North West Development Agency

Forensic Investigation – Mann Island

Report of PricewaterhouseCoopers LLP

15 October 2010

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I Introduction

1.1 PricewaterhouseCoopers LLP ("we", "our" or "PwC") have been instructed by North West Development Agency ("NWDA" or "Agency") to carry out a forensic investigation ("our Investigation") into the circumstances surrounding a transaction in which land owned by NWDA, namely Mann Island, was sold in 2007 for £3.57 million, whereas recent concerns in the media have implied that the land may have been sold at an undervaluation. The scope of our work is set out in our letter of engagement with you dated 8 March 2010 ("the Engagement Letter").

1.2 The scope of our work, as set out in the Engagement Letter, required us to conduct our Investigation based upon documentation made available to us by NWDA. In particular, NWDA instructed us to consider and comment upon the following specific issues in relation to the sale of Mann Island in 2007:

(a) Did NWDA have specific procedures in place at the relevant time which set out the steps to be undertaken prior to the sale of land, and, further, did NWDA follow those procedures?

(b) Was the sale price (of £3.57 million) based upon an independent valuation that had been prepared for NWDA prior to the sale in 2007?

(c) Was an independent valuation undertaken prior to the sale on the basis of specific written instructions from NWDA and did those instructions appear to reflect the purpose and background to the valuation?

(d) Did the valuer who conducted such an independent valuation (as in (c) above) appear to have followed NWDA's instructions for the purpose of preparing the valuation of Mann Island prior to the sale in 2007?

(e) Does the documentation made available to us identify that NWDA considered and relied upon the valuation it had commissioned prior to the sale in 2007?

(f) Did the valuation upon which NWDA relied in agreeing the sale price of £3.57 million appear to use a recognised valuation methodology that had regard for the site, its location and proposed future use?

(g) Were other valuation reports available in relation to Mann Island at the time of the sale (for example annual valuation reports prepared as a matter of routine for all land owned by NWDA) and, if so, do those valuation reports and other documents associated with such valuations identify differences between the routine annual valuation of Mann Island and the valuation undertaken for the purpose of establishing a sale price in 2007?

(h) Is there anything within the documentation made available to us which suggests that Mann Island was sold at an undervaluation?

1.3 As set out in the Engagement Letter and in accordance with your instructions, our Investigation has focused only upon the sale of Mann Island in 2007 and, therefore, we have not specifically sought to consider and comment upon other events in relation to Mann Island prior, or subsequent, to the sale in 2007. However, whilst the sale of Mann Island was a single event, it took place against the background of a complex history of related events. Accordingly, within our report we have referred to other related events, but only where it is necessary to do so in order properly to consider and comment upon the circumstances of the sale in 2007 within the context of the wider history of NWDA's ownership of Mann Island.

1.4 As required by you, we have conducted our Investigation primarily by way of review of the documents you have provided to us in order to develop our understanding of the sale of Mann Island and to address the key issues you have instructed us to investigate (see paragraph 1.2 above). Documents which we have considered and subsequently relied upon for the preparation of our report are referred to in the body of this report. These documents are held by NWDA.

1.5 We have also relied upon information provided during meetings with individuals employed by NWDA and/or its partners whom we understand were key to the Mann Island project during the relevant period; namely [redacted] (former Deputy Chief Executive of NWDA) and [redacted] (former Project Director[1]). We have also met with [redacted] (current Director of Programme for NWDA) and with [redacted] (NWDA in house solicitor) who provided us with their understanding of various events relating to the history of NWDA's ownership of Mann Island. Further meetings were held with representatives of the principal external advisors during the relevant period, namely [redacted] of GVA Grimley and [redacted] of AMION Consulting.

1.6 In addition, we have drawn upon observations from property valuation specialists within PwC in so far as their expertise is relevant to our Investigation.

1.7 Any documentation or information brought to our attention subsequent to the date of this report, which would affect our findings detailed herein, may require our findings to be adjusted and qualified accordingly.

1.8 We have not carried out anything in the nature of an audit nor, except where otherwise stated, have we subjected the financial or other information contained in this report to checking or verification

[1] We understand that as Project Director for Mann Island, [redacted] worked for Liverpool Vision Limited, Liverpool's urban regeneration company, albeit remunerated by NWDA for this role.

procedures. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of the information in this report, except where otherwise stated.

