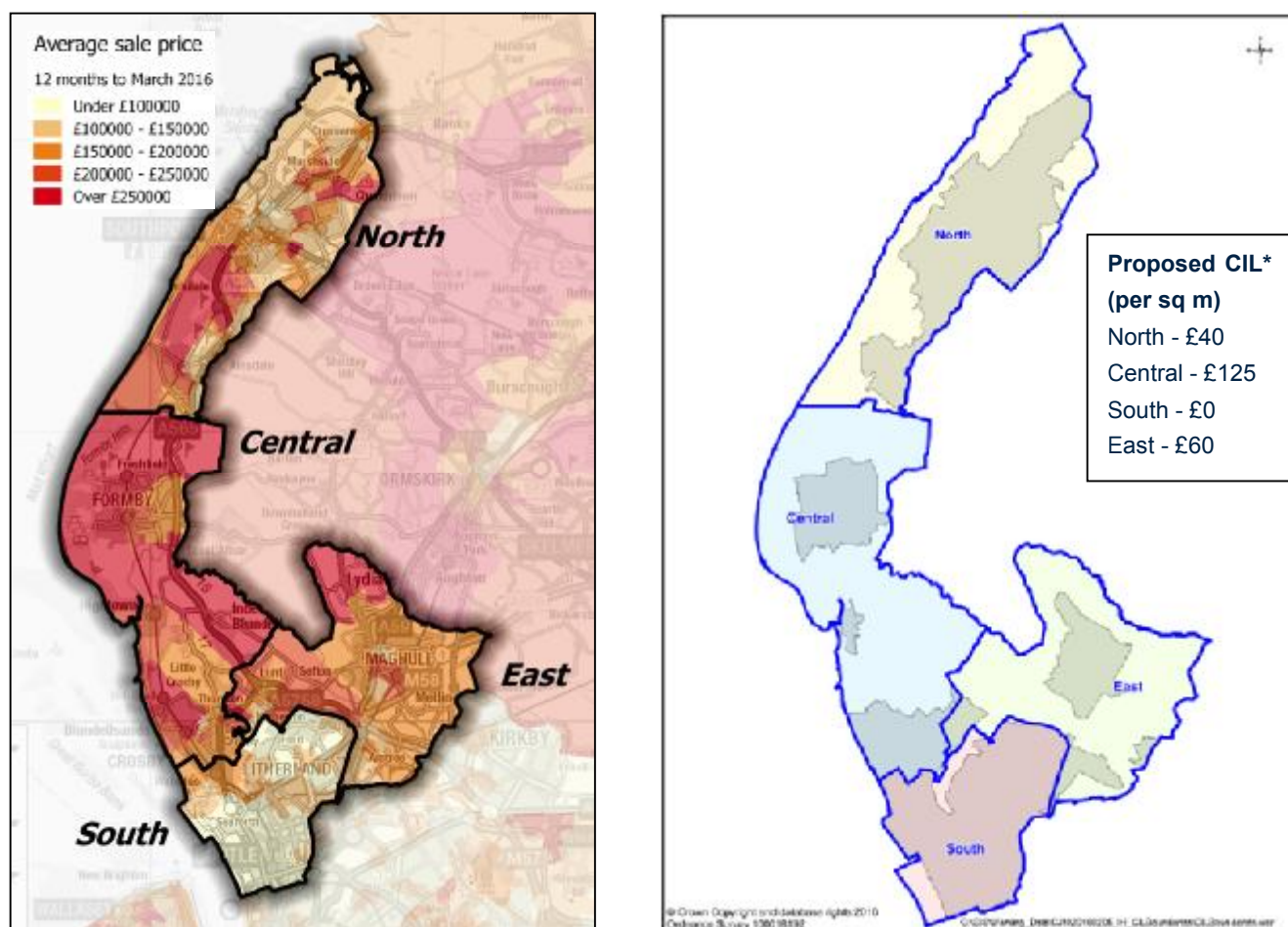
5.46 However, it is unclear how the charging zones have been determined within the Borough. On the basis that these zones have been dictated by house price transactions in the Borough we have mapped land registry data to the four CIL zones do not correlate to the values being recently achieved.

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5.47 In particular, the Consortium are concerned that a number of low values areas on the AHP maps fall within the highest CIL rate zone, which entirely contradicts the purpose of adopting a differential rate based on market value areas. This risks rendering sites that fall within these areas unviable and threatens the supply of housing across the two districts.

Figure 2 - Comparison of Sefton Average House Prices Map to Proposed CIL Charging Zone Map



(Source: HM Land Registry)

(Source: Sefton Council PDCS Proposed Charging Zones)

*Differential rates are proposed for apartment schemes depending on the size, refer to Table 5.1 above)

5.48 Furthermore, the maps provided in Appendix 2 PDCS show the boundaries of the CIL zones. In respect of these maps, we would make the following observations:

- None of the CIL maps include a scale. The boundary lines for each CIL Charging Zone are subsequently unclear on account of the scale of the map. We would recommend that a scale is included on all maps; and
- We would recommend allowing a tolerance on the site boundary to ensure that the entire development area is captured and that there is no inadvertent exclusion of peripheral areas.



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5.49 The Consortium subsequently thinks it is imperative that the CIL Charging Zones map is revised to reflect the market value areas in the Borough. We would therefore ask that the CIL maps for Sefton Borough are reviewed ahead of the DCS in light of our comments above.

Application of a Viability Cushion

5.50 Site specific circumstances mean that the economics of the development pipeline will vary from the typical levels identified via analysis of the theoretical typology. This is inevitable given the varied nature of housing land supply and costs associated with bringing forward development.

5.51 This is supported by the CIL Guidance which highlights the importance of a Charging Authority recognising the need for an appropriate balance when determining CIL rates - "The authority will need to be able to show why they consider that the proposed levy rate or rates set an appropriate balance...between the need to fund infrastructure and the potential implication for the economic viability of development across their area."²⁶

5.52 It is therefore important that when setting the CIL rates for Sefton Council that the Councils apply an appropriate viability 'buffer' as discussed in the CIL Guidance: "It would be appropriate to ensure that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust."²⁷

5.53 This approach has been supported in the Greater Norwich Development Partnership (GNDP) Examiner's Report in relation to Greenfield sites - "The need for a substantial 'cushion' is particularly important on Greenfield sites where, as the Harman advice notes, prospective sellers are often making a once in a lifetime decision and are rarely distressed or forced sellers."²⁸

5.54 We are pleased to note that KM/WYG has highlighted the importance of applying a viability cushion however it is unclear how the buffer has been applied to the proposed rates to ensure that the charge is set under the viability ceiling. We would therefore ask that this is clarified.

5.55 In our experience, a minimum viability cushion of 40% should be adopted to minimise risk to the housing supply.

5.56 It should also be highlighted that the outcome of the Referendum on 23 June 2016 is now known - the United Kingdom will leave the European Union on terms and at a date which, as yet, are unknown. The uncertainty around the outcome and the resulting decision to leave the Economic Union had led to general political and financial uncertainty, the effect of which on the UK property market is as yet unclear.

