

Concept Statement Financial Viability Analysis

Local Development Framework Evidence Base

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Tipner, Port Solent & Horsea Island



LOCAL DEVELOPMENT FRAMEWORK

Tipner/ Port Solent & Horsea Island
Concept Statements

Concept Statement Financial Viability Analysis

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Abstract

The purpose of this study is to provide evidence of economic viability at a macro level to inform the production of the Local Development Framework (LDF) 'Portsmouth Plan', specifically the proposed strategic development allocations at Tipner and Port Solent/ Horsea Island. The study is based on a defined methodology and provides hypothetical outputs of viability based on a range of development scenarios. The study supports the separate concept statement evidence base.

The development scenarios reflect low, medium and high growth options which were all consulted on during the plan preparation process and therefore demonstrate a breadth of analysis. The purpose is to inform planning policy. The outputs should not be interpreted to reflect an actual development appraisal. In reality, land would be delivered in phases over different periods of time. The conclusions have therefore been informed by the broad scenarios tested and not by a specific development proposal. This is considered appropriate for the LDF stage of planning as required by PPS12 (Local Spatial Planning).

The concept masterplan included within the Portsmouth Plan, as justified by the concept statements, is viable based on:

- The delivery of 500 homes at Port Solent (without the need to fully fund a Bridge Link)
- The delivery of 480 homes at Tipner (without the need to fully fund an Interchange)
- The delivery of greater levels of development, including development at Horsea and further development at Tipner, provided that public/ external funding toward the Bridge Link and Interchange is provided.

The methodology is based only on a residential development appraisal, this being the predominant land use proposed. In reality, other land uses are also proposed which will have both a positive and negative effect on value. The methodology also assumes varied infrastructure burden, which for the purposes of ascertaining planning policy responses is based on the developments bearing the full cost of infrastructure provision. This provides a number of negative and unviable results from the scenarios tested. It highlights that the overall approach of the LDF should not be to assume that a greater quantum of development will achieve infrastructure delivery alone.

A series of recommendations are provided to aid planning policy making which are reflected in the Proposed Submission Portsmouth Plan and the concept statements for Tipner and Port Solent/ Horsea Island.

The overall result is that there can be demonstrable confidence that the proposed policies are both justified and effective in terms of the key PPS12 tests, and furthermore that there are scenarios which permit the viable and deliverable development of the proposed strategic development allocations.

1. Introduction

- 1.1 This report was commissioned by Portsmouth City Council (PCC) who instructed Savills to report on the economic implications of infrastructure and affordable housing requirements for the 'Portsmouth Plan' for two proposed strategic development allocations at Tipner and Port Solent/ Horsea Island. This work is required to assess the infrastructure delivery burden on development and ascertain to what degree the overall quantum of development is critical in achieving required infrastructure delivery.
- 1.2 The content of this report includes an economic cashflow analysis of the four Concept Statement 'options' consulted on in Summer 2010 (1 to 4). It also provides analysis of five further 'options' which represent lower growth scenarios based on the November 2010 to January 2011 consultation as part of a wider reassessment of housing delivery (A to E).
- 1.3 This report sets out the economic and delivery implications of the proposed Portsmouth Plan policies and Concept Statement infrastructure requirements, and in turn demonstrates that those policies are both effective and justified.
- 1.4 This report therefore forms further technical evidence on economic viability and infrastructure delivery and has been used by PCC to assist with the determination of a viable, feasible and deliverable level of development at Tipner and Port Solent/ Horsea Island. The purpose is to inform planning policy. The outputs should not be interpreted to reflect an actual development appraisal. In reality, land would be delivered in phases over different periods of time. The conclusions have therefore been informed by the broad scenarios tested and not by a specific development proposal. This is considered appropriate for the LDF stage of planning.
- 1.5 The assessment of economic viability can only be based on either known costs of infrastructure, or an infrastructure budget. In doing this, some assumptions have had to be made on further abnormal costs; it is considered that these represent a 'worst case' scenario. The infrastructure burden tested is outlined in Appendix B.
- 1.6 During the consultation period on the options in Summer 2010 a number of representations were received from the public, statutory consultees and the landowners of the proposed strategic allocations. Owing to the comments received, the viability exercise has tested a number of permutations, including;
 - A varied distribution of infrastructure. For example, in one scenario no bridge provision without development at Horsea, and no expectation (in the modelling) that development at Tipner would contribute to a new bridge.
 - At all locations a lower level and density of development, resulting in dwelling mixes at Tipner and Horsea which reflect a greater proportion of housing (rather than flats).
 - 40% + 3 bed properties (either flats or houses).
 - The land previously considered as the potential location for Portsmouth Football Club at Horsea has been included as a potential development area.
- 1.7 No detailed information on wider abnormal infrastructure costs was provided in the consultation responses and therefore, as outlined in paragraph 1.5, reasonable assumptions have been made.
- 1.8 It is considered that there are two major factors to enable delivery in difficult economic conditions or circumstances where the unknown abnormal costs are higher than the assumptions made. Firstly, the level of affordable housing provided (in terms of quantum and type/ tenure) and secondly the level of public subsidy/ Community Infrastructure Levy (CIL) provided for major infrastructure. This report assesses whether a greater level of development can further assist, or whether this factor is relatively less significant.

