

5 FINANCIAL APPRAISAL

Approach

- 5.01 This chapter examines the financial implications of our development proposals. It examines costs, potential income and highlights key delivery scenarios. The approach we have taken is a relatively simplistic one and we emphasise that the conclusions reached are broad-brush only, and that more detailed and comprehensive costing/valuation will be necessary in due course.
- 5.02 The approach provides an indication of the cost **to Basildon Council** of the Masterplan. It estimates costs for those elements which would normally fall to the public sector to provide, i.e.
- land acquisition and compulsory purchase;
 - build costs of re-provided/new public services (e.g. health centre, dining club); and
 - highways and public realm.
- 5.03 Key areas of cost we emphasise are **excluded** from our appraisal are:
- land remediation works;
 - construction costs for residential and other mixed use commercial development proposals.
- 5.04 We have then estimated the income that Basildon Council can realistically be expected to receive through:
- capital receipts at a land value of £2.5million per hectare; and
 - S106 (developer) contributions at 20% to 25% of existing land values.
- 5.05 The difference between these cost and income estimates provides a broad-brush indication of the viability (in respect of surplus or deficit) of the Masterplan **to Basildon Council**. Because this simplistic approach excludes a number of key construction costs (e.g. residential development schemes), we stress that more comprehensive site by site financial appraisals will be required in due course to test and verify their viability.

Phasing

- 5.06 The appraisal is based on the market assessment we have carried out (as summarised in Chapter 2) and takes into consideration prevailing property market values and the capacity for development in Wickford.

- 5.07 We concluded in Chapter 2 that at current levels of interest and take-up, the Masterplan could support approximately 25 new residential units per annum. However, we consider this to be a relatively conservative estimate based on existing patterns and trends, which, inevitably, have been constrained by limited supply of site opportunities. We are of the opinion that with the availability of good quality development opportunities and in the context of the strategic regeneration framework that is provided by the Masterplan, a greater quantity could potentially be supported.

- 5.08 The total number of residential units proposed by the Masterplan is 490. We consider that a delivery period of 12 to 15 years, equating to a completion rate of 30-40 dwellings per annum, is an achievable target. Whilst we acknowledge that this higher growth scenario creates a relatively significant degree of risk, we consider that it is achievable.

Estimated Costs

- 5.09 Relevant expenditure elements of the proposal have been split into Highways and Public Realm, Re-provision of Services and Compulsory Purchase and Land Acquisition.

Highways and Public Realm Infrastructure

- 5.10 The highways and public realm infrastructure costs relate to five key areas
- Runwell Road;
 - Town Centre Riverside Living;
 - Station Gateway;
 - Public and Health Focus area; and
 - High Street Area.
- 5.11 The works proposed for each of these areas includes resurfacing of existing carriageways, new pavements, pedestrianisation of previously unpedestrianised areas, new street furniture and underpass improvements.
- 5.12 The total estimated cost of all the highways and public realm infrastructure works equates to in the region of £630,000.

Re-provision of services

- 5.13 To bring all the proposed sites forward for development, a number of public sector services, as well as private services, will need to be re-provided. Sites have been identified within the masterplan for the relocation of services and the cost of re-provision has been included in the financial appraisal. The main services which need to be relocated as a consequence of implementing the masterplan are the:
- Community centre;
 - Library;
 - Swimming Pool; and
 - Health Centre.
- 5.14 In addition, a number of other buildings will need to be re-provided including a dining club, post office, bungalow, retail units and a garage. The cost of re-providing these facilities has been included in the model.
- 5.15 We have also made an allocation of £200,000 to contribute towards primary and secondary school capacity development and expansion as discussed in Chapter 4.
- 5.16 The total cost of re-providing services has been estimated to lie in the region of £4.5 million.

