LIGHTWOOD STRATEGIC: MATTER 7 HEARING STATEMENT

NORTH ESSEX AUTHORITIES
Shared Strategic (Section 1) Plan

FURTHER HEARING SESSIONS

Matter 7 (Viability). Wednesday 22 January 2020

Issues

a) Is there robust evidence to demonstrate that the proposed GCs are financially viable?

1) Lightwood Strategic note the Inspectors guidance in IED20 (paragraphs 12-13), that further written material will only be helpful if additional points are raised that were not covered in the representations on the NEAs technical consultation. Given the volume of material that the examination is having to process we understand the Inspectors desire for brevity and to avoid repetition.

2) **Questions 1 and 2** are of the NEAs in respect of the viability of West of Braintree Garden Community, assuming a smaller scale project and no development in Uttlesford.

3) There then follow **Questions 3-11** on various matters and we engage as follows.

4) Firstly, a general point on Colchester Braintree Border Garden Community at a scale of 21,000[1]. On the NEAs evidence, this is not viable, even without the tax payer bailing out the project scheme to prop up land values. That is why there is an as yet unsuccessful £229m HIF (Forward Funding) bid to enable a land value of £100,000 per acre (10% costs contingency). This funding is for the diversion of the A12. We are not convinced that this funding presents the entirety of the funding requirement. It does not appear to us that CBBGC can fully fund the RTS route back in to Colchester, let alone Route 4 to Braintree. Even if land value uplift can contribute that further funding, and indeed forward will be needed.

5) Putting the RTS aside, if the viability profile was to worsen following the examination process (we assume that Hyas have presented CBBGC in the best possible light to minimise the HIF bid) following the Inspectors assessment of Matter 4 (Build out Rates) and Question 3, 4 , 5 and 6 of Matter we don't see what difference this would make to the NEA's position. Given that a HIF bid has already been made for £229m, the NEA's response would be to simply revise the HIF bid with an addendum. If £229m then why not £250m or higher. Therefore, the headline conclusion today is that there is a huge

[1] We note that CBBGC is not viability tested at 15,000. Presumably is it not viable at this scale? If 15,000 is not viable (i.e. the revenue from 21,000 home is needed in the context of a £229m HIF bid), then then the relevant policies of the plan should not express the capacity of this location as a range.

hole in the viability profile (which is not the whole whole re the RTS) and this has not yet been plugged.

6) **Q4** relates to the contingency allowances. We accept that the degree of contingency relates to the uncertainty of the Infrastrure item item. We would not except all item to be subject to 40% contingency. The bigger ticket items should have higher contingency, with items such as primary schools at 10%. Other items are 'in between' e.g. utilities.

7) **Q7** asks whether he assumption that land will be efficiently purchased two years before it is required for development tis a sound one to make. Our first thought is to ask whether the current contracts enable the land to be sold in the tranches set out in the viability appraisals for each garden community? Do the contract sallow the land to be bought in tranches and are there minimum or maximum tranche sizes? Our second thought is to ask what the tax implications are for the landowners are and how this will affect the phasing of land purchase. If tax is payable on the whole estate even though monies are only being received for a selling a first tranches then the landowner may not be able retain any value from the first sales. It may all go toward paying tax. We would suppose that the landowner would require a payment structure that does not cause them difficulties.

8) **Q8a** asks whether the value of the HIF funding is accurately reflected in the in the adjustments made to the infrastructure costs, compared with the Reference scenarios? There does seems to be a significant mismatch between £229m for CBBGC and the induvial items listed and he NEA's need to explain why.

9) **Q8b** asks whether it is safe to assume that the HIF funding will not have to be repaid to the government and **Q8c**, asks, having specific regard to the Business case for the TCBGC HIF bid, of the implications of the reference to "*recovery and recycling".* No doubt the conditions of the funding for TCBGC are being discussed between Essex CC the NEAs and Homes England (and given the Inspector's agenda, this material to the examination). Lightwood's understanding of recovery and recycling is that there is an expectation that the funding be recovered over time via a roof tax, but that the monies will not be retuned to central government but spent locally on other projects that boost housing supply (presumably with Colchester Tendring re CTBGC). With the forward funding HIF bid being £99,000,000, full recovery would equate to £13,200 per plot (@£7,500 homes) but it is not known what degree of recovery is expected.

10) However, we can see from the Hyas VAU Grant scenarios that £99m in forward funding, if not recovered, would generate a residual land value of £210,504 (10% contingency) and £203,473 (20%) contingency. Figure 4.2 of the Hyas Report gives a total land area of 424 hectares for TCBGC (1,047 acres). If the landowners are getting £200,000 per gross acre with £99m from the taxpayer that is £210,000m in land value. We do not think that government will allow the landowners to walkaway with £210,000 per acre at the tax payers expense. If the £99m is paid back over time it will leave the landowners with £110m. That is £105,000 per acre. Do the landowners know this and how does it relate to the contracted minimum price? Is there currently a legal impediment to deliverability if the minimum price in the contracts does not square with the recovery of the HIF funding? Does the minimum price even square with £200,000 per acre. The landowners at West of Braintree might have something to say about their reference case (£136,509-£111,962 per acre at 10%-20% contingency) if the TCBGC

landowners we getting £200K thanks to the taxpayer, and this is not to be paid back. They too might require at least £200K an acre

11) The £229m of HIF funding for CBBGC, if awarded, would enable the landowners to receive £102,913 -£88,176 per acre at 10%-20% contingency. CBBGC is 1,179ha (2,890 acres). This gives a land value of up to £255m - £297m. There would appear to be less scope to recover funding here, whilst incentivising landowners. The CBBGC costs will increase due to RTS infrastructure requirements. What are the contracted minimum prices for CBBGC?

12) **Q9** relates to the Inflation scenarios and CAUSE's critique. We had thought that the Inspector had ruled against the inflation scenarios in June 2018. We will leave this question for CAUSE to address.

13) **Q10** relates to the use of benchmark value(s). The HIF bid for CBBGC is presumably pitched at £229m for a reason re the effect on residual land value, and one can deduce the benchmark implications.

14) **Q11** refers to the other viability appraisals that have been submitted. The NEA's do not rely on these. If they were to do so then a further 6-week technical consultation, and further hearings, may well be needed.