1.9 To the extent that our report touches on points of law or other regulations pertinent to regional development agencies such as NWDA, it should not be taken as expressing an opinion thereon.

1.10 This report has been prepared for and only for NWDA in accordance with the terms of our Engagement Letter and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by us in writing.

1.11 In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made there under (collectively, the "Legislation"), you are required to disclose any information provided to you by PwC (including but not limited to any Deliverables[2]), you will notify PwC promptly and will consult with PwC prior to disclosing such information. You agree to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with PwC, you disclose any such information; you shall ensure that any disclaimer which PwC has included or may subsequently wish to include in such information is reproduced in full in any copies disclosed.

1.12 The remainder of our report is set out under the following headings:

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[2] "Deliverables" means the final versions of materials, documents (in whatever format) or other items provided to you as part of our Investigation.

II Summary and conclusions

2.1 We have conducted our Investigation in accordance with the terms of our Engagement Letter, the key elements of which are set out at paragraphs 1.2 to 1.4 above. In this section of our report we summarise our main findings, which relate to the key issues you have asked us to consider and comment upon (see paragraph 1.2 above). Our findings are set out in more detail in the remaining sections of our report.

Main findings

Context of our findings

2.2 Our Investigation concerns the circumstances surrounding the sale of Mann Island in 2007 for £3.57 million; against a background of recent media comment which has implied that the land may have been sold at an undervaluation. To place the summary of our findings into context, we first note that the sale of Mann Island was the culmination of a long history of events concerning a complex site. Drawing from Section III of our report, we have seen that NWDA had acquired the land in 2002 to bring it into public ownership, and thus secure the opportunity to develop a strategic site in line with Liverpool's vision of regeneration for the benefit of the city's economy and people. At this time, it was known that Liverpool's waterfront was in line for a UNESCO nomination for World Heritage status, although no award had been made in 2002. The land was acquired by NWDA in 2002 because this coincided with the timing of the then owner's decision to either sell the land or develop it for its own use, although NWDA had no detailed scheme in place at that time. NWDA's plans for Mann Island evolved over a number of years, working alongside a number of public sector partners. Initially the vision was for a Fourth Grace, but this scheme was abandoned in 2004. Alternative options were then considered, and in late 2004 NWDA decided that its preferred option was to create a major visitor destination (in partnership with National Museums Liverpool which also owned part of the site). This preferred option envisaged a mixed use commercial/leisure/residential development and a quality covered public realm on the NWDA land, together with a new Museum of Liverpool. NWDA and its public sector partners captured the principles for this option in a master plan, the Mann Island Planning and Development Brief, which was issued in 2005 to set out the framework and constraints over the development at that time. This master plan was prepared against the background of the formal award of World Heritage Site status and confirmation that Liverpool would be the Capital of Culture in 2008. Based upon this master plan, NWDA's preferred developer, Countryside Neptune, developed a detailed scheme and submitted a financial appraisal of that scheme. This submission included Countryside Neptune's valuation of the land at around £3 million.

2.3 We appreciate that awareness of the above changes and the evolution of the Mann Island project underpins an understanding of movements in NWDA's valuation of Mann Island, which had been bought by NWDA for £9.2 million in 2002 and sold at £3.57 million in 2007 (albeit at a price agreed in 2005). We understand that the price paid in 2002 (£9.2 million) reflected the price that a commercial developer may have been prepared to pay at that time in order to acquire the land for a residential led commercial development. However, we understand that by 2005, the intended use of the land and the constraints over the land were somewhat different.

2.4 Having regard for the context set out in paragraphs 2.2 and 2.3 above, we now proceed to summarise our findings in relation to each of the key issues set out at paragraph 1.2 above.

Our findings in relation to the key issues

2.5 We have identified that at the relevant time, NWDA had documented specific procedures which identified the steps required in relation to both the valuation of Mann Island annually on an ongoing basis and upon its disposal (see paragraphs 4.10 and 4.11 below). With regard to the sale of the land, these steps included the requirement for an independent external valuation, and a further requirement for the last annual valuation to be revisited and revised to take account of any notable changes. We have seen that NWDA sought to fulfil both of these steps, which were undertaken by GVA Grimley (independent external valuer) and King Sturge (ongoing external valuer for NWDA's estate properties).