5.57 In view of this, we recommend that the Council's CIL viability evidence and testing is reviewed to include an appropriate viability cushion once the above recommendations are taken in to account.

²⁶ Ibid. Paragraph 020, Reference ID 25-020-20140612, CIL Guidance (2014)

²⁷ Ibid. Paragraph 020, Reference ID 25-020-20140612, CIL Guidance (2014)

²⁸ Paragraph 25



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6. Effective Operation of CIL



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6. Effective Operation of CIL

CIL Operation

- 6.1. Despite the narrow scope of the examination, we urge the Council to make it clear at the earliest opportunity what supporting documentation will be needed to operate CIL, and to make it available for consultation. Practically, this needs to be done as soon as possible, so that participants and stakeholders are able to comment on the effective operation of CIL. Whilst this supporting information is not tested at Examination, this information is critical to allow for the successful implementation of CIL and to demonstrate that the CIL has been prepared positively and supports sustainable development.
- 6.2. The additional documentation that Sefton should publish for consultation is as follows:
- Guidance on how to calculate the relevant chargeable development/level of CIL
 - Guidance on liability to pay CIL/Appeals process
 - Approach to payments in kind
 - Guidance on relief from CIL and a policy on exceptional circumstances for relief from CIL
- 6.3. Further comments on a selection of these points are provided in this section.

Relief

- 6.4. With regard to Discretionary Relief and Exceptional Circumstances Relief, we note that the Council has not included any of these policies in their PDCS.
- 6.5. We do not consider there to be any detriment arising from the Council making available such reliefs within policies as part of its Charging Schedule, as the Council will still retain control over the application of the policies. There are strict tests surrounding the availability and applicability of Exceptional Circumstances Relief. It would therefore only be applicable to those schemes that can justify the need for it and meet those strict tests.
- 6.6. The Consortium therefore considers it appropriate that the Council make both Discretionary and Exceptional Circumstances Relief available from the adoption of CIL. We would therefore ask that relief is included in the Charging Schedule and that the intended approach to doing so is outlined at the DCS consultation stage.

Instalments Policy

- 6.7. We welcome the acknowledgement in the PDCS that Sefton Council are considering introducing an Instalments Policy.²⁹

²⁹ Ibid. Paragraph 2.6.2, PDCS (2014)



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- 6.8. Given the differences in development from site to site, it is clear that an Instalments Policy should outline different proposed thresholds for payment based on the scale of development. Sefton Council have stated that for schemes or phases, over 150 homes, three options have been considered for an instalment policy of the levy. The Consortium is therefore initially concerned that all schemes with less than 150 homes will be required to pay the entire CIL liability on commencement.
- 6.9. Despite highlighting the potential options for instalments policy and testing these payment structure options on the typologies, it is not clear which option the Council are proposing to adopt, instead deferring its publication until Draft stage. The principle of an instalments policy is welcomed as it is important that the timing of delivery of development is considered to ensure that the CIL does not put unnecessary pressure on cash flow and viability.
- 6.10. Ultimately, developer cashflow is an important consideration, notably in respect of upfront infrastructure costs typically associated with strategic development. The Instalment Policy should aim to reflect, as closely as possible, the timing of delivery of the development, to ensure that the CIL does not put unnecessary pressure on cashflow and viability. With this in mind the Consortium suggests the instalments proposed reflect the length of the consent granted, with equal instalments due annually post commencement of development. For example, if a scheme is granted a 5 year consent, 20% of the CIL tariff should be due annually for the 5 consecutive years post commencement. This is particularly applicable to those consents with CIL liabilities over £500 001.
- 6.11. For schemes with smaller CIL liabilities we suggest the following thresholds as a starting point albeit we have included a suggested threshold for those above £500 001 if the Council would prefer this approach to that suggested above.

CIL Liability	Number of Instalments	Payments
Up to £25,000	1	Full payment within 120 days of commencement
£25,001 - £100,000	2	120 days after commencement 50% 240 days after commencement 50%
£100,001 - £250,000	3	120 days after commencement 20% 240 days after commencement 40% 360 days after commencement 40%
£250,001 - £500,000	4	120 days after commencement 10% 240 days after commencement 30% 540 days after commencement 40% 720 days after commencement 20%
Greater than £500,001	6	120 days after commencement 10% 360 days after commencement 10% 720 days after commencement 20% 900 days after commencement 20% 1260 days after commencement 20% 1620 days after commencement 20%



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- 6.12. We believe that there should be an overriding mechanism which, in certain situations should the CIL payments threaten the viability, and thus the deliverability of the scheme proposed, can be negotiated and agreed on a one-to-one basis. This is in line with the PPG which states:

“An instalment policy can assist the viability and delivery of development by taking account of financial restrictions, for example in areas such as development of homes within the buy to let sector. Few if any developments generate value until they are complete either in whole or in phases.”²⁸³⁰

The CIL Regulations now allow for Payment in Kind through the provision of infrastructure. However, there remain notable deficiencies in the operation of CIL, caused primarily by the CIL Regulations, which places Sefton Council and the development industry in a difficult position.

Payment in Kind

- 6.1. The scope to reduce the CIL liability via utilisation of Payment in Kind is restricted to those items of infrastructure which are not required to mitigate the impact of a development, which for strategic sites would exclude most (if not all) site-specific and ‘scheme mitigation’ infrastructure.
- 6.2. Payment in Kind is therefore not a credible option, which further emphasises the need to ensure that the Regulation 123 List does not include any items of infrastructure intended to be delivered through Section 106 agreements on strategic sites.

Reviewing CIL

- 6.3. The CIL Guidance states that charging authorities ‘*must keep their Charging Schedules under review*’³¹ to ensure that CIL is fulfilling its aim and responds to market conditions. The Consortium therefore requests that regular monitoring is undertaken by the Council to ensure that any detrimental impact of CIL on housing delivery is noticed promptly and remedied. A review period of between 2-3 years from adoption, or sooner if there is a substantive change in market conditions or Central Government policy, should be publicly committed to by the Council.

³⁰ Paragraph 055 Reference ID: 25-055-20140612, Planning Practice Guidance, revision date 12 June 2014

³¹ Ibid. Paragraph 044, Reference ID 24-044020140612, CIL Guidance (2014)