2. Methodology

- 2.1 The development periods for the two proposed strategic development allocations are considered for the purposes of this assessment to be between 2013 and 2023 (10 years). It is therefore important to ensure that any assessment of general viability of the two strategic sites uses a cash flow model that takes into account the anticipated timing implications of costs and values, and the projected sales rates in a range of housing supply scenarios. It is important to note that the development period could extend to 2027 which may have further implications for viability. This is discussed in the conclusion.
- 2.2 The model takes into account the need to phase development over a long period thereby ensuring that finance over the development period is adequately accounted for.
- 2.3 The specific methods and assumptions are set out in this Section. The outputs from viability assessment correspond to the methodology; for ease of reference each input has been defined 1 to 8 as follows:

- (1) Scenarios Tested**
- (2) Revenue:** Other Land Uses/ Dwelling Mix/ Market Revenue
- (3-6) Costs:** Build Cost/ Infrastructure Costs/ Finance/ Other Costs/ Profit
- (7-8) Outputs:** Assessment of Viability – Profit/ Land Value

- 2.4 In summary:

- The appraisal has a range of fixed assumptions as listed in the methodology
- The scenarios and infrastructure costs (Appendix B1-B4) are the core variables
- The appraisal is based on residential development only
- The appraisal assumes that the total infrastructure burden (applicable for the relevant scenarios run) is funded by the development

Proposed Development Scenarios (1)

- 2.5 In determining the outcomes a total of nine overarching scenarios were tested over the two proposed strategic development allocations. Owing to location, land ownership, infrastructure burden and differing phasing assumptions the model has been split by proposed strategic allocation (Tipner and Port Solent/ Horsea Island). The nine overarching scenarios tested were:

Option 1: Port Solent (1,200 units), Horsea (800 units) and Tipner (1,600 units) = 3,600 dwellings
Option 2: Port Solent (1,000 units), Horsea (800 units) and Tipner (1,500 units) = 3,300 dwellings
Option 3: Port Solent (1,800 units), Horsea (zero units) and Tipner (1,500 units) = 3,300 dwellings
Option 4: Port Solent (750 units), Horsea (1,600 units) and Tipner (1,250 units) = 3,600 dwellings
Option A: Port Solent (200 units), Horsea (zero units) and Tipner (550 units) = 750 dwellings
Option B: Port Solent (500 units), Horsea (zero units) and Tipner (1,000 units) = 1,500 dwellings
Option C: Port Solent (500 units), Horsea (zero units) and Tipner (1,250 units) = 1,750 dwellings
Option D: Port Solent (750 units), Horsea (800 units) and Tipner (1,250 units) = 2,800 dwellings
Option E: Port Solent (500 units), Horsea (500 units) and Tipner (850 units) = 1,850 dwellings

- 2.6 Options 1 to 4 represent high growth scenarios and were consulted on in Summer 2010 as part of the Core Strategy preparation process. Options A – E are further options tested following the further Housing Options consultation (Winter 2010/11); these cover low to medium growth scenarios.
- 2.7 Details of the housing mix and infrastructure costs are outlined in Appendices A & B.
- 2.8 PCC is not bound by the suggested infrastructure costs for each strategic site. The scenarios have been developed for evidence base purposes only and will be used to inform the onward policy for infrastructure contributions.

Revenue: Other Land Uses (2)

- 2.9 It has been assumed that residential land is the sole use of the strategic sites that generates an income for the purposes of assessing viability. It is appreciated that other land uses may have both a negative and a positive influence on development economics, although it is likely that over the long term this will be positive and will enhance the viable position, for example land sold for retail uses within the proposed local centres.
- 2.10 No allowance has been made for the value, or the cost, of the proposed park and ride at Tipner, i.e. it has been considered as 'neutral' for the purposes of the assessment.

Dwelling Mix (2)

- 2.11 A varied mix of dwellings has been used to inform the scenario outputs as outlined in Appendix A. As a minimum 40% 3 bed plus dwellings (flats or houses) has been factored in. The density and number of dwellings of each scenario has had an effect on the mix of houses relative to flats.

Market Revenue (2)

- 2.12 The most significant element of revenue for a residential development will be generated from the private housing units. The house prices have been calculated through considering comparable evidence within Portsmouth and 'sense-checked' against the Land Registry house price index for Portsmouth. Please note that the suggested pricing does not constitute formal valuation advice and should not be relied upon as such. Values are given for indicative purposes only and are given purely as guidance.
- 2.13 Further to this a projection in the modelling of a market recovery in line with Savills 2011 projections of circa 25% on today's prices by 2015 has been inputted to generate a second outcome for each scenario. The table outlines:

Forecasts	2010	2011	2012	2013	2014	2015	2011-2015 inclusive
South East	2.5%	-1.5%	5.0%	7.0%	7.0%	6.0%	25.5%

Savills, Residential Property Focus, Q1 2011

- 2.14 Additional revenue is generated by the capitalisation of ground rents for the flat units.

Affordable Housing Revenue (2)

- 2.15 The baseline affordable housing mix is split 70% Social Rented and 30% Intermediate Rented to comply with existing planning policy. In order to establish a baseline position it is assumed that there is no public subsidy input from the HCA or other source. This is in line with current market conditions. The availability of public subsidy would improve the viability of the proposed development.
- 2.16 Savills specialist Housing Consultancy team has made an assessment of the value of the affordable housing from a Registered Provider's (RP) perspective. This calculates the potential offer price from an RP to a developer having regard to the net rent from the affordable housing units and also having regard to how this net rent supports their longer term business plan. We have calculated the amount an RP could pay on the basis that the interest on the residual debt is covered by the net rent at year 1. We have not made an allowance for grant subsidy in our calculations.

