PS19. Local Planning Authority Response to December 2017 Written Representations.

Introduction

1. This document is the response of the Local Planning Authority (LPA) to the written representations received in December 2017. The briefing note provided by the Examiner in December 2017 stated that "*would be helpful if the charging authority would respond in writing to any further representations with its own written statement on each issue, briefly setting out why it considers the Schedule to be viable in that respect and why the changes sought by other parties would not be acceptable*."

2. The responses have been kept relatively short in nature, to avoid repeating in detail information already provided and discussions held at the initial hearing session in September 2017. However, key pieces of evidence prepared by the LPA are set out in PS09a, PS15 and MIQ05 in respect of the sensitivity testing.

3. The only written representation was made by BDBC and HCC as joint leaseholders for the Manydown site. This LPA response is structured around the points made in the BDBC and HCC December 2017 representation (PS18), and refers to the paragraph numbers in that document.

PS18 Para 3.1 Infrastructure and S106 Costs

4. This issue has been discussed as part of the September 2017 hearings and we are unclear whether further discussion is required for the examination. However, for clarity we reiterate our approach to the infrastructure costs.

5. In undertaking the viability assessment to support the proposed CIL rates, the approach taken has been to 'test' a policy compliant proposal, in line with the Adopted Local Plan (in respect of Manydown, policy SS3.10), using appropriate available evidence to inform this. The various s106 costs assumed by the Local Planning Authority (LPA) have been established through discussions with key service providers in the borough, such as the Local Education Authority (LEA) and were set out in document PS11, which is appended to this note for reference.

6. As has been noted in PS18, cost information relating to the current planning application has been made available to the Examiner. However, there are a number of issues about accepting this information as more accurate than the costs used in the viability testing:

   - The information is presented in summary form and has not been made available in the kind of detail that would enable proper scrutiny.
   - Noting that the CIL rate is set in relation to policy, it has not yet been determined whether the current planning application (and therefore cost base) is compliant with the policy requirements.

- Some aspects of the planning application are some way from being resolved. The LPA is aware, for example, that there are still clear unresolved issues in relation to transport, which will affect costs.
- Some costs are apparently different to information received by the LPA from service providers, such as the cost of providing whole forms of entry for primary and secondary school provision, compared to the view expressed by the LEA that funding from other sources would be required where the development site does not justify the provision of whole class sizes (i.e. 4.37 in respect of primary and 4.28 in respect of secondary); and
- Some cost items have revenue associated with them such as the provision of a nursery and gypsy / traveller accommodation, and no allowances are made for this.

PS18 Para 3.2 Infrastructure & s106 costs

7. This issue has been discussed as part of the September 2017 hearings and we are unclear whether further discussion is required for the examination. The examiner did not request any changes to these base infrastructure costs upon which to then conduct the sensitivity tests. However, for clarity we reiterate what has been used in the testing.

8. The viability testing for Manydown is based on total costs infrastructure costs excluding dwelling build of £142,696,748 at July 2015 prices. This is made up as follows:

   - External works £51,425,748
   - Opening up £22,666,000
   - Generic s106 £4,998,000
   - Specific s106 £63,607,000

9. For the base model this has not changed since the February 2017 Briefing Note EV03 which updated transport costs to £9.325m and added Country Park costs of £2m. Where sensitivity tests have used different cost scenarios all these costs above have been amended as appropriate (along with dwelling build costs), but solely for those tests.

10. Prior to the February 2017 Briefing Note EV03 the viability testing for Manydown in the 2016 CIL Viability Study EV04 is based on total costs infrastructure costs excluding dwelling build of £137,671,748 at July 2015 prices. This is made up as follows:

    - External works £51,425,748
    - Opening up £22,666,000
    - Generic s106 £4,998,000
    - Specific s106 £58,582,000.

PS18 Paras 4.1 and 4.2 Contingency, Fees and Build costs

11. These issues were included within LPA's response to the Examiners MIQs MIQ01, and was discussed as part of the September 2017 hearings. Again, the examiner did not request any changes to these base development costs upon which to then conduct the sensitivity tests. Therefore, we are unclear whether further discussion is required for the examination. However, for clarity we reiterate in brief the basis for the viability testing in the March 2016 viability study EV04 and the February 2017 Manydown update EV03, and respond to the points in PS18.

