



# North Essex Authorities (NEAs) Section One Shared Strategic Plan

## Matter 7: Viability

## Response to Further Hearing Statements

December 2019

## North Essex Authorities Response to Hearing Statements

### Matter 7 Viability

#### General Points

The Hearing Statement from Mr O’Connell references that the VAU analysis only presents “an ‘*upside*’ model without an adequate examination of a realistic range of viability scenarios and the implications of those scenarios” (page 3, paragraph 4). Mr O’Connell goes on to pose an overall question as to “*would these studies be suitable on a standalone basis for a finance provider to offer long-term, large-scale financing*”.

The VAU includes a number of scenarios, including higher rates of contingency, with or without grant funding, and with inflation. The NEAs do not consider that an overall ‘upside’ version of the figures has been assessed. Many assumptions have been identified within other Hearing Statements as being overly cautious. There are additional considerations which are not being debated which will influence viability both in a positive and negative way. There are potentially infinite combinations of assumptions and scenarios that could be modelled and a proportionate approach is required. It is not necessary to undertake financial modelling to satisfy the level of scrutiny required by potential funding partners. That is not a requirement of the planning process and has not been considered by any other Local Plan examination.

#### Response to Points Raised in relation to Questions

##### Q3 Are changes justified?

###### a) land-use and development breakdown

7.3a.1 The Hearing Statement from CAUSE refers to retail being “*ignored*” or now part of the mixed uses “*without justification*”. Retail is indeed part of the mixed-use category and has been adjusted to reflect a more appropriate scale of such uses. The values are illustrative at this stage and will be subject to ongoing review and reconsideration through further masterplanning and preparation of Development Plan Documents.

###### b) infrastructure costs

7.3b.1 The Hearing Statement from CAUSE refers to a number of detailed items as “*known missing items*” from the infrastructure costing work.

Items	NEA Response
Cost of HRA mitigation - £8.9m in total, £2.2m for CBB.	A tariff per unit of £122.30 is identified. This is adequately covered as part of an allowance of £500 per unit included in the VAU for “Environmental /Sustainability/Waste” measures.

Land acquisition costs - £12m per Savills for West Tey including 5% SDLT	The VAU includes an appropriate allowance for stamp duty, agents fees and legal fees.
Land for RTS outside Garden Communities.	Specific routes are not confirmed and are anticipated to make maximum use of land within highway boundaries. It is not possible to cost any third-party land requirements at this stage in the process
Cost of RTS route 4 - £37m – not included.	The VAU includes the costs of the specific route for each GC. Route 4 would need to be funded by other means.
Cost of GEML upgrades to deal with extra commuting	The VAU includes £25.8m to upgrade Marks Tey station and its environs to improve station capacity, facilities and connectivity.
LLDC / NEGC operating costs - £210m over the project period.	The VAU is delivery model blind and therefore costs purely related to an LLDC/NEGC are not appropriate.
Country park landscaping omitted – was £5m	The approach to costing open space has been updated in light of the Gleeds costings. These include suitable allowances for all types of open space provision. The detailed approach is to be determined through further masterplanning.

7.3b.2 CAUSE also refer to a number of items as “examples of understatement”:

Items	NEA Response
A120 contributions paid over 80 years	The working assumption is that repayment for this infrastructure would be on the basis of a ‘roof tariff’. The A120 may be fully public funded and not require any contributions.
Cost of RTS is at lower limit	Costs for each RTS route in the VAU are at the ‘higher investment scenario’ basis. The ranges set out in the RTS study (EB/079) relate to the level of risk added to the base cost. The VAU applies the same base cost, then applies additional rates of contingency on top (up to 40%). The 2 approaches are similar.
Cost of 13km sewage pipeline from CBB	Cost as advised and detailed by Gleeds.

The cost of HIF items CBB3, CBB4 and CBB5 should be budgeted consistently	There are alternative approaches to costings in the VAU and HIF bids. This was explained in the NEA Hearing Statement response to Question 8.
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### c) build costs

- 7.3c.1 The Hearing Statement from Savills on behalf of L&Q, Cirrus and G120 (at para 2.7) refers to the use of lower quartile build cost data from the BCIS being more appropriate than the median data as applied by the VAU as larger housebuilders would have economies of scale. The NEAs maintain that a range of housebuilders would be involved in construction and the use of median data provides extra robustness.

### j) use of inflation rates

- 7.3j.1 The Hearing Statement from Mr Waite refers to the application of inflation (at para 28) and states that *“there is nothing to suggest that net percentage returns will improve or deteriorate over time as a consequence of inflation. In any event we have not been given access to the underlying data in the Hyas report nor its methodology despite requests (from CAUSE) for same so it is not possible to verify its findings”*. The VAU includes data relating to inflation which shows how costs and values have changed over time. The assumptions adopted by the VAU for the inflation scenarios are clear in the main report. All the corresponding models under all scenarios are available for scrutiny. Hyas met with CAUSE to run through the modelling approach.
- 7.3j.2 The Hearing Statement from Mr Waite goes on (at para 30) to state that *“the effective cost of debt/capital is not commensurate with the current rate of inflation in the short term this cannot persist indefinitely and must inevitably move to equilibrium. In the longer term inflation per se does not create value”*. The NEA would point to the real data on sales value inflation as set out in the VAU Technical Appendices which show the strong growth in property values over several decades, whilst costs of debt/capital over the same period have fluctuated, with a current position of low cost for debt but ongoing sales value growth.

