

3.8 North East Elsenham, Essex

3.8.1 Introduction

This section provides an overview of the initial assessment completed for the eco-town scheme proposed by The Fairfield Partnership (the promoter) for North East Elsenham (the scheme). A summary of the key features for the scheme is set out below.

3.8.2 Summary of the proposed scheme

The following table summarises the key features and components of the promoter's proposals for an eco-town at North East Elsenham.

Element	Description
Land	<p>The NE Elsenham site is south of Cambridge and east of Milton Keynes, adjacent to the M11. The area of the site is around 265 hectares. It lies outside the green belt and comprises primarily agricultural land under arable cultivation. It does not contain any area with a specific landscape designation.</p> <p>The site has good transport links due to its proximity to the M11 (junction 8) and the nearby railway station at Elsenham. A key part of the transport strategy is an orbital bus route with links to neighbouring towns and to Stansted Airport.</p> <p>The town is being promoted by the Fairfield Partnership which has long-term development options with a number of local land owners. The promoter will be pursuing a role as Master Developer, delivering serviced plots of land to the market.</p>
Housing	<p>The original proposal for North East Elsenham was for a new community of 3,000 dwellings with potential for future expansion promoted through the Local Development Framework (January 2008). The eco-town proposal is for 5,000 dwellings. The promoter has provided a phasing plan suggesting the delivery of serviced plots to enable 250 residential units per annum to be completed (including the draft PPS requirement of 30 per cent affordable and up to 40 per cent affordable) over 20 years from 2013.</p>
Commercial and other	<p>In addition to the planned residential development, the promoter plans to develop associated retail, commercial and community amenities. Serviced plots for commercial floorspace are phased over 10 years from 2013.</p>

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Element	Description
Key elements of on-off site infrastructure	<p><i>Transport</i></p> <ul style="list-style-type: none"> • Upgrades to Elsenham Railway station, including a new taxi rank, improved parking for cars & bicycles, a new station entrance & forecourt. Network Rail is also proposing platform extensions. • Improvements to North Hall Road, access points to Henham Road, Mill Road access to site, Elsenham Cross Junction bypass, and the M11 junction. • A new orbital bus route linking Elsenham, Stansted Mountfitchet, Bishops Stortford & Stansted Airport is being proposed by the promoter.
Key eco-elements	<p><i>Environmental</i></p> <ul style="list-style-type: none"> • A proposed "green ring" of 104 hectares of green space around the development will enhance existing and promote newly created habitats, recreational opportunities and local food production and link the development to the wider countryside. <p><i>Transport</i></p> <ul style="list-style-type: none"> • Improved cycle and pedestrian links to neighbouring villages and towns.
Key elements of s106 package offered	<ul style="list-style-type: none"> • 30 per cent affordable housing (could rise up to 40 per cent) • 3 primary schools and 1 secondary school • A "green ring" of public open space and buffer land which preserves separation from Henham • New town park • Town square and neighbourhood parks • 15 hectares of sports pitches • 14 hectares of equipped children's play area and informal recreation space • community orchard and allotments • Real time public transport information • Community, leisure and sports facilities; GP health centre • Establishment of the Elsenham Co-Operative Ltd to manage and own certain community facilities • Hotel and 53,000 sqm of employment floor space • Comprehensive new drainage, utilities, telecommunications and energy infrastructure

The above represents only a brief summary of the key features of the North East Elsenham scheme and eco-town proposal. In addition to this summary the promoter has provided a number of documents on its web site that set out its overall vision for the scheme, and further details of the proposed scheme components. These can be accessed at www.elsenham-info.co.uk

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3.8.3 Financial assessment

This section presents, at a summary level, the output from the outline financial assessment carried out for the Scheme. The figures show the range of potential net surplus cash flows (in 2008 prices) that the scheme may generate over a 30 year period if the assumptions used in the assessment (the Assumptions) hold true.

3.8.3.1 The Base Case Financial Assessment

The figure below presents the range of potential outcomes calculated for the scheme using the Base Case Assumptions.