2.6 NWDA gave written instructions to GVA Grimley, but the instructions we have seen did not specify a requirement for GVA Grimley to provide an independent opinion on the optimum value of the land; rather the instructions referred to a general requirement for GVA Grimley to provide valuation advice (see paragraph 4.15 below).

2.7 In response to the instructions from NWDA, GVA Grimley prepared a valuation of Mann Island on the basis of the scheme submitted by Countryside Neptune. GVA Grimley described this as a mirror appraisal, and their calculations produced a valuation of £3.6 million on this basis (which formed the basis of the sale price). We understand that it was the role of AMION Consulting to provide an economic appraisal of the proposed development of the whole Mann Island site; embracing the findings of a consortium of consultants including GVA Grimley. In providing an economic appraisal, AMION Consulting thus considered alternative development options with regard to a range of benefits that went beyond the maximisation of land value; notably taking into account economic factors such as the promotion of tourism and job creation, alongside Liverpool's regeneration strategy and the significant constraints on the site given conservation and World Heritage Site status.

2.8 Having regard for this background, we understand that GVA Grimley were not asked to, nor did they provide, an opinion on what the optimum scheme should be to maximise the land value whilst still working within the principles and constraints that had been set down by NWDA and its public sector partners. However, we have seen that GVA Grimley did consider the potential increase in the land value, should either the density of the development be increased or the public realm omitted. GVA Grimley concluded that the density of the development would need to increase greatly to achieve a meaningful increase in the land value, whereas only a small increase in density was deemed permissible by GVA Grimley. Further, GVA Grimley concluded that omission of the public realm was inconsistent with the visions of NWDA and its public sector partners (see paragraph 5.7 below).

2.9 GVA Grimley adopted a residual method of valuation (as did Countryside Neptune), which we consider to be the appropriate recognised valuation methodology in these circumstances. This approach is sensitive, because the input variables comprise estimates of the costs of the development and estimates of the development values (which in turn rely upon estimated income yields). The assessment of costs for this site would have been particularly difficult, due to the complex nature of the site and risks associated with issues such as flooding and archaeological matters. GVA Grimley reported upon certain sensitivities in relation to both the estimates of cost and development values; both of which underpin the calculation of the land value on a residual basis (see paragraphs 5.4 to 5.6 below).

2.10 These matters were reported to NWDA and it is apparent that NWDA relied upon GVA Grimley's advice in order to agree the following key terms in relation to the sale of Mann Island:

(a) An initial sale price of £3.57 million; and

(b) The potential for a further payment by way of an overage clause. In summary, we understand that this clause requires a further valuation of the development two years after practical completion, thus revisiting the earlier estimates of costs and development values. Any increase in valuation identified by this further valuation is to be shared between NWDA and Countryside Neptune.

2.11 The milestone for the further valuation has yet to be reached, and so we are unable to comment upon either, the likelihood of further payment, or the quantum of such a payment.

2.12 GVA Grimley also commented on a further key matter which influenced the valuation of the land at £3.57 million, namely the assumed level of developer returns to be incorporated into the calculation of the land on a residual basis. Countryside Neptune had adopted individual rates of return for each element of the project, which resulted in an overall return equivalent to around [redacted] of costs. GVA Grimley stated that they had been informed by Countryside Neptune that the individual rates of return had been adopted from those rates put forward/agreed in relation to the abandoned Fourth Grace project (on which Countryside Neptune was also the preferred developer). As such, for the purposes of their report, GVA Grimley assumed that the rates of return adopted by Countryside Neptune were a fixed assumption. Therefore, GVA Grimley did not comment upon the likelihood of a change being achieved, although as part of the sensitivity analysis that is included within their report, GVA Grimley provided an illustration of the impact on the land value, should the overall return be reduced. In particular, GVA Grimley estimated that if the overall return were reduced, say to [redacted], the land value would have increased by [redacted] million.

2.13 We have seen that GVA Grimley brought the above matter to the attention of NWDA (see paragraphs 5.10 to 5.14 below). Whilst we have not seen documentation that sets out how NWDA considered and responded to this matter at the time, we understand that because the individual mixed use elements of the Fourth Grace project and the final Mann Island scheme were the same (that is each included car parking, leisure blocks, residential blocks and office blocks), there would have been no reason to change the approach to developer's returns. We have seen that the agreement for the sale of Mann Island set out the agreed developer's returns, and these were unchanged from those reported by GVA Grimley. We note also that the mechanism of the overage clause calculation is such that it does not facilitate a change to these rates of return.

