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Title	Establishment of the North Essex Garden Communities Local Delivery Vehicles and funding requirements		
Wards affected	All		

Executive Summary

Colchester Borough Council, Braintree District Council, Essex County Council and Tendring District Council are collaborating to identify an agreed strategic approach to the allocation and distribution of large scale housing led, mixed use development, including employment opportunities and infrastructure provision, in the form of Garden Communities.

The Councils have collaborated closely on the preparation of their Local Plans, with the draft Part 1 – which sets out the approach to Garden Communities across North Essex from a planning perspective – being identical in all three Plans.

This report sets out proposals whereby the Councils can take a much more direct approach to ensuring that the proposed Garden Communities are delivered and that they meet the high standards expected of them – in terms of housing quality and design, open space provision, roads, schools, healthcare facilities and sustainable transport systems.

The key elements in the approach are:

- A company – North Essex Garden Communities Limited - owned equally by the four Councils to oversee the project across North Essex and to drive the delivery of the three planned communities.
- Legally binding deals with local landowners to secure a share in the land value which will arise from the development in return for the Local Delivery Vehicles providing early infrastructure for the developments (with the infrastructure costs being paid for in due course from the land sales).
- A Local Delivery Vehicle for each of the planned Garden Communities with Council, landowner and independent membership and with the clear purpose of delivering the Garden Communities. (Colchester Braintree Borders Limited and Tendring Colchester Borders Limited).
- Clear Masterplans for each Garden Community to be developed.

The issues associated with a project of this scale and complexity are many and varied and are detailed in this report.

1. Decisions Required

- 1.1 To note the external legal advice received that these decisions cannot and do not prejudice the outcome of any future decisions that the Council may make about the Local Plan to be made by Council in relation to the allocation of any Garden Community.
- 1.2 Note that it is proposed that, if appropriate terms can be agreed, the Local Delivery Vehicles will need to enter into legal agreements with landowners to enable the delivery of the proposed schemes.

North Essex Garden Communities Limited

- 1.3 In line with the resolution contained at minute 60 of the Cabinet Meeting of 27 January 2016, Cabinet agrees to set up and subscribe to North Essex Garden Communities Limited in accordance with the terms set out in the report and Appendix 2.
- 1.4 To approve the North Essex Garden Communities Limited shareholder agreement between the Local Authorities in accordance with the terms set out in the report and Appendix 3.
- 1.5 To appoint Councillor Paul Smith in his capacity as Leader of the Council to represent the Council as a Director on the Board of North Essex Garden Communities Limited.

Tendring Colchester Borders Limited

- 1.6 In line with the resolution contained at minute 60 of the Cabinet Meeting of 27 January 2016, Cabinet endorses the formation of Tendring Colchester Borders Limited by North Essex Garden Communities Limited in accordance with the terms set out in the report and Appendix 4.
- 1.7 To approve the Tendring Colchester Borders Limited shareholder agreement between the Local Authorities in accordance with the terms set out in the report and Appendix 5.
- 1.8 To appoint Ian Vipond to represent the Council as a Director on the Board of Tendring Colchester Borders Limited, and gives Delegated Authority to the Chief Executive to undertake any future appointments.
- 1.9 That in principle it agrees to provide an appropriate proportion of necessary funding to Tendring Colchester Borders Limited (by a combination of loan or equity) subject to a satisfactory business case setting out the full terms of the arrangement, which will need to accord with the approved Business Plans and masterplans for the project and the funding options available at the time any funding is required by the LDV. Such commitment to be subject to Council approval.

Colchester Braintree Borders Limited

- 1.10 In line with the resolution contained at minute 60 of the Cabinet Meeting of 27 January 2016, Cabinet endorses the formation of Colchester Braintree Borders Limited by North Essex Garden Communities Limited in accordance with the terms set out in the report and Appendix 6.
- 1.11 To approve the Colchester Braintree Borders Limited shareholder agreement between the Local Authorities in accordance with the terms set out in the report and Appendix 7.
- 1.12 To appoint Ian Vipond to represent the Council as a Director on the Board of Colchester Braintree Borders Limited, and gives Delegated Authority to the Chief Executive to undertake any future appointments.