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7. Conclusion



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7. Conclusion

- 7.1. This representation has been prepared by Savills on behalf of a Developer Consortium. As set out at the start of this representation there are four key tests the charging schedule must pass at Examination:
- 1. The charging authority has complied with the required procedures set out in part 11 of the Planning Act 2008 and the CIL Regulations;*
 - 2. The charging authority's draft charging schedule is supported by background documents containing appropriate available evidence;*
 - 3. The proposed rate or rates are informed by and consistent with, the evidence on economic viability across the charging authority's area; and*
 - 4. Evidence has been provided that shows the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole*
- 7.2. The key tests outlined above demonstrate the assessment of planned development and its viability is an inherent test of the Examination. The Consortium's concerns relate to a number of assumptions used in the viability assessment, and also the overall approach to viability by Sefton Council's appointed consultant Keppie Massie/WYG (KM/WYG). This is particularly important since the emerging Local Plan is not yet adopted and therefore the site specific typologies may not be reflective of the sites that will be delivered during the plan period.
- 7.3. In addition, we have outlined the Consortium's concerns in regards to the interpretation of the sales values by comparison of the proposed charging zones and Savills own house price research. We have clearly highlighted that the charging zones are incorrect and may be over estimating viability in certain areas within the Borough.
- 7.4. In summary, we would like to highlight the importance of setting the CIL rates at a level that will not compromise the delivery of other policy and indeed the housing supply itself. We have highlighted the example within West Lancashire whereby the implemented rate is now resulting in viability discussions with the Council to allow reduced rates of affordable housing to be delivered. This approach to housing delivery fundamentally goes against the purpose of CIL and highlights that appropriate viability testing needs to be undertaken, adopting market facing assumptions, alongside a suitable viability buffer when calculating the proposed rates. It is key that the CIL Charging Schedule and the Local Plan go hand-in-hand otherwise the Council risks exacerbating the under delivery of housing within the Borough throughout the plan period.
- 7.5. The Consortium strongly urge Sefton Council and the appointed viability consultants KM/WYG to review the evidence base and viability testing. **We are open to a meeting to discuss the detail so that we may all understand the relevant viability inputs and approach.**
- 7.6. The Consortium would welcome a further opportunity to engage as soon as appropriate after the submission of these representations.

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Appendix 1 – List of Documentation



Sefton Council CIL PDCS

Consultation response on behalf of a Developer Consortium

Appendix 1 - List of Documentation

General

Community Infrastructure Levy Guidance, DCLG (2014), Planning Practice Guidance Website
Community Infrastructure Levy Regulation (2010) (as amended)
National Planning Policy Framework, DCLG (March 2012)
Planning Act (2008) (as amended)
Viability Testing Local Plans – Advice for Planning Practitioners, Local Housing Delivery Group Chaired by Sir John Harman (June 2012)
CIL – Getting it Right, Savills (UK) Ltd (January 2014)
Developer Profit, Savills (UK) Ltd (October 2014)

Sefton Council

A Local Plan for Sefton (January 2015)
Sefton Council CIL Preliminary Draft Charging Schedule [online]
Sefton Council CIL Charging Zones
Sefton Council CIL Addendum Report – Apartments (May 2016)
Sefton Local Plan Infrastructure Delivery Plan, Version #1 (December 2014)
Sefton Council Draft Regulation 123 List (2016)

Consultant – Keppie Massie / WYG

Sefton Council CIL Economic Viability Study (February 2016)
Local Plan and Community Infrastructure Levy Economic Viability Study (December 2014)



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Appendix 2 – CIL Getting it Right, Savills



A report from
Savills Research,
sponsored by the
Home Builders
Federation

CIL – Getting it right

January 2014



Setting Community Infrastructure Levy Rates to Support the Construction of More New Homes

■ For local planning policies to be viable, there is a three way trade-off between the costs of CIL, Section 106 funding of infrastructure and affordable housing policy, with the costs of local standards and the move to zero carbon being additional costs to be factored into the trade-off.

■ Based on generic assumptions and before local specifics, the capacity to pay CIL and Section 106 on large greenfield sites equates to between 20% and 30% of unserviced land value in many markets. However, this capacity falls away towards zero where affordable housing policies apply at higher percentages in excess of 30%, and at lower percentages in markets in which potential sales values for volume sales are below £250 per sq.ft.

■ These are important markets, in which 85% of residential development outside London takes place. At sales values of £225 per sq.ft., in order for there to be enough 'in the pot' for CIL and Section 106 combined to be paid at £10,000 per plot, affordable housing policy would need to have been set at 10%. This is the trade-off that needs to be recognised when Local Plans are tested for their viability.

■ In stronger markets, there is more capacity to fund infrastructure via CIL and Section 106. At a sales value of £300 per sq.ft., with a 30% affordable housing policy, there is enough 'in the pot' for CIL and Section 106 to be paid at £15,000 per plot. However, this falls away to around £10,000 per plot if affordable housing policy is set at 40%.

■ The capacity to pay CIL varies widely, according to local policy on Section 106 payments. Even with scaled back Section 106 policy, the cost of Section 106 infrastructure is unlikely to be less than £3,000 per plot on large greenfield sites and it can often amount to significantly more than £10,000 per plot.

■ Viability testing of CIL cannot be robust if there is no clarity on Section 106 policy. From the other end of the lens, a zero CIL rate for strategic sites offers the greatest flexibility to use Section 106 to fund infrastructure and mitigate site impact, subject to the restrictions in the revised regulations.



Consistency is key

CIL is designed to contribute towards the funding of local infrastructure, to facilitate sustainable development. This is clearly a desirable outcome, provided the levy is set at a level that does not threaten the viability of the development plan.

Our objective in this report is to seek more consistency in the rate setting process, with particular regard to viability assessment, as the majority of authorities move towards implementation of CIL charging schedules. It is written with our experience of advising and representing members of the Home Builders Federation on appropriate rate setting at a local level across England and Wales.

Within this report, we review the rates at which CIL is being set by charging authorities across the country for the residential development of **large greenfield sites**, as these are such an important part of national housing land supply. Alongside this, we present a new benchmark for the capacity to pay CIL and Section 106 on such sites, based on a broad view on development economics, local market strength and affordable housing policy.

This paints a picture of the diverse approach that charging authorities are taking to the rate setting process. The result is wide variation in how authorities are striking the balance between fund raising and economic viability, in order to facilitate the scale of development outlined in their Local Plans.

What is the benchmark?

■ The benchmark is based on the residual development appraisal of a large greenfield site, with generic assumptions relating to significant variables. It gives a starting point for review of policy viability, before examination of local specifics.

How much CIL can be paid?

The National Planning Policy Framework requires that local planning policies should be tested for their viability, such that:

“The sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.” (para 173)

The costs of CIL and planning obligations are paid out of land value, as long as there is sufficient value remaining for the land to come forward for development (benchmark land value). If the residual value remaining (after deduction of all costs from total revenues) is too low, then the land is not economically viable to develop, as shown in Graph 1 below.

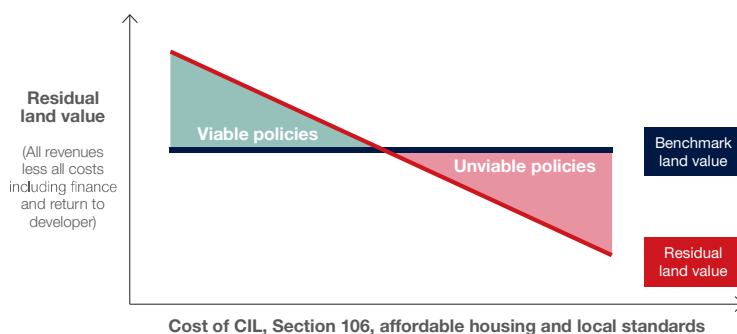
"It is rarely, if ever, the case that the pot of money is large enough to fund all policies"

The most crucial assumption in the policy testing process is the benchmark level of land value required to provide a competitive return to land owners, across the types of site that make up the housing land supply in the charging authority (usually the local authority area). This should be set at a level which includes a 'viability cushion', as recommended in the Local Housing Delivery Group guidance on the viability testing of local plans. When testing the viability of CIL, this reflects the government guidance that CIL should not be set at the margins of viability. This is particularly important for CIL, which is a fixed charge with no flexibility for variance, should individual sites be unviable.

