

## **Wivenhoe Town Council - Matter 7 Hearing statement - Viability**

### **2. Is adequate provision made for the costs of infrastructure at the GCs in the 2019 Hyas VAU?**

It is very difficult to track between the various evidence base documents and check that they don't contradict each other. Or to ensure that the viability model includes all aspects of the infrastructure costs. However we do not believe all costs of infrastructure are covered. For instance the HRA mitigation measures to date, fall short of what is needed. Therefore can not have been fully costed in principle, but currently are not included at all in the viability model. Similarly the design detail for the RTS routes has not been finalised and so it is impossible to cost this adequately. Also the current cost included reflects the lower limit costs of the scheme. This will not deliver a credible transport solution on the ground. Other missing elements include the construction of a pipe line for waste water. In order to confirm what was, or wasn't included, a cross referencing of all the evidence base would be necessary. This has not been undertaken either by the NEAs, or us in our scrutiny.

Lastly, although not specific to infrastructure, the acquisition of land will be critical to viability. We do not think that a benchmark land value of 10k is realistic. Even if CPOs could be used over the time frames suggested, the land benchmark value would, at the very least, have to reflect a margin beyond the current existing use value.

### **3. Apart from housing delivery rates and infrastructure costs (to be discussed under Matters 5 & 6), a number of other changes have been made to the inputs to the 2019 Hyas VAU compared with the 2017 Hyas VA [EB/013], including:**

- a) land-use and development breakdown**
- b) infrastructure costs**
- c) build costs**
- d) specific inclusion of flats in the development mix**
- e) plot external costs**
- f) sales values**
- g) plot developer profit rate**
- h) contingencies**
- i) proportions of affordable rented and intermediate housing**
- j) use of inflation rates**

#### **Are those changes justified?**

In general the main emphasis of the changes appears to be a cost reduction exercise. We think the justification for this is that the interest payment costs that were omitted from the 2017 report have now been included. What overall affect this will have on the garden communities principles and quality of the settlement has yet to be measured.

(g) We do not believe it is commercially responsible of the NEAs to reduce plot external costs from 15% to 10%. If the incentives for developers are reduced, the logical consequence is that the quality of the build will be effected. This should not be so easily sacrificed at the concept stage of a project.

(h) It is of great concern, (and already highlighted in our previous submission) that the rates of contingencies do not reflect industry standards.

(I) The change in proportions of affordable rented and intermediate housing makes a large saving on 2017 figures. This brings the proposals below CBC own policy on rented affordable homes.

j): We do not think inflation rates should be used at all in the Hyas model. They produce wild results and distort meaningful evaluation of the project.<sup>[1]</sup><sub>SEP</sub>

#### **4. Are sufficient contingency allowances built into the 2019 Hyas VAU?**

No. Currently the Hyas models does not conform to industry standards on provision of contingencies. At this concept stage all infrastructure elements should have a min of 40% contingency. We note and support the comments from the CAUSE submission on contingencies. In particular the quote by their engineers.

*“GLEEDS state that their estimate is a preliminary budget estimate. CAUSE is advised that, in line with worldwide oil industry practice, the exclusion of most costs from the 40% contingency is inappropriate even if some costings are well known. Experienced project managers would only start splitting contingency or applying a lower global contingency at a much greater level of project definition than currently applies for the Garden Communities.”*

#### **5. Is 6%, as employed in the 2019 Hyas VAU, an appropriate rate for the cost of capital?**

No it is too low. Again we defer to CAUSEs consultation response.

#### **6. Accepting the assumption that land will be purchased two years before it is required for development, does the 2019 Hyas VAU correctly calculate interest on land purchase?**

We do not question the interest rates, but do question this strategy as being possible in the first place.

#### **7. Is the assumption that land will be purchased two years before it is required for development a sound one to make?**

It is reasonable to work on the premise that land transfers from master developer to plot developer can work in this way. However we do not believe this model for staggered land purchasing for the NEAs is realistic. Especially in the context of CPOs. The assumption that there will be a fixed land price over the length of the project is unsound.

#### **8. In the 2019 Hyas VAU Grant scenarios:**

##### **(a) Is the value of the HIF funding accurately reflected in the adjustments made to the infrastructure costs, compared with the Reference scenarios?**

No comment.

##### **(b) Is it safe to assume that the HIF funding will not have to be repaid to the government?**

The final terms of the agreement need to be made public. We would assume that because of the

link between houses and infrastructure there will be conditions to satisfy the grant. We would welcome clarification on this by the NEAs.

**(c) What are the implications for the 2019 Hyas VAU of the reference to “recovery and recycling” of the HIF funding in the *Business Case - HIF/FF/000365/BC/01 - Tendring Colchester Borders Garden Community [EXD/054]*, pp152-155?**

The significant line in this section of the HIF bid is. 'Given the status of the project it is not yet possible to establish a definitive recovery/recycling profile at this stage.' This backs up our view that currently there is not enough certainty that the recovery and recycling aspirations are achievable. Given the failure of the current Colchester park and ride scheme we do not believe recovery is possible via revenue. We do not see how it will be possible to extract contributions from the developer either. We would ask for clarification from the NEAs on this.

**9. Is CAUSE’s critique of the 2019 Hyas VAU Inflation scenarios valid? (Section 10.0, pages 22-25 of CAUSE’s *Consultation Response on EB086 Viability Assessment.*)**

Yes

**10. (a) Should the 2019 Hyas VAU have applied a benchmark land value to each of the GCs?**

Yes, also this should reflect a real world example of what is achievable.

**(b) If so, what should the benchmark land value(s) be?**

A minimum of 100k per acre.

**11. (a) Does any of the other viability appraisals submitted to the examination provide a more reliable assessment of the GCs’ viability than the 2019 Hyas VAU?**

Yes the CAUSE model.

**(b) If so, what are the key differences in the method(s) and inputs employed in that other appraisal which make it more reliable?**

We note here what would have to change in the NEAs model rather than what works in others:

The land acquisition model would need to be realistic, i.e either the land is all brought up front and the interest charges are included over the project lifetime. Or the price of the land goes up to reflect the onsite delivery of infrastructure and therefore the price land owners will expect to agree to later in the project. If CPOs are to be used a realistic amount would need to be included in the land prices for hope value.

All implications of state aid funding requirements would need to be included.

Remove inflation from the model.

Redo contingency calculations at 40% on all infrastructure. Additionally include missing costs from the rest of the evidence base. e.g – the off-site water supply. RTS detailed lane priority measures and related land acquisition.