2.17 The calculation of the net rent is as follows:

General Needs/ Social Rent

2.18 Rental levels are calculated as Target Rents in line with Housing Corporation Rent Restructuring advice and on the basis of January 1999 Market Values (subject to Vacant Possession). The following deductions have been made to the gross weekly rent:

Rent Deductions	Assumptions
Voids and Bad Debts	2.0%
Maintenance Per Unit (pa)	£450
Management Per Unit (pa)	£455

Shared Ownership

2.19 The shared ownership stock rent is calculated at 2.75% of the unsold equity.

2.20 We have illustrated below our calculation of a one bedroom flat for both a social rented and shared ownership property. The final affordable housing value is that which has been inputted to the scenario testing as revenue.

			1 bed apartment	1 bed apartment
			Social Rented	Shared Ownership
Offer	Land	£950 psm	£ -8,881	£ 34,023
	Build		£ 57,000	£ 57,000
	Scheme Cost		£ 48,119	£ 91,023
less grant			£ -	£ -
less initial equity sale				£ 58,126
Add On Cost		7%	£ 48,119	£ 32,897
Residual Loan			£ 3,990	£ 3,990
			£ 52,109	£ 36,887
Net rent			£ 3,387	£ 2,398
Interest		6.50%	£ 3,387	£ 2,398
Loan Cover required yr 1			£ 0	£ 0
Affordable Housing Value Therefore			£ 48,000	£ 91,000
£/sq m*			£ 1,066.66	£ 2,022.22
£/sq ft*			£ 99.10	£ 187.87

* - Assumes an average 1 bedroom apartment unit size of 45 sq m (484.38 sq ft)

Costs: Build Costs (3)

2.21 The RICS Build Cost Information Service (BCIS) data for Portsmouth has been used to generate basic build costs per square foot. It has been assumed that flats are developed at 80% gross to net occupiable floor space (i.e. excluding common parts). Overall the BCIS data equates to a build cost of £110 per square foot (£1,184 per square metre). A build cost contingency of 5% has been adopted within the appraisals in order to demonstrate that reasonable contingency has been factored in.

2.22 As a base assumption the additional construction costs arising from the Code for Sustainable Homes (CfSH) has been based on achieving Code Level 4 on the commencement of construction. No increase on this has been factored as it has been assumed that Code Level 6 can be achieved for the same construction costs based on the predicted cost reductions owing to technology and demand advancements. A Combined Heat and Power (CHP) plant has been factored in for development at Tipner; this is included as a cost as outlined in Appendix B.

Infrastructure Costs and Planning Gain (4)

2.23 Infrastructure cost assumptions vary by strategic allocation and scenario. Five permutations of infrastructure burden have been tested:

- Tipner £58.5m (Appendix B1)
- Port Solent/ Horsea Island with bridge (development at Horsea) £60.5m (Appendix B2)
- Port Solent/ Horsea Island without bridge (Option A only) £10.5m (Appendix B3)
- Port Solent/ Horsea Island with bridge but without MoD relocation (Option E only) £35.5m (Appendix B4)
- Port Solent only (without MoD relocation) £35.5m (Appendix B4)

2.24 The tables in Appendix B outline the cost assumptions and broad triggers of infrastructure phasing. The payments for infrastructure have been spread evenly within the infrastructure implementation period. For the off-site measures such as the bridge or interchange the period for payment has been spread throughout the build phase. In reality these measures would be delivered by PCC, potentially using frontloaded funding such as Tax Incremental Funding (TiF). To expect full provision of funding without assistance early in the build phase would be unrealistic.

2.25 To test the viability it has been assumed that the development above fully funds the required infrastructure. It is considered that in reality this may not be feasible, however the results assist in providing an indication of a likely viable level of contribution.

2.26 Planning gain (Section 106/278) is based on an assumption for off-site financial contributions towards education and public open space, based on the present SPD on Infrastructure Contributions. In reality, the public open space contribution would reduce should sufficient space be provided on-site. No transport contributions have been factored owing to the wider infrastructure burden. A nominal £500,000 contribution towards healthcare improvements has also been factored for each scenario.

Finance (5)

2.27 There is an allowance for the cost of finance at an annual rate of 7.0% which is capitalised quarterly within the appraisals.

Other Costs (6)

2.28 An allowance is made for professional fees at 8% of build cost.

2.29 Agents fees of 2% have been allowed for on the sale of open market units. A legal fee of 0.4% has been allowed for on the sale of both open market and affordable units. Additionally, 1.5% of the Gross Development Value for the private dwellings has been allocated for the marketing of the units.

Profit (7)

2.30 An allowance is made for a developer profit of 17.5% of Gross Development Value for the private housing and at 6% for the affordable housing element.

General: Development Phasing and Delivery

- 2.31 This is fixed for each strategic site (2013 – 2023) irrespective of the scenario and is outlined in the outputs.
- 2.32 As outlined the phasing of infrastructure payments varies by infrastructure measure (see paragraph 2.23 and Appendix B).

