



Addendum Report on Viability for Otterpool Park New Garden Settlement

On behalf of Folkestone and Hythe District Council (LPA)

This note should be read in conjunction with our June 2020 deliverability and viability report and represents a continuation of this work. As such, all instruction notes set out in the original report remain relevant to this Addendum note.

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1 Executive Summary (Non-Technical)

- 1.1 This addendum report represents further work requested to our original assessment following the Examination in public in January 2021. This addendum sets out an update and test to the viability of the development of Otterpool Park New Garden Settlement, Kent (the 'Scheme') having regard to proposed amendments to associated costs.
- 1.2 The proposals for the Scheme are part of the emerging Otterpool Park Framework Masterplan ('the Masterplan') which allocates approximately 765 hectares for the delivery of circa 10,000 homes and other associated uses to create a Garden Community.
- 1.3 Gerald Eve LLP ("GE") were instructed on behalf of Folkestone and Hythe District Council, the Local Planning Authority ('LPA') in June 2020 provide an initial report regarding the deliverability and viability of the Scheme. The purpose of the report was to provide an update to our findings to reflect potential changes in infrastructure costs associated with the proposed allocation and their impact on deliverability.
- 1.4 GE originally established that the Scheme generated an IRR of 10.53%. As such, GE concluded that the proposed development appeared to be potentially viable.
- 1.5 GE have subsequently been instructed to prepare an addendum to the initial report to undertake further scenario testing of the scheme's deliverability with additional infrastructure cost items. The infrastructure cost items relate to upgrades to highway infrastructure within the locality of the Scheme following discussions between The Promoter, The LPA and Highways England.
- 1.6 Through our assessment, GE conclude that the proposed Scheme of 8,500 new homes at Otterpool Park, with additional infrastructure cost items, appears to remain potentially viable and deliverable.
- 1.7 The key inputs to our financial appraisal are summarised below:

Gross Development Value	£692 m
Total Costs	£611 m
Benchmark Land Value	£95 m

- 1.8 On review, the Scheme appears capable of viably delivering additional financial contributions if they were required by the Council, subject to further revenue recovery from this and benefiting schemes, through financial recovery methods, such as an effective roof tax.

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2 Introduction

- 2.1 Gerald Eve LLP ('GE') has been instructed by Folkestone and Hythe District Council, the Local Planning Authority ('LPA') to undertake a review of viability evidence submitted to support the proposed allocation of land known as Otterpool Park ('the Scheme') for a Garden Settlement in the emerging Local Plan.
- 2.2 The emerging Local Plan has allocated development of a garden settlement to be jointly undertaken with the community at Otterpool Park for up to 10,000 residential units, along with commercial and ancillary uses, and in conjunction with associated infrastructure.
- 2.3 The evidence provided relates to the proposed delivery of 8,500 homes; as the major component part of the overall site allocation. It is anticipated that the remaining 1,500 units and other proposed uses will be delivered by the remaining landowners and developers in the area.
- 2.4 It is understood that to support the delivery of the proposed allocation the Council ('FHDC') has become a significant landowner at Otterpool Park, along with Homes England and a small number of parties. The inclusion of FHDC as Landowner has several positive effects on delivery of this project. We refer to these parties promoting to this part of the allocation that the review is relating to, as the 'Promoter'. At all stages, The Promoter has been advised by Arcadis (the 'Advisor')
- 2.5 Viability Evidence ('VE1') was submitted in late 2018 on behalf of the Promoter to support the inclusion of the proposed allocation in the Local Plan. The proposals do not appear to significantly deviate from that proposed by the LPA in their emerging Local Plan and are provided to provide overall comfort that the allocation is deliverable. VE1 therefore, does not constitute the level of detailed information that would be required for a full planning application and Financial Viability Assessment (FVA), particularly to justify deviation from planning policy.
- 2.6 Subsequent evidence (VE2) was submitted by the Advisor on behalf of the Promoter between April and June 2020. It should be noted that this submission was prior to the RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England', published in March 2021 (effective 1 July 2021).

- 2.7 GE's role in both the initial assessment and this addendum is to provide further commentary on the VE2, having regard to the work undertaken by the Reviewer and VE1.
- 2.8 GE understands that the evidence supplied on behalf of the Promoter does not reflect an FVA to support and a planning application to justify deviation from planning policy, but rather as support to the LPA that the allocation at Otterpool is reasonable and deemed deliverable.
- 2.9 In order to demonstrate the robustness of the planning policies, the Promoters development proposals have been used as the basis of delivery for both the initial assessment and this addendum. Supplementary information has also been provided to assess the viability of the project in the context of the Core Strategy Local Plan policies.
- 2.10 GE have subsequently been instructed to prepare an addendum to the initial report to test the deliverability of the Scheme with additional infrastructure cost items. The infrastructure cost items relate to upgrades to highway infrastructure within the locality of the Scheme.
- 2.11 We have been provided with additional infrastructure costs from the Advisor. 