- 1.13 That in principle it agrees to provide an appropriate proportion of necessary funding to Colchester Braintree Borders Limited (by an appropriate combination of loan or equity) subject to a satisfactory business case setting out the full terms of the arrangement, which will need to accord with the approved Business Plans and masterplans for the project and the funding options available at the time any funding is required by the LDV. Such commitment to be subject to Council approval.

Cabinet Recommends to Council that it:

- 1.14 Notes the decision of the Cabinet to set up and subscribe to the North Essex Garden Communities Limited.
- 1.15 Notes the Cabinets endorsement of the formation of Tendring Colchester Borders Limited and Colchester Braintree Borders Limited.
- 1.16 Endorses the in principle decision of Cabinet to provide an appropriate proportion of necessary funding to Tendring Colchester Borders Limited (by an appropriate combination of loan or equity) subject to a satisfactory business case setting out the full terms of the arrangement, which will need to accord with the approved Business Plans and masterplans for the project and the funding options available at the time any funding is required by the LDV.
- 1.17 Endorses the in principle decision of Cabinet to provide an appropriate proportion of necessary funding to Colchester Braintree Borders Limited (by an appropriate combination of loan or equity) subject to a satisfactory business case setting out the full terms of the arrangement, which will need to accord with the approved Business Plans and masterplans for the project and the funding options available at the time any funding is required by the LDV.
- 1.18 Notes the external legal advice received that these decisions cannot and do not prejudice the outcome of any future decisions that the Council may make about the Local Plan to be made by Council in relation to the allocation of any Garden settlement.

2. Reasons for Decision

- 2.1 To seek Cabinet's on-going support, working together with Braintree District Council, Essex County Council and Tendring District Council, to progress the concept of 'garden communities' and to approve governance arrangements for the project.

3. Alternative Options

- 3.1 No alternative options are presented.

4. Background Information

- 4.1 In the work being carried by Braintree District Council, Colchester Borough Council and Tendring District Council on their respective Local Plans, the potential for new major developments in the form of new 'garden communities' has been identified by the Councils as planning authority as a means of meeting future growth requirements. These include three potential new settlements. One crossing the administrative boundary of Tendring and Colchester in the vicinity of the University. The second crossing the administrative boundary of Colchester and Braintree at Marks Tey. The third site is on land to the West of Braintree on the Uttlesford District Council border.
- 4.2 In accordance with the duty to cooperate, the District Councils are working closely with each other and are at similar stages in their respective Local Plan preparation, to plan

effectively for the long term. All three councils are also working with Essex County Council. As part of this process, all four Councils are thinking strategically, are not being restricted by current local plan making time horizons and are considering whether Garden Communities could address some of this long term need both within the plan period and beyond.

- 4.3 As part of the development of their Local Plans the three District Planning Authorities have included the three projects as areas of search within their Preferred Options Consultations under the Local Plan. These consultations occurred over the summer and will lead to recommendations to the respective Councils in January / February 2017.
- 4.4 At its meeting on 27 January 2016 Cabinet agreed to the continued joint working and development of proposals for the four Councils to take an active role in the development and construction of the new garden settlements. Following this Council has committed a further £250,000 to support the joint work and funding was agreed together with a grant from the Department for Communities and Local Government ("DCLG") of £640,000.
- 4.5 This joint working has continued with the work undertaken by the Shadow Delivery Board and the Steering Group, these structures will be superseded by the arrangements in this report once they come into effect. Officers from the four Councils will continue to meet during the early stages of implementation as partnership officer groups to aid transition and ensure continuity.
- 4.6 Separate negotiations have occurred with landowners and developers with interests in the three sites, this has been supported by consultants engaged jointly by the four Councils.
- 4.7 This report seeks Cabinet approval for the Council to enter into joint arrangements with the other Councils to create an overarching body to be known as North Essex Garden Communities Limited (NEGC) to coordinate the development of the sites. NEGC will establish a further company (a Local Delivery Vehicle (LDV) for each proposed garden community. The Council is asked to give in principle agreement that it will provide proportionate funding to the LDVs in its area. This funding will be used to pay for delivery of the infrastructure in a more timely and co-ordinated way which is not available in a traditional development. The cost of infrastructure will be repaid out of land value as the scheme is developed (referred to as a "waterfall repayment" on which more information is provided under the financial section of this Report).
- 4.8 The decisions in this report do not commit any Council to allocate any sites within the Local Plan. A separate decision making process will be undertaken by the three Local Planning Authorities in accordance with the statutory requirements and material considerations at the relevant time.