12. **Contingency** – discussed in within LPA's response to the Examiners MIQs MIQ01 para 9.6-9.8. In summary this noted that contingency is not required by Planning Policy Guidance or the guidance in Viability Testing Local Plans; that logically contingency is not appropriate for area-wide studies; and that the allowances for costs within EV04/EV03 are equally generous as some studies examined and found sound that have contingency allowances but use lower allowances for other costs (i.e. 10% external works and 5% contingency whereas Three Dragons uses 15% external works which gives the same cost basis).

13. **Professional Fees** - The allowance of 8% for fees in the March 2016 and February 2017 reports (EV04 and EV03) is generous and we are aware of recent analogous site-specific viability studies where 6% and 5.5% allowances for professional fees were agreed with developers.

14. **Build costs** – The March 2016 Viability Study and the February 2017 update EV03/EVO4 use BCIS median build costs, which are substantially higher than the actual build costs for volume house builders on large sites. This will more than cover the costs of garages, and the use of this higher build costs also increases the value of the 15% external works (which is applied to base build costs). Clearly it is not impossible that some of the Manydown site will be built out by smaller house building companies, but previous and current experience shows that the vast majority of the development on the scale of Manydown will be through the major national volume housebuilders. It is considered unlikely that smaller housebuilders will have the capacity or be able to secure the finance to deliver on this scale.

15. In addition:

- We note that the table under the December representation PS18 para 4.4 has a suggested contingency of 5% which is too high for volume house builders' standard dwellings.
- We also note that the table under December representation PS18 para 4.4 (see below) suggests that a lower quartile BCIS build cost with contingency (£112psf) is less than the median BCIS build cost without contingency (£120psf). These figures from PS18 support the view that sufficient allowance

has been allowed through the use of median BCIS build costs within the original viability study EV04 and the update EV03.

	Three Dragons BCIS Median Cost	Three Dragons BCIS Lower Quartile Cost
Estate Housing	£96.5 psf	£86.2 psf
Externals @ 15%	£111 psf	£99.1 psf
Professional Fees @ 8%	£120 psf	£107 psf
Contingency @ 5%	£125.5 psf	£112 psf

PS18 Para 5.1 Sales Values.

16. Sales values used in the viability testing are based on Land Registry Price Paid data for new build dwellings only, and are the actual prices paid. These were discussed at the July 2015 Development Industry Workshop. No alternative evidence has been provided to suggest that values are different, either at the Workshop or in the reps leading up to examination, or in this December 2017 representation. The market values used for Manydown are those achieved in Basingstoke rather than the higher value rural parts of the Borough.

PS18 Para 6.1 Buffer

17. The proposed CIL rates include a buffer to take account of the potential changes in values or costs. The intention of the sensitivity tests is to determine whether the increases in costs or decreases in values would exceed the buffer allowed for in setting the rate. It is illogical to suggest that the same buffer should then be added to the sensitivity tests to set a CIL rate.

PS18 Para 6.4 Appraisal Details

18. There was explicit discussion at the end of the September hearing about whether detailed screen shots of the appraisals were required to accompany the sensitivity testing, with all those present given the opportunity to request them. No one made any such request and the Examiner confirmed to the LPA that they would not be required.

PS18 Para 6.5 and 6.6 "Inconsistencies"

19. The December 2017 representation from Basingstoke and Deane Borough Council and Hampshire County Council (PS18) suggests that there are errors in the modelling used for the sensitivity tests, and points to four earlier sensitivity tests to substantiate this claim (Scenarios 4g, 4f, 4c and 4b).

20. These examples have been reviewed and it is clear that the concerns raised are unfounded:

- For Scenario 4g, build costs are increased by 10% along with the external works (which are directly linked) along with s106 costs and opening up costs.

These changes then drive changes in professional fees. However, there are some development costs that are driven by *values*, not build costs, and these are substantial – developer return on market dwellings is always calculated on GDV (20%) not costs, as are marketing costs. By contrast, affordable housing return is a percentage of costs and so there is a direct relationship with build cost changes. Finance charges are driven by negative balances and so whilst there is some relationship with build cost changes, so long as there are development periods with a positive balance then the finance costs will change to a lesser extent than build costs. So, while build costs may vary, overall development costs will not vary to the same extent as some cost components will only change when values change. Therefore, a 10% change in build costs does not result in a 10% change in overall development costs.