Land Purchase

- 2.33 Development viability is sensitive to the timing of land transactions. Whilst the overall land ownership of the proposed strategic allocations is known, the precise combination of land which will come forward (and timing) is not known. An assumption has therefore been made in the modelling which is based on land purchase being spread throughout the length of the development period for each strategic site with the land value based upon the overall discounted cash flow.
- 2.34 While this may not be a realistic assumption for individual land control within each strategic site, it does allow PCC to make consistent assumptions between the strategic allocations based on the available information.
- 2.35 It is also understood that a large proportion of the land is already within the ownership of the promoters which will have a positive influence on the viability of the sites coming forward especially where land assembly for later phases can be delayed.

Reaching the Outputs: Assessment of Viability (7 & 8)

- 2.36 As outlined it is assumed that the residential development bears the cost of the infrastructure (outlined in Appendix B) for the purposes of our assessment. Other land uses to residential have been treated as neutral for the purposes of viability.
- 2.37 Two core outcomes have been derived:
- 2.38 Firstly, **profit against GDV (7)** is set within the model as a percentage, which produces an absolute figure as an output.
- 2.39 Secondly, the **actual land value (8)** that is generated after taking into account infrastructure costs is also tested. It is considered that in order to be viable, a significant positive land value in excess of the existing use value is required. An assumption of this is not made as the outcomes speak for themselves.

3. Outcomes

- 3.1 The assessment must be seen firstly as a snapshot assessment based upon costs and values at today's prices and secondly an assumed assessment based on a value uplift by 2015.
- 3.2 The impact on residential development only has been assessed and has treated other uses (commercial or retail for example) as having no impact on the viability of the site coming forward. The results are therefore indicative based on the current assumptions only and give a general view about each strategic allocation's viability.
- 3.3 The following analysis shows the individual strategic site results in the format of an annual cashflow and resultant land value.

Tipner proposed strategic site

- 3.4 Based on today's values the results show that all of the scenarios produce a negative land value taking into account the identified infrastructure and planning costs (Appendix B). The infrastructure burden together with the costs of providing affordable housing renders the scheme unviable.

At today's prices (Q4 2010)

30% Affordable Housing (70% of which is social rented)

Scenario (Tipner) (1)	GDV (£000s) (2)	Build Cost (£000s) (3)	Infrastructure (£000s) (4)	Finance (£000s) (5)	Other Costs (£000s) (6)	Profit (£000s) (7)	Land Value (£000s) (8)
1 1,600 homes	£265,915	£183,875	£67,900	£24,139	£29,043	£41,708	-£80,583
2 1,500 homes	£249,295	£166,789	£67,400	£23,186	£27,080	£39,100	-£74,103
3 1,500 homes	£249,295	£166,789	£67,400	£23,186	£27,080	£39,100	-£74,103
4 1,250 homes	£215,306	£140,933	£66,700	£22,992	£23,812	£33,751	-£72,745
A 550 Homes	£94,735	£62,011	£62,400	£24,864	£13,121	£14,850	-£82,452
B 1,000 homes	£172,245	£112,747	£65,100	£23,655	£19,989	£27,000	-£76,136
C / D 1,250 homes	£215,306	£140,933	£66,700	£22,992	£23,812	£33,751	-£72,745
E 850 homes	£146,408	£95,835	£64,200	£24,058	£17,700	£22,950	-£78,242

All figures are indicative and based on the time of reporting and therefore are subject to change. Full detail is outlined in Appendix C

Appendix B1 outlines infrastructure package for all scenarios tested for Tipner

With growth of 25% on today's prices (predicted 2015)

Scenario (1)	GDV (£000s) (2)	Land Value (£000s) (8)	Viable?
1	£332,518	-£16,219	No
2	£311,735	-£13,762	No
3	£311,735	-£13,762	No
4	£269,253	-£20,616	No
A	£118,471	-£59,515	No
B	£215,403	-£34,433	No
C / D	£269,253	-£20,616	No
E	£183,092	-£42,794	No

All figures are indicative and based on the time of reporting and therefore are subject to change

- 3.5 Regrettably, even when house price growth of 25% is applied to the private residential property, the residual land value remains negative. In order to seek a viable solution the appraisals were re-run based on the Interchange being provided at no cost to the development. The results were as follows:

With growth of 25% on today's prices (predicted 2015) and no cost associated with motorway junction provision.

Scenario (1)	GDV (£000s) (2)	Land Value (£000s) (8)	Viable?
1	£332,518	£23,074	Yes
2	£311,735	£25,530	Yes
3	£311,735	£25,530	Yes
4	£269,253	£18,676	Yes
A	£118,471	-£20,223	No
B	£215,403	£4,859	Yes
C / D	£269,253	£18,676	Yes
E	£183,092	-£3,502	Marginal

All figures are indicative and based on the time of reporting and therefore are subject to change

- 3.6 The £25,000,000 saving resulting from the removal of the cost associated with the Interchange results in all but two of the options becoming viable. The result from Scenario E demonstrates that development at Tipner needs to exceed 850 dwellings to enable a viable solution.
- 3.7 The appraisal remains subject to the infrastructure cost assumptions of Appendix B, notably land remediation and flood defence.

Port Solent/ Horsea Island

- 3.8 Based on today's values the results below show that all of the scenarios produce a negative land value taking into account the identified infrastructure and planning costs. The infrastructure burden, together with the cost of providing affordable housing renders the schemes unviable.
- 3.9 Based on values in 2015 the situation for Options 1-4 is more positive with substantial positive land values being produced.