The viability test will establish the pot of money that is available from development, to fund policies. It is rarely, if ever, the case that the pot of money is large enough to fund all policies, as the cost of delivering infrastructure is so substantial. If viability testing of the Local Plan and CIL is carried out concurrently, then the local authority can choose which policies take precedence.

However, if introduction of a CIL charging schedule follows the Local Plan, then the policies in the Plan must be costed fully in the testing of CIL. This includes affordable housing policy, Section 106 funding for infrastructure, any local standards that go beyond national standards and the additional known policy costs of moving towards zero carbon by 2016. In this case, CIL may be 'crowded out' by the cost of other policies.

GRAPH 1 Cumulative impact of policy on financial viability



Source: Savills Research



How does viability vary across markets?

To take a view on the viability of policies across the country, we have developed a model for the viability of large greenfield sites in different strength markets. The output is a benchmark amount available to pay CIL, Section 106 infrastructure funding and the cost of local policies, taking account of affordable housing policy. It gives a starting point for review of policy viability, before examination of local specifics.

Table 1 shows the benchmark amount per plot, as an average across all tenures. This varies significantly, according to sales value and affordable housing policy, with little or no level of CIL being viable in lower value markets, where sales values are at £175 per sq.ft. In these markets, developers and local

authorities need to work together to find ways of bringing sites forward, using policy flexibility and whatever public investment in infrastructure that can be made available.

Even in mid-priced markets there is a viability squeeze. For instance, at sales values of £225 per sq.ft., in order for there to be enough 'in the pot' for CIL and Section 106 combined to be paid at £10,000 per plot, affordable housing policy should be set at 10%.

In stronger markets, there is more capacity to fund policies. At a sales value of £300 per sq.ft., with a 30% affordable housing policy, there is enough in the pot for CIL and Section 106 to be paid at £15,000 per plot. However, this falls away to around £10,000 per plot if affordable housing policy is set at 40%. Viable amounts

at lower affordable housing policies of 10% and 20% in higher value markets are greyed out in the tables, as such policies are unlikely to apply in these areas.

This is all based on generic assumptions relating to significant variables, such as the proportion of the site that is developable, the costs of site infrastructure and local land values. The specifics of the local market may differ from these generic assumptions.

If there is evidence of Section 106 payments having been agreed and paid at higher levels, then the specific circumstances of these sites should be understood, to test whether they are representative of the economics of the bulk of the land supply pipeline in the district. →

TABLE 1
Amount available for CIL and S.106 (£ per plot, all tenures)

Affordable Housing %	Sales value per sq.ft.								
	350	325	300	275	250	225	200	175	150
0%	45,800	39,400	33,000	26,600	20,200	13,800	7,400	1,000	0
10%	38,300	32,700	27,100	21,500	15,900	10,200	4,600	0	0
20%	30,900	26,000	21,200	16,400	11,500	6,700	1,800	0	0
30%	23,400	19,400	15,300	11,300	7,200	3,100	0	0	0
40%	16,000	12,700	9,500	6,200	2,900	0	0	0	0
50%	8,600	6,100	3,600	1,100	0	0	0	0	0

Source: Savills Research

TABLE 2
Amount available for CIL and S.106 as % of unserviced land value

Affordable Housing %	Sales value per sq.ft.								
	350	325	300	275	250	225	200	175	150
0%	37%	37%	36%	35%	34%	31%	26%	8%	0%
10%	35%	35%	34%	33%	31%	28%	20%	0%	0%
20%	33%	32%	31%	30%	27%	22%	11%	0%	0%
30%	30%	29%	27%	25%	21%	14%	0%	0%	0%
40%	25%	23%	21%	18%	11%	0%	0%	0%	0%
50%	17%	15%	11%	5%	0%	0%	0%	0%	0%

Source: Savills Research

→ Land Value Capacity

Expressing the benchmark as a proportion of land value gives a useful perspective on the capacity to pay CIL and Section 106. In higher value markets, the capacity to make the combined payment is between 20% and 30% of unserviced land value at 30% affordable housing, but this falls away towards zero at higher affordable housing policies in excess of 30%, particularly in markets where sales values are below £300 per sq.ft. (Table 2).

This is important, as more than 70% of residential development is in markets where new build sales value potential for volume sales is no more than £250 per sq.ft, as shown

in Graph 2. Outside London, 85% of development is in these markets. Clearly, development does take place in these mid- to lower-value markets, generally on smaller sites that are less expensive to develop. Sales values on these smaller sites are not constrained by the competitive sales environment found on larger sites, so their viability can be supported by sales values that are higher than those achievable on the larger sites.

What is at issue here is the urgent need to bring forward large sites in areas where unmet housing need is greatest, as national housing need cannot be met without development of such sites. The analysis demonstrates there is only a limited potential to

fund infrastructure from planning obligations and levies in markets where sales values are less than £250 per sq.ft. Many of the country's allocated greenfield sites are located in these markets, so other sources of infrastructure funding will be required here. It also indicates that allocation of more large greenfield sites in higher value markets would release more capacity to fund infrastructure from obligations and levies.

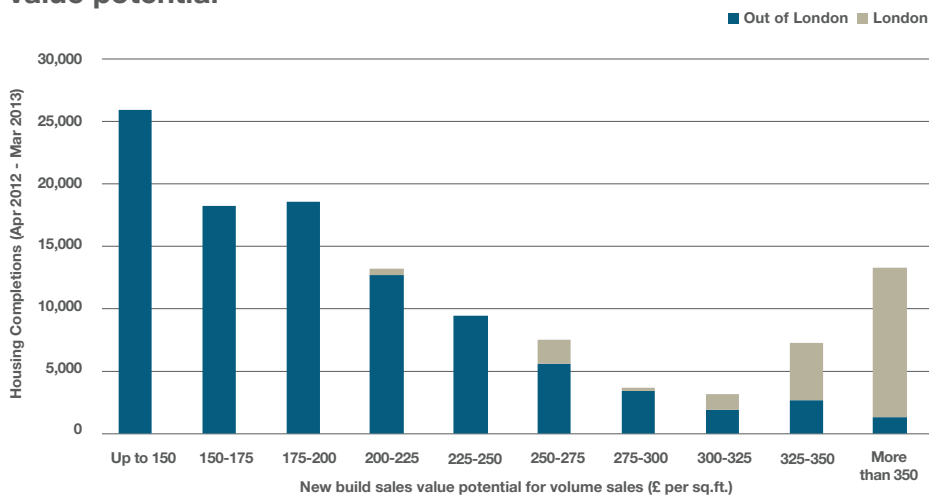
The Three Way Trade-Off

Section 106 payments are varying considerably in the emerging CIL world, depending on whether local policy is to scale back Section 106 alongside CIL, or whether significant site specific infrastructure will continue to be funded via Section 106. Some authorities have stated that Section 106 on large sites will be scaled back to amounts in the order of £3,000 per plot, to cover the amounts typically payable for smaller scale road and pedestrian connections, play parks and community buildings.