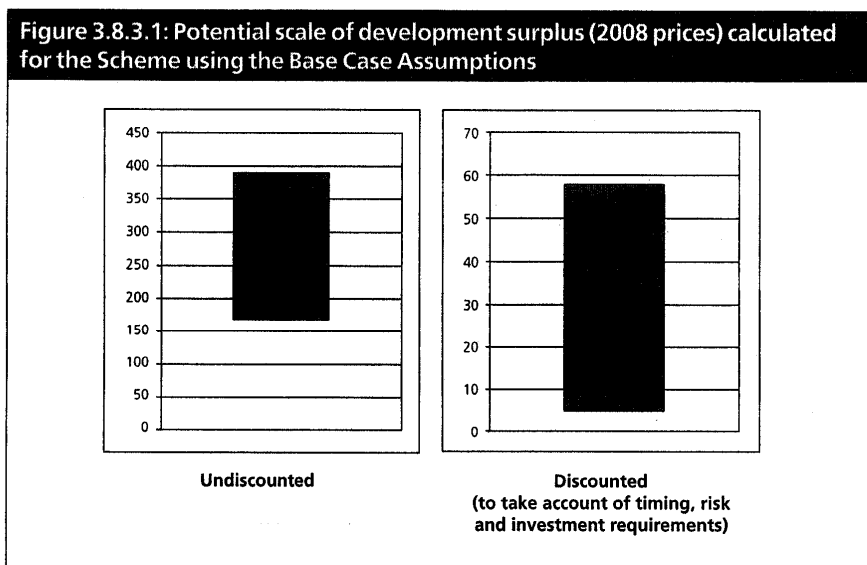


Figure 3.8.3.1 indicates that based on the Base Case Assumptions, the financial assessment indicates that the promoter's proposals have the potential to generate a reasonable financial buffer against adverse movements in the assumptions.

3.8.3.2 The Base Case assumptions

This sub-section summarises the key assumptions used in the Base Case assessment.

Key timing and phasing assumptions

The promoter has provided a phasing plan suggesting the delivery of serviced plots to enable 250 residential units per annum to be completed (including 30 per cent affordable) over 20 years from 2013. Serviced plots for commercial floor space is phased over 10 years from 2013.

Key Cost assumptions

The key cost assumptions for the scheme that underpin the above are presented in Table 3.8.3.2 below. The figures are rounded to the nearest £10 million and presented in broad

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cost categories. These illustrate the Base Case range of potential development costs, together with the levels of financing and development profit assumed in the assessment over the 30 year assessment period and presented in 2008 prices. This figure includes costs towards the lower and the higher end of the estimates prepared by the Department's advisers. These estimates are not expected to include 100 per cent of all potential outcomes and will change if the underlying assumptions they are based on also change.

Table 3.8.3.2: Base Case Range¹ of potential cost assumptions over the 30 year planning period (£m 2008 prices, rounded to nearest £10m)			
Cost category		Low	High
Predevelopment		-	10
Onsite	Build costs ⁶	630	710
	Utilities (on and off site) ²	30	50
	<i>less cost assumed to be incurred 3rd parties</i>	(10)	(10)
	Transport	30	40
	Eco-features	10	20
	<i>less cost assumed to be incurred by 3rd parties</i>	(10)	(10)
	Other s106 elements ⁵	30	50
	Landscaping & public realm	20	30
Offsite	Transport (hard costs) ⁴	20	30
	Other (including fee, sales, marketing, land cost) ³	30	30
	Finance costs and assumed development profit	180	230
Total over the 30 year planning horizon		960	1,180

Excludes: Taxation and operating costs, other than those identified as transport subsidies

Notes:

- 1 The range of Low to High is not expected to include 100 per cent of all potential outcomes. At this stage we consider it reasonable to assume that this range could include the central 50 per cent of potential outcomes of costs based on the underlying assumptions used in preparing these indicative estimates, should any of these underlying assumptions change then the values in these ranges would change.
- 2 Utilities costs are expressed as capital expenditure, potential "contributions" from utility companies in return for the developer installing key elements of the utilities infrastructure are separately identified.
- 3 Land cost has been assessed based on comparable data for land in the current use of the site selected by the Promoter.
- 4 The Off-site Transport Costs include allowances where the Scheme would in practice be only require to make a contribution towards the specific investment (e.g. contributions towards a Road, Motorway or Railway improvements).
- 5 s106 "cash" contributions are those costs identified in Appendix C not already included within the costs above. The values shown here are only part of the s106 contribution that the developer would be providing as part of this scheme. The other costs in this table include costs that would not be incurred but for the s106 obligations, including amongst other things the cost of providing affordable housing, public open spaces, playing fields, etc.. the Department recognises that s.106 agreements will have costs for the promoters which are not represented by cash payments to third parties.
- 6 House building costs based on achieving a CHS level 4 standards, the other costs of achieving the higher standards required by the PPS are included within other cost headings.

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As indicated in Note 1 above, the range of potential costs shown in Table 3.8.3.2 illustrates the level of uncertainty in estimating costs at this early stage in the development of the scheme. These ranges apply to the Base Case and are therefore before including the impact of varying key assumptions. It is expected that the range of costs would narrow over time, with additional clarity on the necessary infrastructure solutions and any site-specific abnormal costs following more detailed investigation by the Promoter in consultation with delivery partners.

Description of key cost assumptions

The promoter has provided a detailed breakdown of scheme costs as requested. Overall the promoter's cost estimate was slightly lower than the Department's advisers lower bound estimate. There are several areas of concern which need further investigation and would present two significant potential risks going forward:

- Costing of CSH level 4/6 housing to be delivered between 2011-2035 is challenging, particularly given current market conditions. The promoter's own assumptions for building costs, particularly given the assumption that part of the cost of site highways is assumed to be included in the cost allowance, fell significantly below the lower bound of the Department's advisers cost assumptions, even given the allowances elsewhere in the promoter's estimates for the provision of "eco-features".
- The sum allowed by the promoter for on-site transport appears low. The promoter only allowed a relatively small sum for on site highways works and indicated that housing fronts roads, the cost of that road is taken into account in the house build cost. Based on the master plan layout submitted by the promoter, the Department's advisers estimated that the cost of providing primary and secondary roads would range between £20-£30 million more than that estimated by the promoter.
- The promoter included a substantial provision of £107 million for "eco-features", and, as noted above, some of this is related to costs of achieving CSH6 compliance. The majority of this cost provision is allocated to District Heating/CHP/biomass/wind power and appears to be a relatively prudent allowance. The Department would expect the promoter, like many promoters of large site developments in the UK over recent years, to seek to share a significant portion of the cost of providing eco-facilities and utilities with partners through the creation of an ESCo/MUSCo or potentially letting concessions for the proposed district heating/CHP/biomass/wind farm. These approaches are beginning to be used with some success across the country and, therefore the Department consider it reasonable to assume that a relatively high proportion of the costs of the eco-facilities and related infrastructure could be self-financing and not need to be funded from development revenues. As the scheme progresses the ability of these elements to be self-funding will become clearer and might enhance scheme viability.

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Key Revenue assumptions

The promoter has provided a detailed breakdown of real estate revenues assumptions as requested. The Department's advisers reviewed the promoter's assumptions and generated benchmarks for the site. Overall the promoter's real estate revenue estimates for this scheme are slightly lower than those provided by the Department's advisers for the Base Case.

Sensitivity analysis

The assessment has included completion of a series of sensitivity tests to identify the impact on the Base Case of varying select key assumptions. Further details of the full range of sensitivity tests completed will be included in the final report. However, the Department considers it worth while to highlight a number of the tests applied in this report:

- The single greatest costing uncertainty surrounds the cost assumptions for meeting the required housing standard. The Department's advisers included a 15 per cent range in cost assumptions between the low and high range and we consider this to be a sufficient test. If, however, the promoter is able to procure housing built at costs in line with its assumption (including allowance for eco-facilities) then the level of potential development surpluses could increase by about £150m (2008 prices).
- There is a difference of view between the promoter and the Department's advisers as to potential sales values for housing. Applying the promoter's pricing assumptions, but holding all other assumptions as in the Base Case, reduces the amount of potential surpluses by £200m (2008 prices). If the promoter's price assumptions hold true and coincide with costs at the high end of the Department's adviser's cost range, then the viability of the scheme could be at risk.
- It is important to understand the impact that varying house price and other real estate values could have on the potential for the scheme to generate surpluses. Whilst over the short-term property values move independently of building costs in the longer term this is not sustainable. Underlying costs and margins in the construction/house building supply chain have and will continue to compress below recent levels. Following the reduction in activity and values in the UK housing market, building costs have fallen over the last 6-9 months and Department's advisers forecast this downward trend to continue through 2009 and into 2010. Looking at this and historic data it is clear there is a correlation, but costs are a lagging item and less elastic than prices/values. The Department's advisers have, therefore, applied a combined cost and value sensitivity test as follows: values are reduced by 10 per cent and costs are reduced by only 50 per cent of this (i.e. 5 per cent). The sensitivity test identifies that such a change could reduce potential surpluses by £80m (2008 prices), if all other assumptions are held constant. Even with this level of reduction, the scheme appears to continue to generate a surplus (contingency) over and above the estimated direct and indirect costs of delivering the scheme.

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The analysis illustrates that the viability of the scheme may vary significantly depending on a range of factors (in addition to the uncertainty around cost estimates in the baseline assessment above). This underlines that the current assessment can only illustrate potential and any future s106 negotiations will need to take into account updated information on both the cost and revenue side, including the outlook for the housing market.

3.8.3.3 Conclusions from the outline financial assessment

The financial assessment indicates therefore that the development proposal has the potential to generate sufficient value to cover the direct and indirect costs of delivering the scheme without recourse to public subsidy.

The proposal has potential to generate a surplus (contingency) over and above the estimated direct and indirect costs of delivering the scheme, even after taking account of the uncertainties detailed above. We would expect that the promoter would seek to address and resolve the other issues and uncertainties identified in this report, if possible, as part of the preparations for an Outline Planning Application.

3.8.4 Engagement with key stakeholders

As set out in the introduction to this report, the promoter's scheme for an eco-town is at a relatively early stage of development and substantial detailed work will be required before the promoter will be in a position to submit an Outline Planning Application. As stated, a significant element of this further work will involve a structured engagement between the promoter and relevant government and other agencies, and in particular the LPA including, in due course, the negotiation of a s106 agreement.

That said, the range and scale of possible s106 obligations are material considerations in the assessment of the potential viability of the scheme and, therefore, it was important that input was obtained from the promoters and LPAs and other relevant parties to exchange information. The Department's advisers engaged in a series of meetings with promoters and LPAs and acted as a conduit for an exchange of information on s106 issues. The table below provides a summary of the meetings held with respect to North East Elsenham.

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Date	Participants	Key issues covered
3 July 2008	<ul style="list-style-type: none"> • The promoter's team • PwC, DTZ, BH, DWS, DL, • ATLAS 	<ul style="list-style-type: none"> • Review of promoter's proposals for the eco-town at North East Elsenham
5 November 2008	<ul style="list-style-type: none"> • Essex County Council, • Uttlesford District Council, • DWS 	<ul style="list-style-type: none"> • Discussion surrounding latest proposals and analysis undertaken by promoter's team
19 November 2008	<ul style="list-style-type: none"> • The promoter's team • Communities and Local Government • Department for Transport • PwC, BH, DTZ, DL, DWS 	<ul style="list-style-type: none"> • Discussion surrounding latest proposals and analysis undertaken by promoter's team

The main elements of the proposed scheme were distilled in a standardised s106 HoTs template and the expectations of each party, albeit at an early stage, as to the promoter's initial s106 offer and the LPAs initial s106 expectations were recorded. The purpose of this template is to begin to provide clarity on likely s106 issues related to the assessed scheme and to aid further consideration by the promoter as to the likely requirements of the LPAs as the sites move forward through the planning process. The template is set out in Appendix C.

3.8.5 Further information

Promoter website:

www.elsenham-info.co.uk/elsenham_eco_town_submission.html

Local authority websites:

www.uttlesford.gov.uk/main.cfm

www.essex.gov.uk/

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