- The same situation is apparent for Scenario 4f, where build costs are decreased by 5%. Developer return and marketing costs will remain the same (driven by GDV which is unchanged) and again the impact of changes in finance costs will be mitigated by positive balances.
- Scenario 4c is part of the series of tests that include increased sales values (to take account of the changes from 2015) along with a 10% change in revenues. The process of including the scenario test increase was based on the addition of 10 percentage points to revenues, in effect addition at the same time as the change from 2015 rather than compounded. This approach has been adopted consistently to positive and negative value changes throughout the sensitivity testing. In the example noted there is also a rounding impact (due to the input of the increase being restricted to whole numbers with zero decimal places). The values for affordable *rented* housing have remained unchanged as there is a much weaker link with the market and no basis for assuming changes. Values for *shared ownership* affordable housing will change with market values, for both the share sold, and the capitalised value of the unsold share. Furthermore, as market revenue increases, so do the costs of developer return and marketing fees and this mitigates the impact of the increased revenue.
- For Scenario 4b the change in market values are undertaken in the same way as in 4c above, and the affordable rented values remain unchanged. Again, impacts of market revenue are mitigated by resulting changes in developer return and marketing fees.

PS18 Para 7.1 and 7.2 Finance Rate

21. The finance rate used is 6% and this is applied to the sensitivity tests (except one of the pre-September hearing sensitivity tests where a 7% rate was used). The finance rate is applied to infrastructure costs and other development costs including developer return. The approach is a residual land value approach and so the residual is the amount available for land – and finance charges are not applied on land costs as they are the residual. The modelling assumes 100% finance whereas in practice the larger developers will use shareholder equity (retained profits) rather than solely debt finance.

PS18 Para 8.1 onwards Base Land Value and Treatment of the Country Park

22. As outlined in the Examination hearing session on 9 September, the view of the LPA is that the country park, in the main, serves a strategic function, as referred to in paragraph 6.38 of the Adopted Local Plan (BD01). Contrary to the original intention of the allocation, it has been recognised that an element of the country park may be required to mitigate the impact of residential development on the wider Manydown site. The exact quantum and location of this has yet to be formally defined.

23. In determining the approach to attaching a valuation of the country park, the LPA has been informed by an independent valuation, which recognised that the land covered by the country park should be valued at less than agricultural value in light of:

   - The site's location outside of the defined Settlement Policy Boundary in the Adopted Local Plan, highlighted with a green annotation in the inset map that accompanies policy SS3.10; and
   - The restrictive user clause within the long lease stating that this land is not to be used other than for the purposes of agriculture or forestry or as public open space for recreational purposes for landscaping purposes.

24. Consideration was given to this matter in undertaking updated viability assessments in 2017, as reported to Full Council in May 2017 (ref: BD05), which highlighted that the valuation advice provided suggested that the revenue costs associated with operating a country park would indicate a valuation of less than agricultural land, based on case studies of similar examples elsewhere in the country. Nevertheless, an agricultural valuation figure of £2m was used.

25. Whilst discussions are on-going with the leaseholders on various matters associated with the planning application, there continues to be uncertainty around the provision of the country park. The LPA has sought clarity from the applicants on a number of occasions as to the proposed approach to make provision for the country park, including long-term ownership of the land and management of the facility. This was specifically highlighted in a response from the LPA to the applicant in a letter of 2 June 2017, which set out the following:

    'The application was submitted with very little information on the country park in relation to how it is to be managed, its functions and who it is designed to serve. Similarly there is little detail in relation to the vision for the Country Park Hub and the facilities to be provided'.

26. The request for this information reflects the requirement of the Development Brief for the Manydown site, which itself builds upon the Statement of Common Ground between the LPA and the leaseholders, prepared to inform the Examination of the now Adopted Local Plan, an extract of which is provided below for information:

27. '*The criterion requires the development to 'make provision for a country park', which would meet a borough-wide need. The laying out of the country park is*

expected to be funded through the Community Infrastructure Levy and included on the Council's Regulation 123 List.