2.14 With regard to other valuations, we have seen that in accordance with its own procedures, NWDA instructed its ongoing external valuer, King Sturge, to revisit the valuation it had carried out at 31 December 2004 for routine accounting purposes (which had valued the land at £6.5 million; the land having been written down previously from £9.2 million to £6.5 million as at 31 December 2003). King Sturge reported that they had valued Mann Island at £6.5 million as at 31 December 2004 on the basis of a notional scheme (an approach also adopted as at 31 December 2003), without knowledge of the principles that NWDA and its public sector partners had agreed for the development and constraints over the development. King Sturge stated that having regard for this additional information, they considered the value of the land to be around £3 million, based upon the Countryside Neptune scheme. Like GVA Grimley, King Sturge did not express an opinion as to whether this represented the optimum scheme, but King Sturge stated that they understood that the Countryside Neptune scheme had been devised having regard for extensive discussions with the local planning authority and for the principles laid down by NWDA and its public sector partners (see paragraphs 4.19 to 4.23 below).

Our overall conclusion

2.15 In summary, the documentation we have seen identifies that NWDA took advice from independent external valuers (GVA Grimley) and from its ongoing external valuers (King Sturge) in relation to the valuation and sale of Mann Island. That advice broadly supported a value of £3.57 million, but based upon the scheme as submitted by Countryside Neptune. Neither GVA Grimley nor King Sturge expressed an opinion on what the optimum scheme and resultant land value ought to have been. We appreciate that this would have been a complex task, requiring consideration of planning matters and other issues pertinent to the site. GVA Grimley did make some comment on the potential for changes to the scheme which would have increased the land value; namely a significant increase in density and/or omission of the covered public realm, but they reported that such changes were not permissible. In this regard, we note that the scope of our Investigation does not include forming our own view on what the optimum scheme may have been. In any event, we understand that AMION Consulting was responsible for weighing up the benefits of alternative development options, not just the Countryside Neptune scheme, and their analysis of such options took account of wider economic factors and value for money issues.

2.16 The valuation of the land was highly sensitive to variation in the estimates of cost and development values, but it seems that upon advice from GVA Grimley, NWDA sought to address these risks by way of an overage clause.

2.17 If there had been scope to reduce the rates of the developer's returns from an overall level of [redacted] of cost, this would have enhanced the land value. GVA Grimley have told us that they understood that the rates of the developer's returns were a fixed assumption, brought forward from the abandoned Fourth Grace project, but we have not seen any contemporaneous evidence to confirm this understanding. In particular, we are unable to comment upon the process by which NWDA reached agreement on the rates of the developer's returns carried forward from the abandoned Fourth Grace project, because we have been informed that the terms of the agreement made between NWDA and Countryside Neptune at that time are confidential, and as such those terms have not been made available to us (see paragraphs 3.9 and 5.12 below). We note that whilst GVA Grimley's understanding was that the rates of the developer's returns were a fixed assumption, they provided an illustration of the impact of a reduced rate; estimating that a reduced overall rate of [redacted] would have increased the land value by [redacted] million. We have been unable to clarify why this illustrative assessment was provided as part of GVA Grimley's sensitivity analysis.

2.18 Notwithstanding the above, we have seen that NWDA has previously agreed rates above [redacted] on other projects involving listed buildings where the risks were considered to be high. Furthermore, we understand that the overall rate of [redacted] was mostly influenced by the rate for the residential element of the project. We understand that the residential rate of [redacted] was at the high end of the typical range of rates for residential developments, but we have been informed that the market for newly built city centre residential developments was still fairly new in Liverpool at that time, thus likely viewed as high risk.

Additional considerations and recommendations

2.19 Looking ahead, it is apparent that the further valuation of the site in accordance with the overage clause will be an important matter for NWDA, as it may give rise to further payments by Countryside Neptune over and above the initial consideration of £3.57 million. We would therefore recommend that NWDA look closely at the developer's costs and development values which are included in this further valuation.

