

Viability Evidence on behalf of North Essex Garden Communities

Notes to accompany more detailed annual cashflows (October 2019)

Introduction

These notes have been prepared to accompany the worksheets that have been provided to the Planning Inspector examining the North Essex Authorities (NEA) Section 1 Local Plans. They provide additional information in relation to the detailed cashflows that have underpinned the Viability Evidence paper prepared by Avison Young on behalf of North Essex Garden Communities Ltd (NEGC).

As set out in the Avison Young paper, a bespoke financial model has been created that assesses all scheme costs against revenues. For the purposes of the NEA Local Plans, the model provides suitable and robust information to set out the viability position of the Garden Communities as part of the statutory plan making process. The model has been developed to enable it to ultimately set out the full financial and commercial analysis suitable for incorporation as part of a future Outline Business Case in accordance with HM Treasury guidance. It is important to note that work will be ongoing by the Councils to consider their role in scheme delivery and that such decisions will be considered and taken at future dates, to be accompanied by relevant information (including such financial modelling as a key part of future Outline Business Case/s) at the appropriate time.

Cashflow Model

Grant Thornton UK LLP (Grant Thornton) are providing advice on the funding strategy. Grant Thornton is a leading financial advisor in the property sector with extensive experience of advising on the funding and structuring of housing and infrastructure projects. Its specialist financial modelling team have developed a bespoke financial model (the Model) for NEGC to consider scheme viability and support the commercial and financial cases of the Outline Business Case.

The Model works on a monthly cash flow. However, for ease of reference we have provided summary annual cash flows. They comprise:

Infrastructure Costs

The 'Infra Costs' section of the cashflows set out the infrastructure costs for each garden community by subject area. These have been costed and cash flowed for each phase of each garden community. The approach has followed the infrastructure phasing and delivery work undertaken by AECOM and costing work by Gleeds as published by the NEAs.

The Model adds 10% professional fees on the total infrastructure cost and a 10% risk contingency.

Optimism Bias has been applied to the relevant costs at the upper limit for Standard Civil Engineering projects in line with Supplementary Green Book Guidance - Optimism Bias dated 21 April 2013, as outlined in the table at Appendix A of these notes. Where this is applied it includes the 10% risk contingency applied to all infrastructure costs.

The 'Summary' section of the cashflows then details:

Revenue – Serviced Land Sales

The value of serviced land sold, once infrastructure is completed.

This is an input to the Model as a value per year per phase per garden community.

Avison Young have prepared separate residual land value appraisals to establish the value of serviced land by property type and tenure. These calculations are set out in the original Avison Young paper, with the values applied to the areas of land for each use and tenure to become the revenue line in the cashflows. The residual land appraisals have been prepared based upon an industry standard approach using Argus Developer. The land area for each use accord with the NEA approach with the exception of the 500 unit appraisals where an alternative housing tenure mix is applied.

Revenue – Revenue from Retained Land

The value of short-term interim land uses, once land has been acquired but before infrastructure development starts, reflecting the phasing assumptions within the model.

An estimated net market rent for the commercial and agricultural property acquired has been assessed by Avison Young taking account of marketability, letting voids and management costs, and input as an annual income.

Opex

The operating costs for the delivery body (initial working assumption as a locally led development corporation) apportioned to each garden community. This starts in 2019 and includes pre-development costs such as masterplanning and CPO preparation and ongoing operational costs to the end of each development programme.

Pre-financing cash flow

This is utilised to calculate the pre-financing IRR and NPV.

Note if an IRR or NPV is calculated from the annual cash flow presented here it will differ slightly from those quoted in the original Avison Young paper as these are calculated from monthly cash flows within the Model.

The NPV in our submission is calculated using an annual discount rate of 3.5%.

Funding

This sets out the interest payable on each debt facility:

- Land loan: to finance land acquisition; interest rate of 2.5% pa; repaid on an annuity basis over 40 years.
- Opex loan: to finance the initial operating costs before the infrastructure loan is made available - interest rate of 5% pa. The Opex loan is refinanced by the infrastructure loan.
- Infrastructure loan: to finance infrastructure costs – interest rate of 3.5% pa; repaid on a cash available basis.
- Gap facility loan: to finance interest payments (and principal repayments on the land loan) when there is insufficient cash available in the period – interest rate of 4%; repaid on a cash available basis.

The cashflows by default retain a 'Commercial in confidence' classification. They should not be made publicly available without prior permission.

Appendix A: Approach to Optimism Bias

The following items have additional Optimism Bias applied at the following rates

	Optimism Bias (%)
Site 1 - West of Braintree	
New Water Plant to treat additional capacity onsite	44
Additional infrastructure to form an all-movement junction between the A120 and B1417 and associated widening of the bridge structure	44
Bus only eastbound off-slip and eastbound on-slips to above junction	44
The addition of a new signal control or roundabout junction providing direct access from the B1256 junction through to the site	44
Upgrades to improve safety and operation at the B1417 / B1256 and B1256 / Blake End junction to form a new roundabout or signal controlled junction	44
Utilise existing access arrangements from the A120 junction with the addition of a new on-slip	44
Contribution to provisions of off site RTS network (WoB6)	44
All-vehicle off-slip and associated junction improvement at Stebbing Green	44
The addition of a full junction upgrade connecting the main site access with the above upgrades to the A120/B1417 junction	44
Site 2 - Tendring Colchester Borders	
Interim highways improvements measures (including improvements to Greenstead roundabout and A133 Hare Green roundabout	44
Site 3 - Colchester Braintree Borders	
Additional bridges over railway line (2 vehicular & 3 pedestrian/cycle) (not explicit in MAS, now CBB2)	44
Marks Tey Station and junction package & Stane St reduction (PR1 & PR 2- in MAS, now CBB1)	44
Contribution to provisions of off site RTS network (CBB8)	44