At today's prices (Q4 2010)

30% Affordable Housing (70% of which is social rented)

Scenario (PS/ HI) (1)	GDV (£000s) (2)	Build Cost (£000s) (3)	Infrastructure (£000s) (4)	Finance (£000s) (5)	Other Costs (£000s) (6)	Profit (£000s) (7)	Land Value (£000s) (8)
1 2,000 homes	£344,418	£222,292	£72,200 App. B2	£17,235	£35,135	£54,172	-£56,404
2 1,800 homes	£309,432	£200,380	£71,200 App. B2	£17,107	£32,123	£48,658	-£59,844
3 1,800 homes	£314,872	£197,209	£45,500 App. B4	£12,768	£30,031	£49,628	-£20,073
4 2,350 homes	£400,202	£263,808	£74,800 App. B2	£16,405	£40,510	£62,853	-£57,924
A 200 Homes	£34,986	£21,912	£12,000 App. B3	£4,606	£3,892	£5,514	-£12,918
B 500 homes	£87,464	£54,780	£38,600 App. B3	£11,899	£10,419	£13,786	-£41,966
C 500 homes	£87,464	£54,780	£38,600 App. B3	£11,899	£10,419	£13,786	-£41,966
D 1,550 homes	£265,700	£172,989	£69,900 App B3.	£16,942	£28,353	£41,765	-£64,086
E 1,000 homes	£171,529	£111,542	£41,700 App B4	£11,567	£18,020	£26,965	-£38,159

All figures are indicative and based on the time of reporting and therefore are subject to change

Full detail is outlined in Appendix C

Appendix B2-B4 outlines infrastructure package for all scenarios tested for PS & HI

With growth of 25% on today's prices (predicted 2015)

Scenario (1)	GDV (£000s) (2)	Land Value (£000s) (8)	Viable?
1	£434,533	£24,602	Yes
2	£390,256	£12,747	Yes
3	£398,490	£55,660	Yes
4	£503,783	£34,666	Yes
A	£44,277	-£4,503	No
B	£110,692	-£20,929	No
C	£110,692	-£20,929	No
D	£334,910	-£2,013	Marginal
E	£216,237	£1,951	Yes

All figures are indicative and based on the time of reporting and therefore are subject to change

- 3.10 In order to test the impact of the provision of the proposed bridge the appraisals were re-run with no associated cost to the development. The results are thus:

With growth of 25% on today's prices (predicted 2015) and no cost associated with bridge provision.

Scenario (1)	GDV (£000s) (2)	Land Value (£000s) (8)	Viable?
1	£434,533	£59,694	Yes
2	£390,256	£46,838	Yes
3	£398,490	£89,751	Yes
4	£503,783	£68,757	Yes
A		Not Applicable – Option does not contain bridge	
B	£110,692	£13,162	Yes
C	£110,692	£13,162	Yes
D	£334,910	£32,078	Yes
E	£216,237	£36,043	Yes

All figures are indicative and based on the time of reporting and therefore are subject to change

4. Recommendations and Conclusions

- 4.1 The majority of the scenarios tested produce an unviable result. The situation improves with the predicted market recovery to 2015. Clearly however, the infrastructure burden, particularly that which includes the major costs of either the Bridge Link or Interchange (£25m each) is causing major viability concerns. This is exacerbated by the current lack of grant available for the provision of social housing.
- 4.2 A viable scheme, based on a market recovery to 2015, can be provided at **Tipner**, but only if the £25m Interchange can be paid for outside of the budget for delivery of the scheme. This helps to justify the application for public sector funding/ Major Scheme Business Case submitted for the Interchange.
- 4.3 Viability at **Port Solent/ Horsea** will also be greatly assisted by taking the £25m cost of the Bridge Link out of the budget. A separate Bridge Feasibility Study has been prepared that addresses the range of potential delivery options for the Bridge.
- 4.4 The concept masterplan included within the Portsmouth Plan as justified by the concept statements is viable based on:
- The delivery of 500 homes at Port Solent (without the need to fully fund a Bridge Link)
 - The delivery of 480 homes at Tipner (without the need to fully fund an Interchange)
 - The delivery of greater levels of development, including development at Horsea and further development at Tipner, provided that public/ external funding toward the Bridge Link and Interchange is provided.
- 4.5 To deliver the two strategic sites to achieve greater development (scenario options 1-4), as consulted during plan preparation, will still require a degree of public subsidy for infrastructure. Therefore, the level of acceptable development in planning terms will require significant infrastructure which this exercise has shown is unlikely to be delivered by the value of development in isolation.
- 4.6 A core recommendation is therefore that site viability alone should not be the sole (or main) driver to justify an increased quantum of development. However, there are scenarios at Port Solent/ Horsea (with market recovery) that are viable based on higher levels of development, and as such, an opportunity to realise wider funding potential here could be taken.
- 4.7 Based on the methodology and parameters of the study it is considered that a viable level of £ per dwelling infrastructure contribution could be reached, but only with external funding subsidising this contribution. This will require sensitivity testing and refinement to reflect the affordable element, and market/ bank lending willingness to factor a Section 106 burden to such a level. This would be defined in a separate study.
- 4.8 It is considered that a key recommendation will be for the outputs of this study to inform any future Community Infrastructure Levy (CIL) Charging Schedule.