2.20 Finally, we note that the documentation made available to us in relation to the sale of Mann Island does not identify if NWDA or its external advisors considered the risk of additional costs on disposal as a result of potential further payments by NWDA to the previous owner of Mann Island. In particular, we understand that NWDA had entered into an agreement with the previous owner, which included an overage clause to provide for the prospect of further payments in the event that NWDA disposed of the land within 20 years. We have seen nothing to confirm that the likelihood of such payments was considered by NWDA and/or GVA Grimley prior to the decision being made to sell Mann Island at £3.57 million. We have not considered this matter further as it is outside of the scope of our instructions to do so, save we note that [redacted] has already reported to the Audit Committee in relation to the difficulties that may stem from such overage clauses, making recommendations for future practice in the exceptional circumstances where NWDA is again faced with land deals on terms that include an overage provision.

III Background

3.1 In this section of our report we set out our understanding of the background to the matters giving rise to our Investigation. In particular, drawing from the documentary evidence we have seen and from our discussions with: [redacted], [redacted], [redacted], [redacted], [redacted] and [redacted] we present our understanding of the chronology of the key events leading up to and concluding in the sale of Mann Island for £3.57 million in 2007. We also present our understanding of the key external advisors to NWDA and their roles in relation to the Mann Island project; particularly in relation to conducting valuations of Mann Island prior to the sale.

Introduction and chronology of key events

3.2 The Mann Island site comprises reclaimed land located at Liverpool's Pier Head close to the waterfront; an area which is famous for three major historic Grade 1 listed buildings which collectively are known as 'the Three Graces' (namely Royal Liver Building, Port of Liverpool Building and the Cunard Building).

3.3 In 2002 NWDA acquired an interest in part of the Mann Island site which until then was owned by the pension fund of a car dealership group based on the site, namely The Robert Smith Group ("Robert Smith"). Drawing upon a report we have seen, prepared by NWDA's Chief Executive at that time, [redacted], we understand that it was then known that Liverpool's waterfront was in line for a UNESCO nomination for World Heritage Site status and the city had ambitions for a regeneration of the waterfront, to include a Fourth Grace on the Mann Island site. The site was complex, and as at 2002, the part situated immediately on the river frontage was already owned by National Museums Liverpool ("NML"). NWDA therefore acquired only the part of Mann Island that was owned by Robert Smith but, for ease of reference, in the remainder of our report we will continue to refer to NWDA's land interest as 'Mann Island'. Further, whilst NWDA was the body used to acquire the land, we understand that at that time, NWDA was one of a number of public sector bodies ("the public sector partners") working in partnership in relation to the Mann Island project. We have been informed that the public sector partners included:

(a) NWDA;

(b) Liverpool City Council ("LCC");and

(c) Liverpool Vision Limited ("Liverpool Vision"), being Liverpool's urban regeneration company, controlled by NWDA, LCC and a central government agency (currently the Homes and Communities Agency).

3.4 In summary, we understand that NWDA acquired Mann Island in 2002 to bring the land into public ownership; on the basis that this was a strategic site intended for further development for the benefit of Liverpool's economy and people. We further understand that NWDA had no detailed scheme in place for the development of Mann Island at the time NWDA acquired the land, but it was seen as the site for a potential Fourth Grace.

3.5 NWDA paid £9,250,000 for the land before duties and fees amounting to £570,000. NWDA had engaged Dixon Webb, Property Consultants, to prepare an 'open market valuation'[3] of the land[4], which formed the basis for NWDA's negotiation of the purchase price. NWDA also engaged Irving Price, Chartered Surveyors, to review and comment upon Dixon Webb's appraisal[5]. In [redacted] report on the proposed acquisition (see paragraph 3.3 above), [redacted] had explained to NWDA's Board that whilst NWDA were to buy the land *"off market"* from Robert Smith, the Dixon Webb valuation was based upon a hypothetical *"primarily residential scheme, which would be currently the most valuable use for the site"*. Whilst a primarily residential scheme was not NWDA's intended use of Mann Island, it would seem that the purchase price had regard for the optimum price that Robert Smith could have attained in 2002 (having regard for Dixon Webb's understanding of likely planning constraints at that time), should it have decided to sell the land on the open market rather than offering it off market to NWDA. The relevance of this to future valuations of Mann Island prepared for NWDA will become apparent later in our report.