Site Acquisition and Assembly

- 5.17 Two of the sites identified for development within the masterplan require acquisition and assembly and may necessitate the use of compulsory purchase powers (CPO). Retail units are currently situated on sites C1 and F2. Whilst the units on site C1 are of a poor condition and are occupied by market style traders and are of low value, the units on site F2 are much larger and are occupied by large multinational retail operators including Woolworth, WH Smith and Barclays Bank. Site F2 will therefore be expensive to assemble.
- 5.18 The financial appraisal includes an estimate of the potential cost associated with the acquisition and assembly of sites C1 and F2. We have only been able to provide approximate estimates as current lease terms between the landlords and the occupiers are not known. Neither have we undertaken internal inspections of the properties.
- 5.19 We have estimated that the cost of acquisition (including CPO if necessary) could be in excess of £3.5 million. This figure must be treated with caution for the reasons outlined above. An independent valuation will be required to assess the true costs of assembling sites C1 and F2 using compulsory purchase powers.

Potential Income

- 5.20 The model calculates the potential income which could be received by the public sector as a consequence of the development proposals detailed above being implemented. The source of the potential income is discussed in greater detail below.
- 5.21 The land value calculations are based on a residential land value of £2,500,000 per hectare. This figure will need to be verified by an independent valuation.
- 5.22 The model assumes that the public sector will retain the open market value of land in their ownership. Income is assumed to be received from private sector land in the form of Section 106 contributions. Residential land Section 106 contributions are assumed to equate to 20% to 25% of the value of the land.
- 5.23 Approximately £4.8million of public sector income will be generated by the proposed residential land development in this regard.

Affordable Housing Assumptions

- 5.24 The model assumes an element of affordable housing in all residential development. Approximately 25% of residential development is assumed to be for affordable purposes: 50% affordable sales; 50% rented affordable accommodation. Land values have been adjusted to take such a condition into account.
- 5.25 The value of land identified for affordable sites has been calculated on 75% of open market value. The value of land identified for rented affordable housing has been reduced by 50%.

Scenarios

- 5.26 Our assessment has highlighted the key areas of high cost to be those development proposals which require acquisition and land assembly (and potentially CPO). They are C1 (Station Gateway) and F2 (the High Street). We present the findings of our financial appraisal in Table 5.1 below with and without C1 and F2 to demonstrate the impact that these schemes have on the Masterplan's viability. For scenario 2 we have also increased the developer contributions (S106) from 20% to 25% of the value of land.

Table 5.1: Summary of Costs and Income

| | Scenario 1 (all Masterplan proposals) | Scenario 2 (Excluding C1 and F2) |
|---------------------------------|--|---|
| Costs | | |
| Acquisition & site assembly | £3,520,000 | £0 |
| Infrastructure and public realm | £630,000 | £630,000 |
| Re-provision of services | 4,530,000 | £4,530,000 |
| Income | | |
| Land sales | £3,990,000 | £3,770,000 |
| S106 | £830,000 | £850,000 |
| Balance | -£3,860,000 | -£540,000 |

5.27 The figures indicate that in commercial terms, Scenario 2, which excludes the abnormal costs of C1 and F2, is more likely to be viable (although is also likely to require some public sector funding). Therefore, if Scenario 1 (i.e. the Masterplan in its entirety) is to be pursued, then public sector funding will be required to meet these abnormal costs. Alternatively, a hybrid scenario may be possible in which the proposals for C1/F2 are refined (down scaled) to reduce costs, thus putting less pressure on the need for significant public sector funding contributions. We consider potential funding sources as well as the key risks and sensitivities in Chapter 6.

Important Note:

5.28 The comments above and the associated financial appraisal provide an informal “desktop” overview. A financial decision should be based only on a formal valuation report. This overview is purely for guidance and no liability is accepted by DTZ under any circumstances, nor has it been prepared in contemplation of any individual or company relying upon it.

5.29 We have not inspected the property/land nor have we undertaken full verification or research. The opinions detailed above are totally dependent on the adequacy and accuracy of the information supplied and the assumptions made. It should be noted that should these prove to be incorrect, the accuracy of this opinion may be affected.

5.30 The contents of this appraisal are confidential to Basildon District Council for the specific purpose to which they refer and are for their use only. Neither this appraisal nor any part thereof may be reproduced or referred to in any document, circular or statement, nor may its contents, or part thereof be disclosed orally or otherwise to a third party.