Matter 7 – Viability Technical Seminar
Explanatory Paper – Matthew O'Connell

Overview

A key focus of my work has been sensitising important assumptions to show the highly leveraged nature of the project, i.e. small changes to assumptions make large differences to residual land values (whether future or discounted to present day (NPV) as is more appropriate).

The outputs in MOC/VIA are therefore predominantly sensitivity analysis, including for the highly relevant discounted cashflow.

Modelling Inputs / Assumptions

As per my consultation submission and hearing statement, I do not agree with a number of the Hyas assumptions and indeed they are also in some significant cases not in line with the Inspector's prescribed parameters.

However, despite some of the problematic assumptions, sensitising the Hyas modelling seemed the clearest thing to do in the context of the Examination.

My modelling is therefore a straightforward replication of the Hyas modelling with any very small, immaterial, differences resulting from a need to transcribe the numbers by hand because the NEAs did not allow Hyas to release their model to me despite a request for them to do so.

As such the 'Model' tab has the same parameters around items such as delivery rate, contingencies, finance rate, discount rate.

See also commentary on model 'Cover' tab for further detail.

Details of Specific Sensitivities Where Relevant

Some of the sensitivity analysis will be obvious in its mechanics but I note the following for reference:

- For the 250dpa delivery rate scenario, which I believe should be the central case (with sensitivities either side of that figure):
  - Delivery was pro rated downwards with a flat rate assumed in the extra years
  - I rephased Enabling and Non-Specific Infrastructure in line with the delivery rate
  - I left Specific and Other Infrastructure unchanged
    - I believe this is by far the most sensible modelling assumption given that many of these items facilitate the functioning and indeed policy requirements of the site; Hyas have rephased these items which significantly offsets part of the viability impact from the lower delivery rate.
  - I did not rephase profit due to the lack of transparency in the delivery mix meaning it was hard to make an assumption on this point
    - This has negligible impact (c.£2-3k / acre on residual value)

- For the RTS case I examined both the addition of half of the capital cost of Route 4 and also more broadly ascribing a realistic capital cost for the broader RTS scheme:
  - For the former, I modelled the capital cost of Route 4 over an 8 year period immediately following 2033 as starting the route any later would make it a meaningless addition (in reality this is conservative as it would most appropriately be modelled at least partially during the Plan period)
  - For the latter, based on input from Steve Johnstone of Lawrence Walker Limited (see consultation response / hearing statements), I increased the inadequate capital costs of the whole RTS system to a quantum of 3x the stated costs
    - This includes Route 4 where it is included in the modelling (the two amendments can be included separately or combined)

Discounted Cashflow

Finally, I also carried out a Discounted Cashflow analysis as suggested by the Inspector.

This is highly meaningful as it allows us to look through the complex and relatively unprecedented structure of buying land – in impractically neat parcels over time with landowners apparently patiently waiting for their money at a static price agreed many years earlier – in order to compare the net present value of the cashflows with prices to buy land today (i.e. in simple terms, "comparing apples with apples").

For a discounted cashflow one must here take the net cashflow available to purchase land. Master Developer profit must absolutely not be removed as it is effectively an operating cost for the site and indeed is modelled as such in this 'delivery blind' modelling. Assuming it is a quasi-equity item as Hyas have done is incorrect from a corporate finance perspective.

As with the other assumptions, I then sensitise the discount rate for a meaningful range.