In other cases, major items of transport and education infrastructure will be funded via Section 106 on the large greenfield sites. At the East Cambridgeshire examination, a higher figure of £10,000 per plot was used as an assumption, but funding of such items of major infrastructure can exceed £15,000 per plot.

Whether Section 106 payments are nearer £3,000 or £15,000 per plot has a dramatic impact on the amount of CIL that is payable within our benchmark amount, as shown in

GRAPH 2
Housing completions in England, by volume new build sales value potential



Source: Savills Research Note: London sales values are shown for context only, as these are not relevant to the values achievable on greenfield sites

TABLE 3
Amount available for CIL – assuming £3,000 S.106 per plot (all tenures)

Affordable Housing %	Sales value per sq.ft.									
	350	325	300	275	250	225	200	175	150	
0%	420	360	300	230	170	110	40	0	0	£ per sq.m. of market housing
10%	390	330	270	200	140	80	20	0	0	
20%	350	280	230	170	110	50	0	0	0	
30%	290	230	170	120	60	0	0	0	0	
40%	210	160	110	50	0	0	0	0	0	
50%	110	60	10	0	0	0	0	0	0	
0%	11%	10%	9%	8%	6%	5%	2%	0%	0%	% of sales value
10%	10%	9%	8%	7%	5%	3%	1%	0%	0%	
20%	9%	8%	7%	6%	4%	2%	0%	0%	0%	
30%	8%	7%	5%	4%	2%	0%	0%	0%	0%	
40%	6%	5%	3%	2%	0%	0%	0%	0%	0%	
50%	3%	2%	0%	0%	0%	0%	0%	0%	0%	

Source: Savills Research

TABLE 4
Amount available for CIL – assuming £15,000 S.106 per plot (all tenures)

Affordable Housing %	Sales value per sq.ft.									
	350	325	300	275	250	225	200	175	150	
0%	300	240	180	110	50	0	0	0	0	£ per sq.m. of market housing
10%	260	190	130	70	10	0	0	0	0	
20%	200	140	80	20	0	0	0	0	0	
30%	120	60	0	0	0	0	0	0	0	
40%	20	0	0	0	0	0	0	0	0	
50%	0	0	0	0	0	0	0	0	0	
0%	8%	7%	6%	4%	2%	0%	0%	0%	0%	% of sales value
10%	7%	5%	4%	2%	0%	0%	0%	0%	0%	
20%	5%	4%	2%	1%	0%	0%	0%	0%	0%	
30%	3%	2%	0%	0%	0%	0%	0%	0%	0%	
40%	1%	0%	0%	0%	0%	0%	0%	0%	0%	
50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	

Source: Savills Research

Tables 3 and 4. At the scaled back level of Section 106 of £3,000 per plot (Table 3), the viable level of CIL reaches £170 per sq.m. (around 5% of sales value) in higher value sales markets of £300 per sq.ft., at an affordable housing policy of 30%.

However, at the 40% affordable housing policy that often applies in such markets, this is squeezed to £110 per sq.m.

At higher levels of Section 106 of £15,000 per plot (Table 4), the capacity to pay CIL in addition is much lower, falling away to zero in most markets, other than the higher value markets in which sales values exceed £300 per sq.ft.

The revised CIL Guidance recognises the need for clarity on the interaction between CIL and Section 106, by formalising the need to be explicit

on what is funded via each mechanism during the rate setting process.

As such, the so-called 'Regulation 123 list' of infrastructure is now part of the evidence base required during the rate setting process, although it is regrettable that the proposed requirements for formal consultation on any subsequent changes to this list have not been introduced. →

→ Appraisal assumptions

The benchmark is the result of a residual development appraisal, adopting a standard set of assumptions which are shown in Table 5. Amongst these, the appraisal should allow for a competitive return to the developer. We use 20% margin on gross development value across all tenures, in line with evidence that this is a minimum requirement across the cycle.

The allowance for on-site infrastructure, at £20,000 per plot, is in the middle of the range of £17,000 to £23,000 per plot outlined in the Local Housing Delivery Group guidance.

The proportion of the site that is developable varies widely. We have assumed 50% of the site is developable for residential use, but this is often lower and can be as low as 30%, in which case the amount available to pay CIL and Section 106 will be lower than the CIL benchmark presented here.

Land Value and Viability Buffer

It is crucial to set a benchmark land value to represent a competitive return to land owners, such that the local land supply will continue to come forward for development.

Our benchmark appraisal uses a benchmark land value that includes a viability cushion. This has regard to

TABLE 5 Assumptions summary

Net Dev Area (% gross area)	50%		
Interest rate	6.5%		
Marketing (% of sales)	3%		
Professional fees (% of build costs)	12%		
Additional build cost to 2013 Building Regulations (£ per dwelling)	1,000		
Infrastructure (£ per dwelling)	20,000		
Density (dwellings per acre)	14.2		
Dwelling size (sq.ft.)	1,030		
Coverage (sq.ft. per net dev acre)	14,600		
Developer profit on all GDV (excluding marketing and finance, to cover overheads)	20%		
Sales value (£ per sq.ft)	300	250	200
Affordable value as % of market value	43%	48%	55%
Build cost (£ per sq.ft)	97	91	86
Land value benchmark inc. buffer (£000 per gross acre)	290	190	95

These are generic assumptions for larger sites with a capacity of more than 500 homes. Local specifics will vary. On smaller sites, costs of infrastructure may be lower but benchmark land values are likely to be higher.

both minimum land value and market land value, as shown in Graph 3.

Minimum land value represents the lower end of land owners' expectations of realisable value. It is a feature of option agreements between land owners and developers, representing the minimum value at which land will be released by the land owner to the developer.

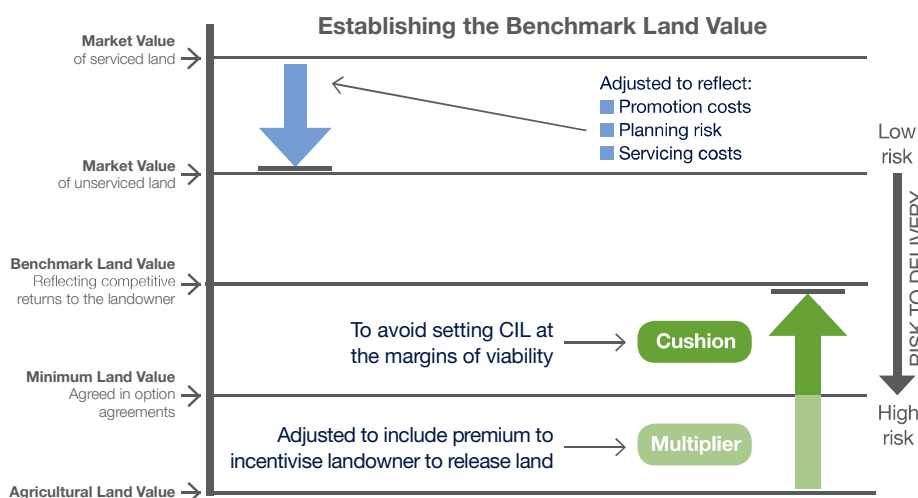
The Local Housing Delivery Group guidance recommends that evidence of minimum land values in option agreements is used as a reference point for setting a benchmark land value, subject to addition of a viability cushion, to include consideration of the costs and risks involved in promoting land through the planning system.