3.6 In addition, by way of a Collateral Deed dated 5 February 2002, NWDA agreed to provisions allowing for potential further payments to Robert Smith; namely a [redacted] share of any increase in the value of Mann Island at the time of a disposal by NWDA, with that value being assessed on an open market basis for a disposal 'at arm's length'.

3.7 Following an international competition, in 2002 a partnership known as Countryside Neptune LLP ("Countryside Neptune") was selected to develop and execute a scheme for the intended Fourth Grace. This progressed into plans for a proposed development known as 'the Cloud'.

3.8 During the year ended 31 March 2004, NWDA wrote down the value of its investment in Mann Island to £6.5million, following a routine annual valuation by King Sturge, Property Consultants, conducted

[3] The term 'open market valuation' is defined by Dixon Webb as the best price assuming a reasonable period for proper marketing of the property and taking into account the nature of the property and the state of the market, but taking no account of a prospective purchaser with a special interest.

[4] Dixon Webb report dated 4 December 2001, which valued the land at £9,990,000 by way of an open market valuation using the residual method, prepared in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual.

[5] Irving Price report dated 19 December 2001.

as at 31 December 2003. We understand that King Sturge was, and remains, an ongoing advisor to NWDA in its role on estate matters; conducting annual valuations as a matter of course for accounting purposes. We consider this and other valuation matters in more detail later in our report.

3.9 As a result of concerns in relation to the likely costs associated with the Cloud, in July 2004 the public sector partners decided not to proceed with the Fourth Grace scheme; and, therefore, the assessment of alternative options began. We understand that on the basis of legal advice, Countryside Neptune was retained as the preferred developer for any alternative scheme, although the terms of the agreement reached with Countryside Neptune in this regard are confidential and as such have not been made available to us.

3.10 From 2004 onwards, NWDA and NML, as the landowners of the whole Mann Island site, worked together with Liverpool Vision through a master planning process to establish principles for the development of the whole of the Mann Island site. By this time Liverpool's waterfront had been formally awarded World Heritage Site status and, further, Liverpool had been confirmed as Capital of Culture for 2008.

3.11 In November 2004 [redacted] on behalf of Liverpool Vision, presented four options to the Board of NWDA for the development of Mann Island[6]. These options were:

(a) Option A – Visitor Destination (in partnership with NML): Development of the whole site as a public/private destination/leisure scheme; incorporating a new Museum of Liverpool, a mixed use commercial/leisure/residential development and a quality public realm including a covered space;

(b) Option B – Public Open Space: Creation of new, quality public space on the NWDA element of Mann Island;

(c) Option C – Maximise Land Value: Residential led/mixed use scheme; and

(d) Option D – HQ Office Building: Prestige commercial office scheme on the NWDA element of Mann Island.

3.12 In November 2004, the Board of NWDA agreed to adopt Option A above as the preferred option, on the basis that they considered this option would offer the best opportunity to develop Liverpool's waterfront in line with the regeneration strategy for the city.

[6] Presented to the Board by way of a report prepared by [redacted] dated 12 November 2004.

3.13 Working on behalf of NWDA and NML, and in consultation with LCC, English Heritage and other interested parties, Liverpool Vision engaged EDAW to prepare a final master plan, and in 2005 they produced a document entitled 'Mann Island Planning and Development Brief' ("the Mann Island PDB"). We understand that the Mann Island PDB established the framework at that time for the development of the site, defining constraints around:

(a) Proposed land uses;

(b) Scale, height and massing of the development;

(c) The relationship of the development to adjoining sites;

(d) The quality of the public realm that should be a feature of the development ; and

(e) The linkages to the city centre, the docks and the rest of the waterfront.

3.14 In summary, the Mann Island PDB set out a vision for the whole of the Mann Island site <u>as at 2005</u>, to include a major new visitor attraction, a mixed use development and a public realm (namely Option A, as adopted by the Board of NWDA as its preferred option – see paragraphs 3.11 and 3.12 above). The visitor attraction comprised the new museum to be built on the NML land. The land owned by NWDA was to be developed to provide the mixed use development and public realm.

3.15 As the preferred developer, it seems that Countryside Neptune proceeded in 2005 to adopt the concepts set out in the Mann Island PDB, in order to devise a scheme for NWDA's proposed mixed use development and public realm. Countryside Neptune then provided NWDA with an appraisal of that proposed scheme. Countryside Neptune's appraisal included a valuation of NWDA's land (at c£3 million), calculated by using the residual method. We consider valuation matters in more detail later in our report.