### Q5 Is 6%, as employed in the 2019 Hyas VAU, an appropriate rate for the cost of capital?

- 7.5.1 The Hearing Statement from Mr Waite refers (at para 37) to the role that Urban & Civic play in the delivery of large-scale schemes such as the GCs. Mr Waite indicates that Urban & Civic *“sees the optimum upside of any housing development of this nature to be around 5,000 homes”*. It is not clear on what basis this statement is made. Urban & Civic are delivering a number of schemes at and beyond this level such as Waterbeach (6,500 homes), Rugby Radio Station (6,000 homes), Calvert (5,000+). On the question of finance rates, Urban & Civic in their Full Year Reports to 30<sup>th</sup> September 2019 make reference to their overall gross borrowings of £179.1m, and the ‘all-in

cost of borrowing by lender' ranging from 3.3% to 5.4%, with an average of 3.8%. This illustrates that the lending market does provide funding at rates well within the allowance costed in the VAU.

**Q10 (a) Should the 2019 Hyas VAU have applied a benchmark land value to each of the GCs?**

- 7.10a.1 The representation of Andrew Martin Planning states (at para 1) that “the requirement to demonstrate that schemes produce a RLV that matches or exceeds a target BLV is a fundamental principal within both the NPPF 2012 and NPPF 2019”. A similar statement is made by Turley (on behalf of Parker Strategic Land that the “failure to apply an evidenced benchmark land value (‘BLV’) that reflects reasonable competitive and/or ‘minimum’ landowner expectations is inconsistent with the Government’s prescribed methodology for undertaking viability assessments in Plan-making”.
- 7.10a.3 The previous NPPF and Practice Guidance (applicable to this examination under the transitional arrangements) makes no reference to benchmark/ threshold land value. The 2019 NPPF makes no reference to threshold/benchmark land value. It does indicate that viability assessments should follow planning guidance. It is wrong to indicate that a definitive ‘*prescribed methodology*’ is in place that the VAU has not followed.
- 7.10a.4 The Hearing Statements from CAUSE, Mr O’Connell and Mr Waite refer to the approach to benchmark land value as set out in the consideration of viability for the Welborne scheme in Hampshire. The references are to a report<sup>1</sup> prepared by CBRE for Fareham Borough Council relating to the consideration of outline planning application for a new community for 6,000 homes. Viability testing of the Welborne site has been undertaken at various stages. The initial test of deliverability and viability was undertaken as part of the examination of the Core Strategy in 2010. At this stage very limited evidence was made publicly available on viability<sup>2</sup>, however the Inspector concluded that on balance there was sufficient evidence on overall deliverability, and the plan was found sound and adopted in 2011. Further viability and deliverability work was undertaken during the consideration of a site specific DPD, which was adopted in 2015. The CBRE report relates to the consideration of the site at planning application stage. The approach is similar to the VAU in adopting a masterdeveloper approach and comparing costs against values to identify residual land values.
- 7.10a.5 CBRE refer to the approach to land value and state “*BDL has assumed that the agricultural land will be included in the viability assessment at a fixed price of £100,000 per gross acre*”. Buckland Development Limited (BDL) are the masterdevelopers. An associated company of BDL (Welborne Land

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<sup>1</sup> <https://modern.gov.fareham.gov.uk/documents/s23065/Appendix%20B%20-%20Welborne%20Viability%20Review%20-%20Edited.pdf>

<sup>2</sup> [https://www.fareham.gov.uk/pdf/planning/new\\_community/viability10.pdf](https://www.fareham.gov.uk/pdf/planning/new_community/viability10.pdf)

Ltd) had acquired land within the scheme in 2017 to take majority control and enable a comprehensive planning application to be submitted.

- 7.10a.6 CBRE refer to the factors as set out in the current Planning Practice Guidance that should be considered when considering benchmark land value. In coming to a view, they then refer to greenfield land values that were referenced in previous Local Plan viability work<sup>3</sup> undertaken by Dixon Searle in 2017. The Dixon Searle Study did not consider or relate to the Welborne site. It was prepared to consider other smaller sites across the Borough as part of a review of the Local Plan. Notwithstanding its lack of relevance to the Welborne site, Dixon Searle did not provide any commentary on comparables or the suitability of the benchmarks they included, merely referring to them as being based upon their experience and previous work. CBRE go on to reference their 'significant experience' advising masterdevelopers and investors on bringing forward strategic sites. Whilst mentioning clients and sites, there is no review of the suitability or comparability of any benchmarks to the viability work they were undertaking for the Welborne scheme.
- 7.10a.7 The example of Welborne presents several difficulties in being treated as a suitable comparable. Clearly it is a different in scale and location. There is a longer planning history of viability assumptions being applied. Assumptions on benchmark land values appear to carry forward the view of site promoters on prices paid or general opinions, as opposed to what may be suitable or reasonable. Matters relating to benchmark land values have been applied at multiple stages through the process without adequate consideration of their suitability or the specific circumstances of the site (Welborne) being assessed, its infrastructure needs and policy requirements. The ultimate position as set out in the CBRE report is one where they advise that the site should only provide a capped contribution to strategic infrastructure and a lower than policy provision of affordable housing for the first phase. It is precisely this approach which the NEA are seeking to address by fully considering the infrastructure and policy needs of the proposals and then demonstrating 'competitive' land values that are properly reflective of the actual infrastructure and policy requirements.

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<sup>3</sup> [https://www.fareham.gov.uk/PDF/planning/local\\_plan/DraftLocalPlanEvidenceBase/EV25-LocalPlanViabilityAssessment.pdf](https://www.fareham.gov.uk/PDF/planning/local_plan/DraftLocalPlanEvidenceBase/EV25-LocalPlanViabilityAssessment.pdf)