Market land value is, by definition, the value at which land will trade freely in the current system. If benchmark land value is set at the lowest end of the range between minimum and market land values, then high risks of non-delivery will be introduced into the development market.

Accordingly, we set the viability cushion at 50% of the gap between minimum land value and the market value of unserviced land (before considering deductions for CIL and Section 106).

"It is crucial to set a benchmark land value to represent a competitive return to landowners"

GRAPH 3 Land value benchmarks and risks to delivery



Source: Savills Research

Variation in approach to rate setting at local level

We have compared adopted and emerging CILs with our benchmark, in charging authorities where large greenfield sites form part of the housing land supply.

It can be seen in Graph 4 that many implemented CILs have been set at a level in excess of our benchmark, indicating a threat to delivery of the authority's development plan.

If this is the case, having taken account of local specifics, then the charging authority will have failed to demonstrate that they have struck an appropriate balance between the desirability of funding from CIL and its effects on the economic viability of development across the whole area, as now required by the latest amendments to the regulations.

Some of these early adopters did not appraise affordable housing policy at the full requirement that is shown in the chart. Following current practice at examination, an authority would now have to formally adopt a lower affordable housing requirement in order to set CIL at these levels. Graph 4 shows the increased headroom for CIL and Section 106 that is created by adopting a lower affordable housing requirement of either 10% or 20%.

In the one case where the benchmark sits above CIL in the chart, there is headroom for Section 106 in addition to CIL. In the case of Oxford, there is likely to be headroom for Section 106 to be paid at around £6,000 per plot in addition to CIL, according to the benchmark.

Charging authorities should be explicit about their policy intention on additional Section 106 when setting CIL rates. As noted above, such payments can be substantial on a large greenfield site, to mitigate the impact of development of that site. The need for clarity on this point has been emphasised by the forthcoming changes to the CIL Regulations.

The charging schedules that are at the examination stage (including those examined but not implemented) include fewer authorities where little or no CIL is viable at the adopted affordable housing policy (Graph

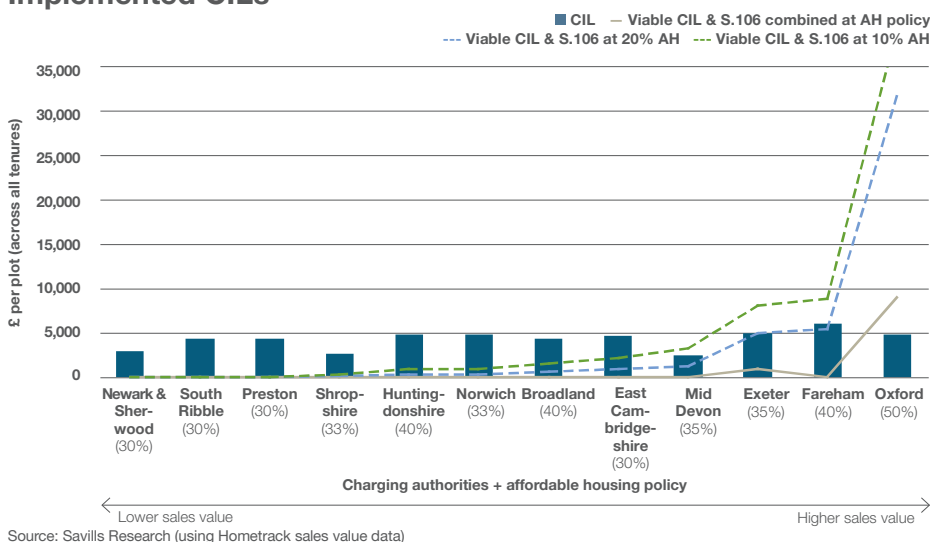
5). This is partly because there are fewer authorities within this group with relatively low sales values, which continue to hold back the viability of larger sites.

However, of these areas with CIL at examination, few have the headroom to pay a substantial amount of Section 106 in addition to CIL. Winchester is the exception, where there is likely to be headroom for Section 106 to be paid at around £10,000 per plot.

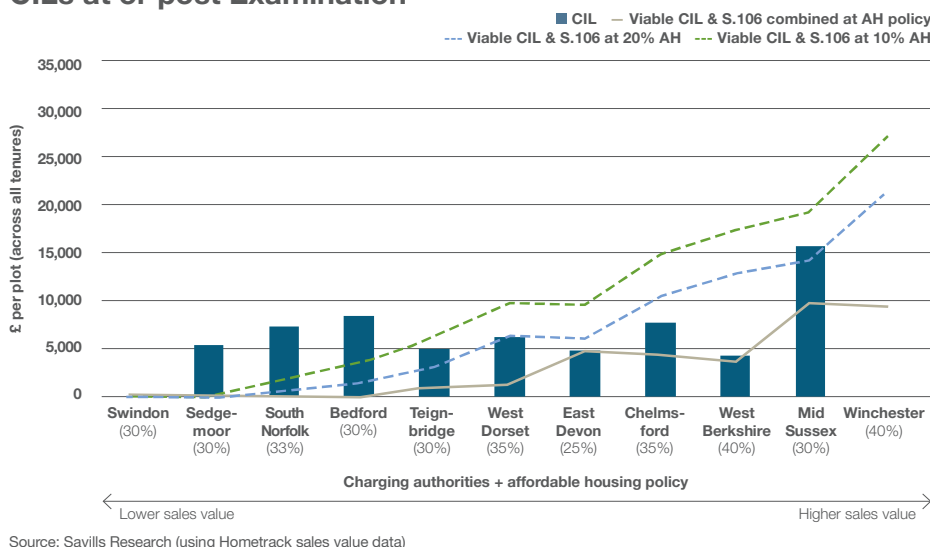
The Winchester headroom is a consequence of a zero rating of large greenfield sites for CIL, mindful of the benefits of creating flexibility for the Section 106 payment.