Potential Initiatives to assist with Viability

- 4.9 There are a range of broad initiatives which may assist with improving viability, for example:
- In reality the development would be phased with varied development periods that extend beyond the 10 year period of this assessment.
 - Lower level of affordable housing and/or greater levels of grant subsidy and/or alternatively amending the tenure split from the standard 70:30, possibility utilising the proposed discount market rent tenure (80% of market rent).
 - Part public provision of Tipner junction and other major infrastructure and phasing of infrastructure payments.
 - The pursuit of a Major Scheme Business Case (MSBC) for the Bridge Link to justify public funding/ potential tolling of the bridge to generate revenue.

- Assuming the proposed Combined Heat and Power Plant at Tipner as cost neutral (as it may become revenue generating perhaps through the establishment of a local energy company or via feed-in tariff)
- A lower level of developer profit (assumed to be 17.5% on GDV at present, which usually provides a profit on cost in excess of 20%) may be plausible via the certainty created of public sector investment/ delivery vehicle. The use of Local Asset Based Vehicles (LABV) for public sector land may permit assumptions of zero land value to enable delivery.
- Higher quality design/ public realm and hence higher overall value generation.
- Lower infrastructure costs, for example the MoD relocation, which could be reduced in scope, or the option of retaining operations in-situ with new development focused to the east.
- Adjusting the development quantum at Port Solent to encourage higher value properties to generate greater infrastructure revenue, for example townhouses.
- Proportionate allocation of employment uses, and other uses such as park and ride (Tipner) which may have positive implications for value and viability.
- Ensuring that open space is provided on-site to remove any off-site contribution.

4.10 In planning policy terms it is recommended that flexibility is added, notably:

General

- A recognition that the level of planned development at the strategic sites should be based on technical planning and sustainability evidence, and not solely viability in terms of a 'critical mass' required to fully fund infrastructure.
- A more flexible approach to agreeing contributions via CIL and/or Section 106 Agreements, with the likelihood of longer repayment clauses for unspent funds.
- The phasing of infrastructure and housing relative to infrastructure delivery and trigger of payments. This may entail upfront borrowing to enable infrastructure delivery and then subsequent 'claw back' of payments.
- The level of affordable housing (quantum, type and tenure), which for the strategic sites could be based on a ceiling and floor, around the 30% average, with a cascade (upward and downward) to respond to changing economic circumstances. An upward cascade would be justified where an initial lower level has been provided by phase.
- An approach that permits phased applications and 'pooling' (or other form of co-ordination) of contributions, based on the whole cumulative impact of the wider site allocation/ masterplan.
- Policy approaches which achieve added value through robust design, sustainability and public realm requirements.

Tipner

- Opportunity to base the quantum of development on a deliverable mix, and furthermore to locate a mix of uses complementary to residential, for example employment, a local centre (with retail) and park and ride.
- A need to phase development to be accessed from Twyford Avenue prior to the funding being secured for the Interchange.

Port Solent / Horsea

- A need to plan the strategic development allocation comprehensively to maximise the value generated and realise the potential to open a new access from the south (via the Bridge link).
- Further complementary development to the Boardwalk in order to maintain the value created by the marina environment.
- A need to phase development to be accessed from Port Way prior to the funding being secured for the Bridge.
- An appropriate and viable mix of development, for example townhouses including four bedrooms. Opportunity for a lower level of on-site affordable housing to generate value and off-site subsidy to enable the delivery of homes elsewhere.
- Reduced scope and extent of MoD relocation to reduce costs.

4.11 As outlined, it is also recommended that PCC explores the option to pursue Community Infrastructure Levy (CIL), which may potentially generate sufficient sums based on

infrastructure delivery across Portsmouth. This could make up the shortfalls in infrastructure funding.

Shortfall in Funding and Other Infrastructure Delivery Funding Sources

- 4.12 There are a number of opportunities for further public money to increase the likelihood of infrastructure delivery. Brief commentary is provided under each potential option of the further public funding sources available.
- 4.13 Broadly there are a number of sources of funding for major infrastructure including (and not restricted to):
- Developer Funding (CIL/ Section 106)
 - Public Subsidy or Loan (Local, Regional, National) including Local Asset Based Vehicles (LABV) / Tax Incremental Funding (TIF)
- 4.14 PCC is currently seeking regional growth funding, and has also submitted TIF bids for City Centre projects, Dunsbury Hill (land in Havant) and the Tipner Interchange.



Developer Funding: Community Infrastructure Levy (CIL)

- 4.15 The enabling legislation for the CIL came into operation in April 2010. The CIL aims to introduce a fairer, more transparent and more certain system of capturing developer contributions. At the heart of a CIL is a charging schedule setting out the mandatory levy for each type of development based on a rate per square metre or 'metric'.
- 4.16 A CIL is aimed to supplement public funding in line with a local authority's Development Plan. To introduce a CIL the following will need to be in place:
- An emerging Core Strategy
 - An evidence base demonstrating the cost of infrastructure needed to support development
 - An understanding of the viability implications of a CIL on development within the area
- 4.17 It is possible that the introduction of a CIL could part contribute to the cost of funding for major infrastructure, but it is likely that this contribution would only meet a proportion of the overall cost involved, given the need to ensure viability of the sites concerned.

- 4.18 A recent announcement from the Government confirmed that the principle of CIL will remain, subject to amendments to the regulations due 1 April 2011.
- 4.19 The CIL Regulations restrict the use of Section 106, notably from 1 April 2014, where the use of 'pooled contributions' (from more than five developments) will cease. Given the timescales of implementation, and owing to this it is advised that the City Council strongly considers the use of CIL to enable fair and reasonable contributions from all new development in the city to assist with the funding of the interchange/ bridge, which in a sub regional sense will have wider strategic benefits (notably for access to the city centre).