3.16 In 2005, GVA Grimley, Property Consultants, carried out a development appraisal of the Countryside Neptune submission on behalf of NWDA; thus also considering the value of Mann Island on the same basis as that adopted by Countryside Neptune. The GVA Grimley development appraisal was one part of a wider economic appraisal carried out by a consortium of consultants to NWDA (led by AMION Consulting), which we consider further at paragraph 3.20 below.

3.17 Following consideration of the findings of the above mentioned consortium of consultants, in 2005 the Board of NWDA gave its approval for the mixed use development and public realm scheme as proposed by Countryside Neptune; subject to the following provisions which were to included in a Development Agreement with Countryside Neptune:

(a) Countryside Neptune would pay a minimum of £3.57 million to NWDA for Mann Island (being a lease premium to provide Countryside Neptune with a long leasehold interest in the land, thereby permitting its development of Mann Island on the basis set out in the Countryside Neptune scheme); and

(b) The Development Agreement would include provision for NWDA to secure a valuation two years after practical completion (with completion assumed to be some time in 2010) to measure the increase in value over £3.57 million (after allowing for cost inflation and cost omissions in Countryside Neptune's submission). NWDA would then be paid a further sum by Countryside Neptune, namely 50% of the valuation excess determined by this further valuation. It is important to note at this juncture that this milestone has yet to be reached.

3.18 Given the size of the project, NWDA sought approval from the Department of Trade and Industry ("DTI"). We have seen that the DTI gave its approval to NWDA by way of a letter from the DTI dated 17 November 2005.

3.19 The Development Agreement was signed on 27 April 2007, providing for the sale of Mann Island in 2007 for the agreed sum of £3.57 million, but subject to the provision for a potential further payment to NWDA on the basis set out in paragraph 3.17(b) above.

External advisors to NWDA and their roles

3.20 From our review of the documentation made available to us, it is apparent that NWDA has received advice from a number of external advisors during the period beginning with NWDA's purchase of Mann Island and leading up to the sale of the land. Much of this advice concerns valuation matters and, therefore, we believe that it is useful to summarise the chronology of the various communication with external advisors that we have seen. This is set out in the table below.

Date	Name of advisor	Description of communication
4 December 2001	Dixon Webb, Property Consultants	Report to NWDA presenting a formal valuation of Mann Island on an open market basis using the residual method, prepared in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. Dixon Webb express an opinion that the value was £10 million.

19 December 2001	Irving Price, Chartered Surveyors	Report to NWDA providing comments on Dixon Webb's appraisal. The report does not provide an opinion on the open market value of Mann Island; nor does it explicitly challenge or support the Dixon Webb valuation, rather Irving Price provide explanations of the principles and subjective assumptions which underpin Dixon Webb's appraisal.
31 December 2003	King Sturge, Property Consultants	Annual valuation report prepared for NWDA as a matter of course for accounting purposes, in which King Sturge recorded a valuation of £6.5 million, representing a write down from the purchase price of £9.2 million. King Sturge state that the site is intended for a proposed Fourth Grace, but that *"a definitive scheme has yet to be agreed, in the absence of a scheme we have valued the site assuming an alternative development acceptable to Liverpool City Planning Authority"*.
31 December 2004	King Sturge, Property Consultants	Annual estate report prepared for NWDA in which King Sturge recorded that NWDA's investment in Mann Island would continue to be held at £6.5 million.
May 2005	GVA Grimley, Property Consultants	Draft report for NWDA providing a development appraisal of the Countryside Neptune submission.
16 June 2005	GVA Grimley, Property Consultants	Letter to [redacted] of Liverpool Vision, providing a note of a meeting between GVA Grimley and Dixon Webb. The note refers to what appeared to be a discussion between peers, concerning Countryside Neptune's valuation of Mann Island. The note mentions that GVA Grimley's appraisal supports a value of around £3.5 million.
24 June 2005	Dixon Webb, Property Consultants	A detailed briefing note to [redacted] of Liverpool Vision. Essentially explains and comments upon the changing factors affecting the valuation of Mann Island since its purchase in 2002 (at £9.2 million) up to the