28. *As well as providing land for the provision of the Country Park, the Landowners will deliver connections to the Country Park through the Manydown site and provide suitable access points.*

29. *It is common ground between the Landowners and the LPA that land for the Country Park can be safeguarded and the country park can be delivered utilising Community Infrastructure Levy receipts'*

30. Building upon the above and in progressing with CIL, and in discussions with the applicants, the LPA has sought to provide flexibility to the applicants on a number of aspects around the country park, including drafting the R123 list to reflect the suggested need for some of the mitigation to be provided within the country park. As highlighted above, this differs from the original intentions of the Local Plan, which sought to provide all of the mitigation associated with development within the allocated development site, as highlighted by the red line on the inset map. This reflects the position that the site is of such a size that it is able to accommodate all of the identified development and its associated mitigation within the site boundaries, and making provision for an element of the mitigation provides scope for a greater quantum of homes than was originally envisaged. This increase in capacity is now being formalised by a proposed change in the quantum of homes set out the planning application, which initially referred to around 3,200 dwellings (for that element that comprises the land subject to the leasehold agreement with BDBC and HCC) to 3,200 new homes (plus an allowance of 10%, up to a maximum of 3,520 homes). Whilst this increase in the number of homes to be provided will have a positive impact on the viability of the site, this has not specifically been tested through the viability assessment that supports the LPA's proposed CIL rates.

PS18 Para 9.1 Profit

31. This issue has been discussed as part of the September 2017 hearings and we are unclear whether further discussion is required for the examination. The examiner did not request any changes to these developer return allowances upon which to then conduct the sensitivity tests.

32. The viability study uses 20% return on GDV for market housing and 6% on affordable housing costs. These are standard allowances and are commonly found sound in local plan and CIL viability studies e.g. the viability evidence base for the adopted Local Plan BD01, and we note that the 2017 Central Lincolnshire CIL Examinations accepted lower rates of market return.

PS18 Para 9.2 Development Management Fee

33. It is unclear why this may be relevant now when it was not mentioned in earlier industry consultation or hearings. We have assumed that the majority of development on Manydown will be undertaken by volume house builders and/or

experienced housing associations, and it seems unlikely that Development Management Agreements would be necessary.

PS18 Para 10.1 Changes since 2015

34. Para 10.1 in PS18 argues that build costs have increased more than house prices between the July 2015 study base and the examination. We agree that recent figures show BCIS estimates of costs have increased in the latter part of 2017, while values as measured by Land Registry's House Price Index have moved only slightly during the end of 2017 (following larger increases through 2016 and the early part of 2017).

35. The table under PS18 para 10.1 sets out figures credited to BCIS suggesting that the build costs have risen by 19.4%, which is a larger increase than the 10%-11% increase apparent in the BCIS outputs in Annex 2 of the November sensitivity tests PS15. BCIS has recently increased its build cost estimates and the most recent average price estimates for Basingstoke (downloaded 3/1/18) suggest that median 2-storey estate houses costs have now increased by 16.8% since July 2015 (from £1,039/sq m to £1,214/sq m), which is less than the 19.4% increase suggested in PS18, as well as being less than the change in house prices (increase of 18.3%). It is not clear on which basis the figures in PS18 have been generated. Overall, the relative increases in house prices and build costs suggest that the long term pattern of house prices rising faster than build costs has been apparent between the 2015 viability study base date and the examination, even though the gap may be narrower than at other times in the past.

36. However, the recent BCIS estimates of changed costs in the latter part of 2017 are forecast and based on a very narrow evidence base. In particular, the 12.6% yearly change to 4Q 2017 is based on *four* tenders received nationally by BCIS (compared to 24 tenders at the same time in 2016). It is unclear whether these impacts will be supported as more evidence comes in. The screen grab below shows the sample sizes and is from the BCIS AITPI #101 submitted with PS18.

BCIS®

RICS®

BCIS All-in TPI #101

Base date: 1985 mean = 100 | Updated: 08-Dec-2017 | #101

			Percentage change		
Date	Index	Sample	On year	On quarter	On month
1Q 2015	270	31	9.3%	4.2%	
2Q 2015	283	20	9.3%	4.8%	
3Q 2015	269	28	4.7%	-4.9%	
4Q 2015	271	20	4.6%	0.7%	
1Q 2016	275	24	1.9%	1.5%	
2Q 2016	283	24	0.0%	2.9%	
3Q 2016	278	24	3.3%	-1.8%	
4Q 2016	282	Forecast 14	4.1%	1.4%	
1Q 2017	297	Forecast 17	8.0%	5.3%	
2Q 2017	310	Forecast 13	9.5%	4.4%	
3Q 2017	313	Forecast 4	12.6%	1.0%	

37. It is notable that while the sensitivity tests include scenarios where costs and values change in isolation, the pattern of actual changes indicates that over time both costs and values tend to change.

