

**Matter 11 - Implementation and Viability**

***Issue - With regards to national policy on viability and the cumulative scale of obligations and policy requirements, is the Plan deliverable?***

***Relevant Policy - CS(R)7***

**Q11.1 Has the Whole Plan Viability Assessment 2019 (WPVA) (SD04) been subject to consultation/stakeholder engagement to 'sense check' the assumptions and approach used? How has any feedback been taken into account?**

The HBF attended a presentation on the Halton Whole Plan Viability Assessment on 8<sup>th</sup> April 2019. Following this the Council provided a copy of the draft document and began a very short technical consultation from 10<sup>th</sup> April to 19<sup>th</sup> April 2019, the HBF responded to this consultation highlighting concerns with some of the assumptions made within the assessment (Appendix 1).

**Q11.2 Are the assumptions used in the WPVA in relation to the residential and non-residential market realistic and based on robust evidence?**

The HBF does not wish to comment in relation to this question, at this time.

**Q11.3 Are the phasing and build out rates and assumptions realistic and based on evidence?**

Paragraph 7.63 of the Viability Assessment states that the assessment is based on the build out rates used in the SHLAA 2017, these are set out in Table 7.2 with lead in times and build rates varying depending on the size of the site. However, paragraph 12.46 of the Assessment in relation to finances states that the assessment assumes a maximum, per outlet, delivery rate of 30 units per year, with each site assumed to proceed immediately following a six-month mobilization period. It would be beneficial to have confirmation around which assumptions are being used, and to have further information as to whether they are still appropriate. The HBF considers that the build periods should allow for a reasonable lead in period followed by a suitable build rate.

**Q11.4 How has the base assumption of £2,500/unit of s106 costs been arrived at?**

The HBF would be interested in the evidence to support the £2,500 / unit S106 costs. The Viability Assessment highlights that this is lower than the figure that had been considered in the CIL Report<sup>1</sup>, but does not provide any information into why this should be the case. The Assessment also highlights that S016 costs can vary considerably<sup>2</sup> but again provides no information in relation to the variety of costs that the Council have previously required or that may be required based on the new policies.

**Q11.5 How have the recommendations for affordable housing targets for brownfield sites; strategic sites and greenfield sites (other than Strategic Sites) been arrived at? Are the affordable housing targets based on robust evidence?**

Table 10.3 of the Viability Assessment provides an overview of the impact of a variety of affordable housing proportions. The Viability Assessment concludes section 10 with a policy

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<sup>1</sup> Paragraph 7.32

<sup>2</sup> Paragraph 8.11 & 8.24

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recommendation for affordable housing. It suggests<sup>3</sup> that the previous 25% affordable housing target is not deliverable and it recommends that brownfield sites are unable to support affordable homes, that strategic sites should provide 20% affordable homes and greenfield sites should provide 25%. Although it is noted that this recommendation is caveated in relation to the S106 requirements, and the limited success in delivering affordable homes historically.

The HBF is concerned that the affordable housing targets do not consider all of the evidence provided within the Viability Assessment and that it is not always clear why certain assumptions have been made within the Assessment. For example, the assumptions around the land values and Benchmark Land Values (BLV), the HBF would strongly recommend that the Council take a cautious approach to the BLV to ensure that landowners are still incentivised to sell their land and homes can still be delivered. Or for example the construction costs where the Building Cost Information Service (BCIS) lower quartile figures have been used and the medium values only tested as an additional scenario. The use of inappropriate assumptions could mean that the proposed affordable housing proportions are still not deliverable.

The HBF considers that it is illogical and counterproductive to effective plan making, or to boosting housing supply, to seek to plan at the margins of viability and thus jeopardise site delivery and plan soundness.

**Q11.6 Overall, taking into account the cumulative scale of obligations and policy requirements, is the Plan deliverable?**

The HBF has some concerns around the viability of some sites. It is particularly clear that there are issues with brownfield sites which are not viable, but there are also issues with the strategic sites and some of the greenfield sites. The HBF does not consider that the viability evidence demonstrates that the cumulative scale of obligations and policy requirements set out in the plan are deliverable.

These concerns are accentuated when the implications of some of the alternate scenarios considered within the Viability Assessment are considered including for example if there was an increase in build costs as shown in Table 10.6, which may not be unrealistic as the impacts of both Covid-19 and Brexit are felt by the construction industry.

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<sup>3</sup> Paragraph 10.64

## APPENDIX 1

### HALTON VIABILITY ASSESSMENT

1. Thank you for consulting with the Home Builders Federation on the Halton Whole Plan Viability Assessment.
2. The HBF is the principal representative body of the house-building industry in England and Wales. Our representations reflect the views of our membership, which includes multi-national PLC's, regional developers and small, local builders. In any one year, our members account for over 80% of all new "for sale" market housing built in England and Wales as well as a large proportion of newly built affordable housing.
3. The Council will of course be aware of the increased importance placed on viability at Plan making stage. With NPPF paragraph 57 in relation to decision making stating that *'where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable'*. And paragraph 34 in relation to Plan Making which states that *'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan'*.
4. The approach towards viability is now laid out clearly in NPPG with the aim of reducing timescales and improving transparency. This provides a simple methodology to follow where a series of evidenced inputs steered by general parameters lead us to a residual land value where the range of local policy requirements are considered to be viable. As such the importance to be placed on Plan stage viability has never been more critical. If this is wrong or some of the key inputs are inappropriate it simply undermines the entire plan process casting doubt on the deliverability of chosen allocations, creating further opportunities for speculative proposals, prolonged debate at EIP, delay and poorer planning.