The contrast with the unviably high level of CIL proposed in Mid Sussex is stark. The same patterns have emerged amongst CILs at the draft (see Graph 6 overleaf) and preliminary draft charging schedule stages. →

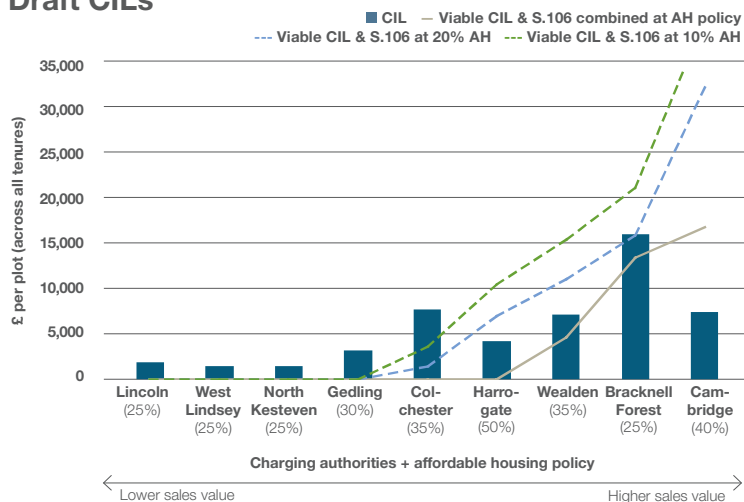
GRAPH 4 CIL and S.106 benchmark for large greenfield sites: Implemented CILs



GRAPH 5 CIL and S.106 benchmark for large greenfield sites: CILs at or post Examination

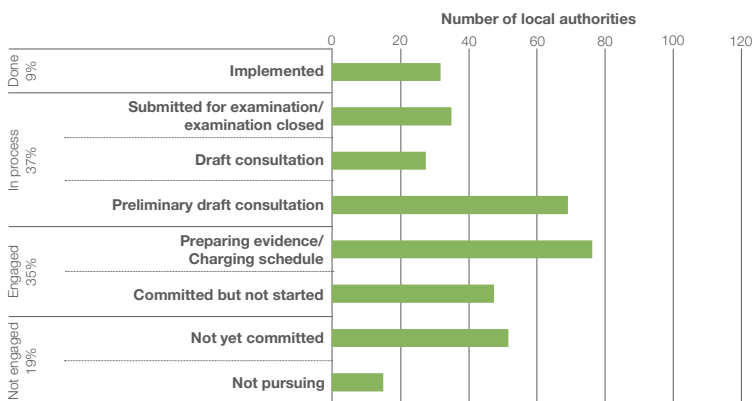


GRAPH 6
CIL and S.106 benchmark for large greenfield sites: Draft CILs



Source: Savills Research (using Hometrack sales value data)

GRAPH 7
Progress on CIL implementation (England & Wales)



Source: Savills Research (as at 20 January 2014)

"This exercise has revealed inconsistencies in the way in which setting of CIL viability is being approached across the country"

In these areas, affordable housing policy has been set at too high a level in mid-to lower-value markets for there to be any headroom for either CIL or Section 106. Whilst some authorities with draft schedules, such as Cambridge, have headroom for Section 106, others have proposed unviably high level of CIL. In the case of Bracknell Forest, the 25% affordable housing policy gives some room for CIL, compared with other authorities at 40% affordable housing. However, the proposed rate is unviably high, given the substantial items of infrastructure that will be funded by Section 106, in addition to CIL.

More consistency needed

This benchmarking exercise has revealed inconsistencies in the way in which setting of CIL viability is being approached across the country. So far, only 31 CILs have been implemented, with a further 34 at examination (Graph 7). A large proportion (27%) of authorities are either at draft or preliminary draft consultation and a further 35% are engaged in the process at an earlier stage, so there remains scope for greater consistency in rate setting. Our intention is to seek such consistency in the rate setting process, as the majority of authorities move towards implementation of CIL charging schedules. ■

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Consultation response on behalf of a Developer Consortium



Appendix 3 – Developer Profit, Savills

Developer Profit

Competitive Return to a Willing Developer

Developer Profit

Competitive Return to a Willing Developer



Introduction

- 1.2 Savills is representing HBF members and other house builders and landowners nationwide on emerging CIL Charging Schedules, to scrutinise the available evidence, notably in respect of infrastructure provision and the testing of viability against both the emerging planning policy requirements and the identified housing land supply. We are therefore well placed to observe trends in the emerging viability work and subsequent CIL examinations.

- 1.3 The purpose of this Briefing Note is to present the evidence of what represents a competitive return to a willing developer.



Developer Profit

Competitive Return to a Willing Developer

Developer's Profit

- 2.1 The NPPF states that to ensure viability developments should provide competitive returns to a willing land owner and willing developer¹. A competitive return to a developer is one that provides a sufficient return for the developer to continue a successful business through the economic cycle, taking account of the risk profile of the business. The most readily available market evidence of a competitive return is the return required by the shareholders of the quoted Plc housebuilders, noting that the Top 10 House Builders accounted for 45% of completions in England 2012/13².
- 2.2 Shareholders are principally institutional investors - pension funds, insurance companies and private equity funds. They have a wide range of companies and sectors to choose from, including retail, housebuilding, mining, transport, energy and telecommunications, all with different risk and return profiles. If shareholders' hurdle rates are not achieved then they will invest in other sectors, reducing the development capacity of the housebuilding sector.
- 2.3 The key measures are Operating Margin and Return on Capital Employed (ROCE). For a development to be viable, both measures need to meet acceptable target levels. ROCE and Internal Rate of Return (IRR) are closely related; IRR is the projected compound annual rate of return on capital employed across the life of the scheme, compared with ROCE which is the return on capital employed in any one year.
- 2.4 The operating margins (based on Earnings or Profit before Interest and Tax) of the Plc housebuilders are shown in Figure 1. The average margin has recovered from a low of 4.3% in 2009 to 14.6% in 2013. Within this, Berkeley has maintained a margin of between 15% and 20% throughout the cycle, as has Crest Nicholson since 2010. All other housebuilders are rebuilding margins towards that level. As examples:
- in August 2013 Persimmon stated that it had reached its target margin of 15-17% of revenue, 18 months ahead of plan; and
 - in July 2014 Taylor Wimpey announced targets for the 2015-17 period of an average 20% operating margin and a return on net operating assets of 20% per annum.
- 2.5 **It is important to distinguish between gross (site level) margin and the net operating margin reported in house builder accounts.** This is discussed in the Harman Report, which suggests that *“Overheads for house-building typically lie in the range of 5% - 10% of gross development value, with only the very largest developers operating near the lower end of the scale”*³.