PS18 Para 10.2 and 10.3 Forecasts

38. We note that the most recent OBR house price forecasts have changed since March 2017. However, we question the way that the BCIS AITPI forecast figures have been used in PS18 as they do not tally with the figures in BCIS AITPI #101 submitted with the representation. The table below replicates the figures in PS18 with commentary about the inconsistencies, and the screen grab below that shows the figures from BCIS AITPI #101.

	2018	2019	2020	2021	Cumulative
Build Cost inflation BCIS All-In Tender Price Index	-1.3%	4.4%	4.2%	5.9%	13.6%
	This figure is from the AITPI 4Q2018	This figure is not from any of the AITPI 2019 figures	This figure is from the AITPI 1Q2020 which is inconsistent with the 4Q2018 figure	This figure is not from any of the AITPI 2021 figures	

Source PS18

1Q 2018	310	Forecast	4.4%
2Q 2018	308	Forecast	-0.6%
3Q 2018	307	Forecast	-1.9%
4Q 2018	309	Forecast	-1.3%
1Q 2019	312	Forecast	0.6%
2Q 2019	314	Forecast	1.9%
3Q 2019	318	Forecast	3.6%
4Q 2019	322	Forecast	4.2%
1Q 2020	325	Forecast	4.2%
2Q 2020	328	Forecast	4.5%
3Q 2020	331	Forecast	4.1%
4Q 2020	335	Forecast	4.0%
1Q 2021	340	Forecast	4.6%
2Q 2021	343	Forecast	4.6%
3Q 2021	350	Forecast	5.7%
4Q 2021	354	Forecast	5.7%

Source BCIS AITPI #101 submitted with PS18

39. In order to provide a consistent approach, we use the forecasts presented in the BCIS Quarterly Briefing produced in December 2017, which has a summary on P19. Using the Central Scenario, we note that the cumulative impact 2018-2021 is forecast to be 11.8% increase in costs, which is less than the 13.1% OBR cumulative increase in house prices. While the gap may have narrowed, this fits the long-term pattern of values increasing more than costs.

Table 24. Summary of scenarios

	Percentage change				
	3Q17 to 3Q18	3Q18 to 3Q19	3Q19 to 3Q20	3Q20 to 3Q21	3Q21 to 3Q22
'Central' scenario					
TPI	-1.9	+3.6	+4.1	+5.7	+6.0
GBCI	+3.2	+2.9	+3.3	+4.6	+4.1
New work output*	-0.2	+1.1	+4.2	+5.7	+4.7
'Upside' scenario					
TPI	+3.8	+4.3	+5.3	+5.9	+5.8
GBCI	+3.2	+2.9	+3.3	+3.5	+3.4
New work output*	+5.4	+6.2	+6.5	+5.5	+5.3
'Downside' scenario					
TPI	-5.1	-3.7	+4.5	+7.0	+6.9
GBCI	+2.9	+4.3	+4.7	+5.0	+4.5
New work output*	-9.8	-5.6	+6.6	+9.8	+6.2

*Year on Year (3Q17 to 3Q18 = 2017 to 2018), Constant Prices 2015

Source BCIS Quarterly Briefing December 2017

Summary

40. The representation from BDBC and HCC (PS18) argue that the sensitivity testing fails to justify the CIL rate for Manydown, primarily based on the allowances made for infrastructure and s106 costs, but also on a number of other matters relating to the testing inputs and the potential effects of changes in values and costs subsequent to July 2015.

41. This response deals with these matters in turn and show why the LPA is not able to accept the representors' infrastructure and s106 costs at face value. The response also provides further justification for the inputs used in the modelling, noting that a number of these points were also the subject of discussion in the September hearing, as well as providing clarity about the continued long-term pattern of house prices rising at a faster rate than costs.

42. This response also notes that while some of the sensitivity testing scenarios deal with changes in values or costs in isolation, experience over the long term is that both change over time.