### Residential Values

5. PPG (ID: 10-011) states that *'gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered'*.
6. Paragraph 4.26 of the Viability Assessment states that the Energy Performance Certificate (EPC) contains the Gross Internal Floor Area (GIA), however, this is not correct, the EPC figure includes internal walls and stairwells, but excludes garages, porches and areas less than 1.5 m high. For example, a house with an integral garage, measured by EPC may be 100m<sup>2</sup> (but it will not accommodate the garage), whilst BCIS and GIA would calculate it at 115m<sup>2</sup> (or 15% bigger).

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7. The Viability Assessment has utilized land registry sales data, whilst this is considered more appropriate than the 'for sale' price, it still would not necessarily consider additional offers or incentives that have been included within the price (i.e. extra internal features / carpets / part exchange costs / developer deposits) and could lead to the inflation of prices and values.
8. Table 4.3 sets out the average price paid by m<sup>2</sup>, the HBF have some concerns in relation to the figures set out in this table and their realism, as they appear to be significantly above the levels that are generally seen in Halton. This may be due in part to the use of EPC data and Land Registry data which as set out above do not always reflect the true position.
9. Table 4.6 sets out the proposed Residential Price Assumptions for certain typologies of site. Given that paragraph 4.28 states that the average price paid is about £2,274/m<sup>2</sup> and that paragraph 4.30 states that it is *'important to note that almost all of this newbuild housing is on the urban fringe'* and presumably greenfield sites, therefore it seems illogical to propose a greenfield price higher than this and in the order of £2,400/m<sup>2</sup> to £2,600/m<sup>2</sup>. The HBF would recommend that in considering viability that the assumptions made take a cautious approach, and that the Council take on board evidence provided by our members and that provided within their own evidence.
10. It is noted that Table 4.1 appears to contain an error within the header with £ and £/m<sup>2</sup> included, where as the data is just a count of Land Registry and EPC new build sales.
11. Paragraph 4.29 of the Viability Assessment states that *'Values (of newbuild property) are very slightly (less than 2%) higher to the south of the Mersey than to the north, although this varies on very local sites specific matters'*. Whilst Table 4.3 suggests that the average price in Runcorn is £2,234/m<sup>2</sup> and for Widnes is £2,314/m<sup>2</sup>, suggesting that the opposite is true.

#### **Land Values & Benchmark Land Values**

12. Paragraph 3.5 states that *'the land value is a difficult topic . . . This is one of the areas where an informed assumption has to be made about the 'uplift' above the EUV which would make the landowner sell'*.
13. The HBF note that MHCLG's May 2018 report Land Value Estimates for Policy Appraisal provides land values specifically for the purpose of policy appraisal. It should be noted that this involves valuing the proposed development and deducting the development costs, including allowances for base build cost, developer's profit, marketing costs, fees, and finance to leave a 'residual' for the site value, however, the values here assume nil Affordable Housing provision in order to give pure residential use value, rather than market value. The land value estimate for Halton is £2,005,000/ha although it is noted that this may be higher than could reasonably be obtained for land in the actual market, due to the assumptions made within the report.
14. Table 6.2 within the Viability Assessment sets a number of sales of land for residential purposes, table 6.3 provides a summary of the averages of the data from table 6.2. It

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highlights that the average land value based on sales is £1,088,444/ha. The Assessment does however note that none of these sites were policy compliant.

15. PPG (ID: 10-014) states that *'Benchmark land value should:*
  - *be based upon existing use value*
  - *allow for a premium to landowners (including equity resulting from those building their own homes)*
  - *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
  - *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time'.*
  
16. PPG (ID: 10-013) states that *'to define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)'*.
  
17. The Viability Assessment proposes a Benchmark Land Value (BLV) of EUV plus 20% was suggested for brownfield sites, and for greenfield sites (being those in agricultural and paddock uses) a BLV of EUV plus £250,000/ha. Given the information provided in relation to current market evidence these figures do not seem appropriate, whilst it is noted that these sites are not policy compliant, the HBF consider that even allowing for an adjustment to take this into account would still not equate to the figures proposed in this assessment. The HBF would strongly recommend that the Council take a cautious approach to the Benchmark Land Value to ensure that landowners are still incentivised to sell their land and homes can still be delivered. The HBF would strongly recommend working closely with land agents and land owners to ensure appropriate values are used.
  