- 2.12 The output IRR for the Base Appraisal was 10.52%.
- 2.13 The Scheme will only be liable to contribute an apportionment of the total additional infrastructure cost. The Advisor has provided GE with the applicable apportionment for each infrastructure item.
- 2.14 GE have also been informed that the requirement leading to additional Onsite Waste-Water costs (amounting to £8 million) may no longer be required. We have therefore undertaken an additional scenario test whereby the On-site Waste-Water costs are removed from our appraisal.

3 Additional Infrastructure Items

3.1 We have been supplied with additional infrastructure items by the Advisor. These relate to the following infrastructure upgrades;

1. M20 Junction 11 (Option A) Phase 1;
2. M20 Junction 11 (Option A) Phase 2;
3. M20 Junction 11 (Option A) Phase 3;
4. M20 Junction 11 (Option A) Phase 4;
5. M20 Junction 12 - 13;
6. M20 Junction 13 Local Junction Upgrade;
7. A20/A260 Interchange Junction 1 (Spitfire Way/ Canterbury Road);
8. A20/A260 Interchange Junction 2 (Alkham Road/ A20 Slips); and
9. A20/A260 Interchange Junction 3 (Canterbury Road/ Alkham Valley Road) Minor Works.

3.2 The cost of each upgrade has been supplied by the Advisor with an additional 20% Risk Allowance and 44% 'Optimism Bias'. We outline the base cost, risk allowance, optimism bias and gross cost for each upgrade item in Table 1 below.

Table 1: Schedule of infrastructure interventions and costs

Intervention Number	Description	Base Cost	Risk Allowance	Optimism Bias	Gross Cost
1	M20 Junction 11 (Option A) Phase 1	£2,381,263	£476,253	£1,047,756	£3,905,271
2	M20 Junction 11 (Option A) Phase 2	£2,644,450	£528,890	£1,163,558	£4,336,898
3	M20 Junction 11 (Option A) Phase 3	£3,385,677	£677,135	£1,489,698	£5,552,511
4	M20 Junction 11 (Option A) Phase 4	£2,156,947	£431,389	£949,057	£3,537,394
5	M20 Junction 12 - 13	£17,297,078	£3,459,416	£7,610,714	£28,367,208
6	M20 Junction 13 Local Junction Upgrade	£115,665	£23,133	£50,893	£189,691
7	A20/A260 Interchange Junction 1	£2,785,590	£557,118	£1,225,660	£4,568,368
8	A20/A260 Interchange Junction 2	£51,392	£10,278	£22,613	£84,283
9	A20/A260 Interchange Junction 3 Minor Works	£421,510	£84,302	£185,465	£691,277
Total:		£31,239,573	£6,247,914	£13,745,412	£51,232,900

Apportionment of Additional Infrastructure Costs

- 3.3 The Scheme is only liable to contribute an apportionment of the total additional infrastructure cost for each item. The Advisor has provided GE with the applicable apportionment for each infrastructure item.
- 3.4 The apportioned infrastructure costs (inclusive of risk allowance and optimism bias) are outlined in table 2.

Table 2 – Apportioned infrastructure costs

Intervention Number	Description	Gross Cost	Apportionment	Apportioned Cost
1	M20 Junction 11 (Option A) Phase 1	£3,905,271	64%	£2,499,373
2	M20 Junction 11 (Option A) Phase 2	£4,336,898	64%	£2,775,615
3	M20 Junction 11 (Option A) Phase 3	£5,552,511	64%	£3,553,607
4	M20 Junction 11 (Option A) Phase 4	£3,537,394	64%	£2,263,932
5	M20 Junction 12 - 13	£28,367,208	29%	£8,226,490
6	M20 Junction 13 Local Junction Upgrade	£189,691	29%	£55,010
7	A20/A260 Interchange Junction 1	£4,568,368	35%	£1,598,929
8	A20/A260 Interchange Junction 2	£84,283	35%	£29,499
9	A20/A260 Interchange Junction 3 Minor Works	£691,277	35%	£241,947
		£51,232,900		£21,244,403

- 3.5 The apportioned infrastructure costs amount to approximately **£21.2 million**.

Additional Infrastructure Timings

- 3.6 We have been supplied with infrastructure cost timings from the Advisor. These timings are provided in table 3 on the overleaf.