Section 106 Contributions

- 4.20 Section 106 contributions could be sought on a site by site basis, although this is likely to be less transparent and open. Given the need to improve the accessibility of all of the sites along the western corridor through a step change in public transport provision, to attempt to apportion a strategic element of infrastructure such as the new bridge would require a site by site approach.
- 4.21 Any Section 106 contribution needs to meet the five tests as set out within Circular 05/2005 and also CIL Regulation 122, notably that a planning obligation may only constitute a reason for granting planning permission if the obligation is:
- a. *necessary to make the development acceptable in planning terms;*
 - b. *directly related to the development; and*
 - c. *fairly and reasonably related to the scale and kind to the development*

Public Subsidy: Central Government Funding – Major Scheme Business Case

- 4.22 A Major Scheme Business Case has been submitted as part of the application process to achieve public funding towards the proposed Tipner Interchange. A further announcement from Government is expected in 2011 as to the prioritisation of Central Government funding toward the infrastructure.

Local Funding including Public Loans

- 4.23 There are also existing opportunities for Local Funding, for example from the wider transport budget, Local Transport Plan 3, revenue streams from either land sale, or revenues from park and ride. A detailed Business Case for identified projects will assist with realising greater confidence on funding opportunities.
- 4.24 Consideration should also be provided for a public loan (under the Local Government Act 2003) to frontload infrastructure funding to enable delivery. Subsequent CIL or Section 106 payments could then be used as part of a 'claw back' of funds as part payment toward infrastructure delivery.

The 'Local Growth' White Paper/ Tax Increment Funding/ LABV

- 4.25 The White Paper was published in November 2010 and outlines the Government priorities on stimulating Local Economic Growth, notably through the creation of Local Enterprise Partnerships (LEPs). Reforms to the planning process as well as various funding regimes are also proposed.
- 4.26 The Government proposals include financial incentives for local authorities to secure delivery of development. This will be in the form of a 'New Homes Bonus' scheme (from 2011/12) and measures for 'Business Increase Bonus' or for local supplementary business rates.
- 4.27 All parts of England will be eligible to claim from the £1.4 billion Regional Growth Fund which will be focussed on the less prosperous areas. The first bidding round closes at an early date (21 January 2011). The concept on Tax Increment Funding (TIF) is also outlined, which will require new legislation due by 2012.

- 4.28 There may also be scope for Local Asset Based Vehicles (LABV) to fund infrastructure delivery which could for example arise from the release of MoD land at Horsea.
- 4.29 The exact format of the proposed reforms will be confirmed over the next 12 months.

This report has been commissioned by PCC and undertaken by Savills. It is accurate to the best of our knowledge and professional understanding based on the parameters of the methodology and brief:

.....
Colin Wilkins MRICS
Director of Development, Savills

.....
Peter Frankum MA (ud) BA (Hons) Dip TP MRTPI
Director of Planning & Regeneration, Savills

February 2011

APPENDIX A

Infrastructure, Planning Gain and Mix of Dwelling assumptions made for each Scenario tested

Scenario	Infrastructure Package (see separate tables)	Dwelling Mix	S.106 Assumption (Based on PCC Calculator) *
Tipner			
Option 1	Tipner Appendix B1	15% 1 bed flat, 25% 2 bed flat, 20% 2 bed house, 15% 3 bed flat, 20% 3 bed house and 5% 4 bed house.	£9.4m
Option 2	Tipner Appendix B1	As above	£8.9m
Option 3	Tipner Appendix B1	As above	£8.9m
Option 4	Tipner Appendix B1	15% 1 bed flat, 15% 2 bed flat, 25% 2 bed house, 15% 3 bed flat, 20% 3 bed house and 10% 4 bed house.	£8.2m
Option A	Tipner Appendix B1	As above	£3.9m
Option B	Tipner Appendix B1	As above	£6.6m
Option C	Tipner Appendix B1	As above	£8.2m
Option D	Tipner Appendix B1	As above	£8.2m
Option E	Tipner Appendix B1	As above	£5.7m
Scenario	Infrastructure Package (see separate tables)	Dwelling Mix	
Port Solent/ Horsea Island			
Option 1	PS/ HI with bridge Appendix B2	PS: 30% 1 bed, 30% 2 bed and 40% 3 bed HI: 15% 1 bed flat, 20% 2 bed flat, 20% 2 bed house, 15% 3 bed flat, 20% 3 bed house and 10% 4 bed house.	£15m
Option 2	PS/ HI with bridge Appendix B4	As above	£13.4m
Option 3	PS/ HI with bridge Appendix B2	PS: 30% 1 bed, 30% 2 bed and 40% 3 bed	£14.9m

Option 4	PS/ HI with bridge Appendix B2	PS: 30% 1 bed, 30% 2 bed and 40% 3 bed HI: 15% 1 bed flat, 20% 2 bed flat, 20% 2 bed house, 15% 3 bed flat, 20% 3 bed house and 10% 4 bed house.	£16.4m
Option A	PS/ HI without bridge/ without MOD relocation Appendix B3	PS: 30% 1 bed, 30% 2 bed and 40% 3 bed	£2.1m
Option B	PS/ HI with bridge/ without MOD relocation Appendix B3	As above	£4.5m
Option C	PS/ HI with bridge/ without MOD relocation Appendix B3	PS: 30% 1 bed, 30% 2 bed and 40% 3 bed	£4.5m
Option D	PS/ HI with bridge Appendix B3	As above	£11.4m
Option E	PS/ HI with bridge/ without MOD relocation	PS: 30% 1 bed, 30% 2 bed and 40% 3 bed HI: 15% 1 bed flat, 20% 2 bed flat, 20% 2 bed house, 15% 3 bed flat, 20% 3 bed house and 10% 4 bed house.	£6.2m