¹ NPPF, Communities and Local Government. Para 173. March 2012

² Facts & Statistics, House Building Statistics, HBF, August 2014

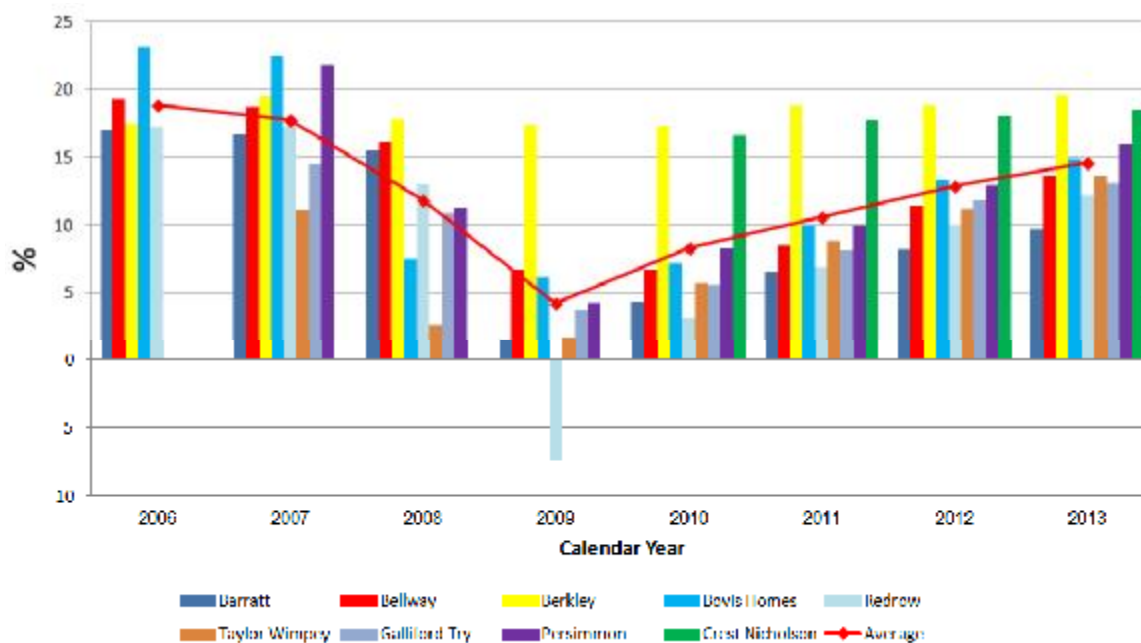
³ Viability Testing Local Plans, Chaired by Sir John Harman, June 2012



Developer Profit

Competitive Return to a Willing Developer

Figure 1 - Net Operating Margins 2006 - 2013



Source: Savills

- 2.6 JP Morgan analysis⁴ of Plc housebuilder performance for the financial years 2012 and 2013 indicates that the average overheads of housebuilders (the difference between Gross Margin and Earnings Before Interest and Tax) were 6.4% and 6.0% of revenue respectively, averaging 6.2%.
- 2.7 Therefore a target operating margin of 15% to 20% of revenue equates to a target gross margin of 21% to 26% of gross development value. Barratt stated in its 2012 annual report (and in its July 2014 trading update) that its minimum hurdle rates for land acquisition are 20% gross margin and 25% ROCE.
- 2.8 Both operating margin and gross margin are quoted before deduction of the cost of paying interest on debt, which has averaged 1.2% of GDV over the 2012 and 2013 financial years. Therefore the hurdle rate of gross margin after deduction of the cost of debt is 20-25% of gross development value.

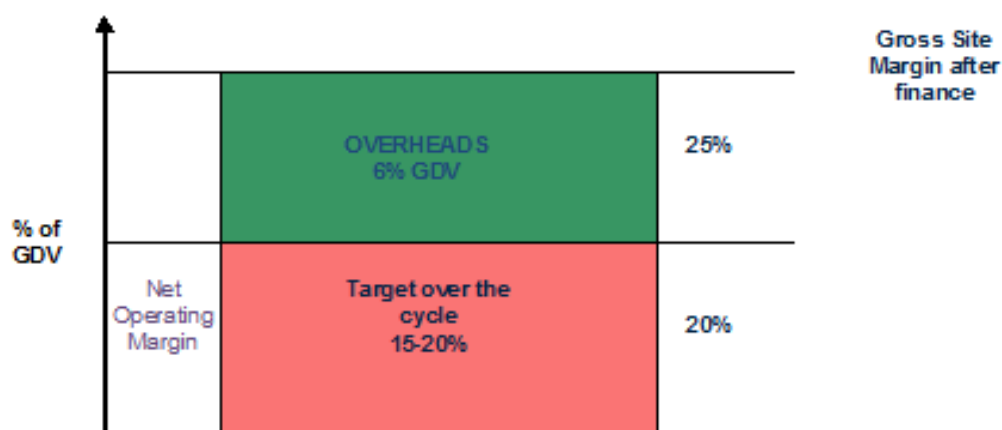
⁴ UK Housebuilding, Europe Equity Research. J.P. Morgan. September 2013

Developer Profit

Competitive Return to a Willing Developer

- 2.9 This is the basis of the developer margin hurdle rate that is applicable to site level development appraisals of Residual Land Value, in which the cost of debt is included separately as a cost. More specifically, this is the average hurdle rate across all sites developed by the housebuilder during any one year. Around this average, there will be a range of site specific development risk and therefore a range of site level hurdle rates for developer margin. Smaller lower density sites are inherently less capital intensive and less risky than costlier larger sites and higher density sites, so for smaller lower density sites the hurdle rate will be below the corporate average and for larger complex sites and higher density sites it will be above the corporate level average.
- 2.10 This is particularly relevant for large Greenfield sites and regeneration areas, where large up-front costs have an impact on a developer's required Return on Capital Employed (ROCE), as a higher margin is required to reflect the higher risk. In these instances, the profit margin and ROCE become much more important as highlighted by the Harman Report – *“Developments of large flatted blocks on previously used land in urban areas with high cash requirements will demand significantly higher levels of profit to achieve an acceptable ROCE than developments of a more standard, less cash intensive nature on virgin ground. Likewise, projects with significant up-front infrastructure may also require higher levels of profit to generate an acceptable ROCE.”*⁵

Figure 2 - Developer's Profit Breakdown



Source: Savills

- 2.11 A minimum developer margin of 20% of Gross Development Value was supported by the appeal decisions relating to The Manor, Shinfield⁶ and Lydney⁷. It has also been included in Maldon District Council's supporting viability work produced by HDH Planning & Development who are currently preparing supporting viability evidence for 24 Local Authorities⁸.

⁵ Viability Testing Local Plans, p46, Chaired by Sir John Harman, June 2012

⁶ Ref: APP/X0360/A/12/2179141, 8 January 2013

⁷ Ref: APP/P165/Q/14/2215840, 3 September 2014

⁸ Local Plan & CIL Viability Study – Post Consultation Update (November 2013)



Developer Profit

Competitive Return to a Willing Developer

- 2.12 The evidence in this paper indicates that the **minimum profit level** used within viability testing should be a blended rate of **20% on Gross Development Value plus 25% ROCE across all tenures, subject to consideration of the risk profile of the scheme**. The reference to ROCE is particularly important on large capital intensive schemes. In these cases the relevant hurdle rate for site specific appraisal is an **Internal Rate of Return of at least 25%**.
- 2.13 A number of viability consultants argue that a different profit level should be applied to private and affordable housing. If this is the case, then the blended margin across all tenure should equate to the hurdle rate referred to above. As an indication, a developer's blended profit margin on site of 20% of Gross Development Value could be a combination of Affordable Housing at an 8% margin on cost and Market Housing at a 23% margin on Gross Development Value.
- 2.14 It is increasingly common for developers to purchase land prior to securing an offer from Registered Providers who are subject to more market risk from the current affordable housing regime than in previous systems of funding. There is subsequently a risk associated with the affordable housing, in addition to increased holding and finance costs.