Table 3: Infrastructure Cost Timings

Intervention Number	Description	Timing
1	M20 Junction 11 (Option A) Phase 1	25% to 45% of Otterpool Park (2,125 – 3,825 dwellings)
2	M20 Junction 11 (Option A) Phase 2	45% of Otterpool Park (3,825 dwellings)
3	M20 Junction 11 (Option A) Phase 3	70% of Otterpool Park (5,950 dwellings)
4	M20 Junction 11 (Option A) Phase 4	92% of Otterpool Park (7,820 dwellings)
5	M20 Junction 12 - 13	2034
6	M20 Junction 13 Local Junction Upgrade	2031
7	A20/A260 Interchange Junction 1	1,500 dwellings
8	A20/A260 Interchange Junction 2	1,500 dwellings
9	A20/A260 Interchange Junction 3 Minor Works	1,500 dwellings

3.7 Our June 2020 base appraisal comprised of a series of overlapping phases. We have analysed our housing delivery estimates previously presented to ascertain the construction timings for items 1 – 4 and 7 - 9 for the purposes of our financial modelling.

3.8 We have estimated the respective trigger points for each infrastructure item. The trigger points are outlined in table 5 below.

Table 4: Infrastructure item trigger points

Intervention Number	Description	Trigger
1	M20 Junction 11 (Option A) Phase 1	Year 7
2	M20 Junction 11 (Option A) Phase 2	Year 13
3	M20 Junction 11 (Option A) Phase 3	Year 17
4	M20 Junction 11 (Option A) Phase 4	Year 21
5	M20 Junction 12 - 13	Year 14
6	M20 Junction 13 Local Junction Upgrade	Year 11
7	A20/A260 Interchange Junction 1	Year 5
8	A20/A260 Interchange Junction 2	Year 5
9	A20/A260 Interchange Junction 3 Minor Works	Year 5

3.9 We have not been supplied with construction timescales for any of the infrastructure items. We have assumed a 24-month construction period for all infrastructure items, with the exception of items 1, 2, 3 and 4 (M20 Junction 11 Phases 1 – 4).

3.10 For M20 Junction 11 Phases 1 – 4 we have assumed that each item will complete the month prior to the commencement of the next phase. We have assumed that the final phase (phase 4) will complete upon completion of the final dwelling.

Additional Cost Recovery

3.11 We understand that the LPA is considering utilising recovery methods, such as a roof tax, to recover additional infrastructure spend, beyond the current apportioned spend attributed to the Garden Town outlined herein.

3.12 We understand that the proposals are currently in their infancy and therefore at this stage, we have insufficient information to incorporate a form of recovery into our financial appraisals.

4 Outturn and Conclusions

Outturn

- 4.1 The outturn of our updated appraisal for the Scheme following the amendments aforementioned in this report results in an IRR of **9.31%** [REDACTED]
- 4.2 We have undertaken an additional scenario test ('Scenario Test 1'), adopting the infrastructure costs, exclusive of risk allowance and optimism bias.
- 4.3 The outturn for this additional scenario test results in an IRR of **9.79%** [REDACTED]
- 4.4 We have undertaken a further scenario test ('Scenario Test 2') whereby the On Site Waste water costs amounting to £8 million are removed from the updated appraisal.
- 4.5 The outturn IRR for scenario test 2 results in an IRR of scenario test 2 is an IRR of **9.90%**.

Sensitivity

- 4.6 We have undertaken a sensitivity analysis. The sensitivity analysis tests gross sales receipts from land parcels against gross cost of the infrastructure items. The sensitivity analysis is set out below.

Sales: Gross Sales					
Additional Infrastructure: Gross Cost	-10.0%	-5.0%	0.0%	5.0%	10.0%
-10.0%	4.23%	7.01%	9.43%	11.63%	13.66%
-5.0%	4.14%	6.93%	9.37%	11.58%	13.61%
0.0%	4.05%	6.86%	9.31%	11.52%	13.56%
5.0%	3.96%	6.79%	9.24%	11.46%	13.51%
10.0%	3.87%	6.71%	9.18%	11.41%	13.46%

Conclusions

- 4.7 Based on the evidence submitted in relation to the delivery of 8,500 units and associated uses as part of the Otterpool Park Core Strategy allocation, the Scheme is potentially capable of being viable with the additional infrastructure spend provided over the life time of the development. The resultant IRRs are reduced from our initial assessment, however we consider it is possible to identify a reasonable return at this stage to commence the development, with the potential for the return to improve over the life time of the development.
- 4.8 Further, we consider that it may be possible to support additional infrastructure items within the Scheme, beyond the proportions required of the Promoter, subject to appropriate recovery and additional detailed financial modelling.
- 4.9 We recommend however that should the Scheme deviate, then a further assessment on deliverability and viability should be undertaken.
- 4.10 To conclude, our review has demonstrated that the proposed garden town development of Otterpool Park appears to be potentially financially viable and deliverable. We therefore consider the Core Strategy policies in relation to the garden settlement to be supported by viability evidence and reasonable.