** Based on PCC S.106 Calculator. Costs are based on the development quantum/ mix and cover off-site Primary and Secondary Contributions as well as off-site open space. A nominal £500k for healthcare improvements has been added to each. No sustainable transport contribution has been factored owing to the wider infrastructure contributions. The S.106 burden has been spread evenly through the cashflow within the appraisals.*

APPENDIX B1

Infrastructure Package Tipner

Infrastructure Measure	Infrastructure Budget	Starting Year	Notes
New Junction	£25,000,000	2013	Required for site access
Bridge	£0	-	Not required
Other Internal Highways	£2,000,000	2013	Assumption of abnormal cost (50% of £4m across the 2 sites)
Flood Defences Sheet Pile Wall	£12,000,000	2013	Assumption on defences costs
Electricity Sub Station	£1,000,000	2013	Assumption of abnormal cost (50% of £2m across the 2 sites)
Sewage Capacity	£2,500,000	2013	Half of the indentified 'worse case' £5m applicable across the sites
Land Remediation	£10,000,000	2013	Assumption based on 66% of previous £15m across all sites
Noise Mitigation	£0	-	None required beyond junction implementation
MOD Horsea Relocation	£0	-	Not applicable
CHP	£6,000,000	2016	Applicable for Tipner only
	£58.5m		

APPENDIX B2

Port Solent/ Horsea Island (package with Horsea Island Bridge)

Infrastructure Package Tipner Infrastructure Measure	Infrastructure Budget	Starting Year	Notes
New Junction	£0	-	Based on cost of bridge being funded by Tipner
Bridge	£25,000,000	2016	Access for Horsea and second access for Port Solent
Other Internal Highways	£2,000,000	2013	Assumption of abnormal cost (50% of £4m across the 2 sites)
Flood Defences Sheet Pile Wall	£0	-	Tipner only
Electricity Sub Station	£1,000,000	2013	Assumption of abnormal cost (50% of £2m across the 2 sites)
Sewage Capacity	£2,500,000	2013	Half of the identified 'worse case' £5m applicable across the sites
Land Remediation	£5,000,000	2013	Assumption based on 33% of previous £15m across all sites
Noise Mitigation	£0	-	None required
MOD Horsea Relocation	£25,000,000	2016	
CHP	£0	-	Applicable for Tipner only
	£60.5m		

APPENDIX B3

Port Solent/ Horsea Island (package without Horsea Island Bridge)

Infrastructure Package Tipner Infrastructure Measure	Infrastructure Budget	Starting Year	Notes
New Junction	£0	-	Based on cost of bridge being funded
Bridge	£0	-	Access for Horsea and second access for Port Solent
Other Internal Highways	£1,000,000	2013	Reduced based on no development at Horsea
Flood Defences Sheet Pile Wall	£0	-	Tipner only
Electricity Sub Station	£1,000,000	2013	Assumption of abnormal cost (50% of £2m across the 2 sites)
Sewage Capacity	£2,500,000	2013	Half of the identified 'worse case' £5m applicable across the sites
Land Remediation	£5,000,000	2013	Assumption based on 33% of previous £15m across all sites
Noise Mitigation	£0	-	None required
MOD Horsea Relocation	£0	2016	Not applicable
CHP	£0	-	Applicable for Tipner only
Sustainable Transport Contribution (in lieu) of Bridge provision #	£1,000,000	2013	Budget only (based on the provision of enhanced buses/ travel plans)
	£10.5m		

Based on five year provision of an enhanced bus route and also a Travel Plan

APPENDIX B4

Port Solent/ Horsea Island (package without Horsea MOD Relocation)

Infrastructure Package Tipner Infrastructure Measure	Infrastructure Budget	Starting Year	Notes
New Junction	£0	-	Based on cost of bridge being funded
Bridge	£25,000,000	-	Access for Horsea and second access for Port Solent
Other Internal Highways	£1,000,000	2013	Reduced based on no development at Horsea
Flood Defences Sheet Pile Wall	£0	-	Tipner only
Electricity Sub Station	£1,000,000	2013	Assumption of abnormal cost (50% of £2m across the 2 sites)
Sewage Capacity	£2,500,000	2013	Half of the identified 'worse case' £5m applicable across the sites
Land Remediation	£5,000,000	2013	Assumption based on 33% of previous £15m across all sites
Noise Mitigation	£0	-	None required
MOD Horsea Relocation	£0	2016	Not applicable
CHP	£0	-	Applicable for Tipner only
Sustainable Transport Contribution (in lieu) of Bridge provision #	£1,000,000	2013	Budget only (based on the provision of enhanced buses/ travel plans)
	£35.5m		

Based on five year provision of an enhanced bus route and also a Travel Plan

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Portsmouth City Council
Civic Offices
Guildhall Square
Portsmouth
PO1 2AU

Email: ldf@portsmouthcc.gov.uk

www.portsmouth.gov.uk

You can get this information
in large print, Braille, audio
or in another language by
calling 023 9268 8633