18. It is illogical and counterproductive to effective plan making / boosting housing supply to seek to plan at the margins of viability and thus jeopardise site delivery and plan soundness

## **Development Costs**

### **Construction Costs**

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19. The Viability Assessment has utilized the Building Cost Information Service (BCIS) data in relation to construction costs. It should be noted that the BCIS cost is only the cost of the house itself and the plot (foundation) and is based upon a flat site with standard foundation, it does not account for all of the plot works nor any costs associated with more complex ground / gradient conditions. Paragraph 7.7 of the Assessment proposes to use the lower quartile BCIS figures, no information appears to have been provided to support the need to use the lower quartiles build cost and the HBF would recommend that the median BCIS cost is used. New build is by its nature high specification and it is wrong to confuse this with quantity as often occurs when seeking to utilise lower quartile BCIS figures. It should also be noted that the construction costs, plots and preliminaries are unlikely to reduce in scale or cost based on the value of the area e.g. cement is not suddenly cheaper in Halton.
20. The Assessment makes an allowance related to total build costs, this is in addition to the BCIS build costs and allows for sites costs e.g. roads, drainage and services, parking, footpaths and landscaping. Paragraph 7.11 suggests a range from 10% of build costs for the smaller sites and flatted schemes, to 15% for the larger greenfield multi-outlet / multi-phase schemes. The report does not appear to provide any evidence in relation to how the percentage cost has been calculated and whether it is reasonable in relation to the costs associated with the provision of the above infrastructure.
21. The report does not appear to have included any costs comparisons to ensure these costs are realistic and appropriately related to any in-house requirements for highway or street lighting or external requirements for infrastructure connections. Whilst the HBF supports the inclusion of an allowance for total build costs, it does not consider that it is able to support a 10% / 15% allowance without further evidence to justify this figure.

Abnormal development costs and brownfield sites

22. The Assessment proposed an additional allowance is made for abnormal costs associated with brownfield sites of 5% of the BCIS costs. The HBF would suggest that given the huge range of abnormal infrastructure costs that need to be accounted for over and above plot costs and external costs on a site-specific basis that any attempt to apply standard rates whilst doing a plan wide typology viability work should be treated with caution.

Fees

23. The Assessment proposes an allowance for professional fees of 8% of build costs. The HBF supports the inclusion of an allowance for professional fees as the development process requires huge input from a wide variety of disciplines from design and engineering to ecologists and archaeologists, the process is complex and requires expert opinion and guidance throughout. However, the HBF recommends a more cautious approach to fees, with a higher allowance to account for this work, which can be much higher dependent upon the complexity of the site and the extent of abnormals.

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Contingencies

24. The Assessment proposes an allowance for 5% on brownfield sites and 2.5% on greenfield sites. The HBF support the inclusion of a contingency allowance.

Planning Obligations

25. The Assessment proposes a S106 allowance of £2,500/unit. However, text in both paragraph 7.21 and 7.22 refer to the use of CIL, which is not in place in Halton.
26. It is considered that more information is required to identify how this figure was calculated, particularly an understanding of which policy requirements have or have not already been considered within this element.

Financial Assumptions

27. The development of land requires significant financial investment on behalf of the developer, and this requires finance to be raised at the prevailing market rate reflective of the risk profile considered appropriate by the particular lending institution. The Assessment makes an allowance of 6% assumptions for interest rates. The HBF would normally recommend a figure of 6.5-7%.
28. The Viability Assessment also proposes a 1% Arrangement fee, 1.5% for acquisition agents' and legal fees and 3.5% for sales, promotion and legal fees. The HBF support the inclusion of a range of fees including agent's fees and sales fees. However, the HBF is slightly concerned that the sales fee allowance is a little low given the current state of the market and the importance of marketing and advertising in selling homes.
29. The Assessment proposes that a return of 17.5% of the value of market housing and 6% of the affordable housing is used as an appropriate level for the developers return. 17.5% is in the middle of the range suggested by the PPG. Allowing for 25% affordable housing on sites of ten or more this would create an overall return of 14.6% on sites where affordable housing is provided. The HBF do not consider that 14.6% is an appropriate return. NPPG outlines what it considers a reasonable assumption for plan making at 15 – 20% of GDV, although it stresses that alternative figures can be used dependent on the risk profile, and given that it has been acknowledged that Halton is a challenging market, it is considered that this should be taken into account when determining the appropriate profit. The HBF continues to recommend that a cautious approach is taken to profit, and that the developer return is increased to ensure that the return is closer to the 20% level.

Rates of development

30. The Assessment assumes a maximum, per outlet, delivery rate of 50 units per year. On a site with 25% affordable housing this equates to 38 market units per year. It would be beneficial to have further information as to how these build periods were determined. The build periods should allow for a reasonable lead in period followed by a suitable build rate.

**Future Engagement**

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31. I trust that the Council will find these comments useful. I would be happy to discuss these issues in greater detail or assist in facilitating discussions with the wider house building industry. The HBF would like to be kept informed of the progress of the document. Please use the contact details provided below for future correspondence.

Yours sincerely,



**Joanne Harding**

**Local Plans Manager – North**

Email: [joanne.harding@hbf.co.uk](mailto:joanne.harding@hbf.co.uk)

Phone: 07972 774 229