5. Vision & Objectives

- 5.1 Addressing growth at any spatial scale must be founded on a clear vision of how and where change should occur. Braintree, Colchester and Tendring are all in the process of evolving new Local Plans to address future need with Preferred Options published by all three Councils in summer 2016. The Councils are thinking strategically for the long term, and are not being restricted by current plan making time horizons or administrative boundaries.

- 5.2 The vision for North Essex at a strategic level has been set out by the Councils within Part 1 of the Preferred Option Local Plans. This addresses both the vision for the wider area together with the role and significance of the proposed Garden Communities. The vision sets out a clear statement of local ambition and establishes a strategic basis from which to move forward. It enables the Councils to plan positively for the future homes and jobs needed across the area, the provision of high quality infrastructure (transport, telecommunications, education, health, community and cultural infrastructure); and the creation of quality places including the conservation and enhancement of the natural and historic environment, including landscape.
- 5.3 Figure 1 illustrates the vision for North Essex as set in Part 1 of the emerging Local Plans. This provides a key part of the rationale underpinning the strategy going forward.

Figure 1: The North Essex Strategic Vision

North Essex will be an area of significant growth over the period to 2033 and beyond, embracing positively the need to build well-designed new homes, create jobs and improve and develop its infrastructure for the benefit of existing and new communities.

Sustainable development principles will be at the core of the strategic area's response to its growth needs, balancing social, economic and environmental issues. Green infrastructure and new and expanded education and health care facilities will be planned and provided; while the countryside and heritage assets will be protected and enhanced.

At the heart of our strategic vision for North Essex are new garden communities. The garden communities will attract residents and businesses who value innovation, community cohesion and a high quality environment, and who will be keen to take an active role in managing the garden community to ensure its continuing success. Residents will live in high quality, innovatively designed, contemporary homes, accommodating a variety of needs and aspirations. There will be a network of leafy streets and green spaces, incorporating and enhancing existing landscape features. This will provide safe and attractive routes and sustainable drainage solutions, as well as excellent opportunities for people to play. Open spaces will be attractive areas which offer leisure and recreation opportunities for residents of the garden communities. All Garden City principles will be positively embraced including new approaches to delivery and partnership working and sharing of risk and reward for the benefit of the new communities.

- 5.4 Alongside the vision are a set of related objectives, designed to help achieve the vision for the area and to provide a basis for achieving the necessary outcomes. The objectives include:
- **Delivering for local communities** – to ensure the highest standard of community and stakeholder involvement from the early evolution of proposals, through to the creation of assets of local community value with active local ownership and stewardship;
 - **Providing New Homes** – to provide for a level and quality of new homes to meet the needs of a growing and ageing population in North Essex;
 - **Fostering Economic Development** – to strengthen and diversify local economies to provide more jobs; these jobs will be across a wide range of new industries reflecting the changes and trends of the 21st century, as well as existing sectors exploiting the opportunities of the A120 growth corridor; and to achieve a better balance between

the location of jobs and housing, which will reduce the need to travel and promote sustainable growth.

- **Providing New and Improved Infrastructure** – to make efficient use of existing transport infrastructure and to ensure sustainable transport opportunities are promoted in all new development. Where additional capacity is required in the form of new or upgraded transport infrastructure to support new development, to ensure this is provided when it is needed. The approach must also include addressing education and healthcare needs – to provide good quality educational opportunities and health facilities as part of a sustainable growth strategy, together with the provision of upgraded broadband infrastructure and services.
- **Ensuring High Quality Outcomes** – to secure the highest standards of urban and built design which creates attractive places where people want to spend time.
- **Managing change effectively** – through a genuine and pro-active partnership approach between the public and private sectors, where risk and reward is shared and community empowerment enabled.
- **Long Term Stewardship** – appropriate arrangements to secure the management and long term delivery of community infrastructure and facilities.

5.5 In addition, a 'North Essex Garden Communities Charter' has been prepared by the Councils and published alongside the evidence base supporting Local Plans. This sets out a series of interlined principles to underpin the evolution of further proposals and provides more detail across 3 key themes including:

- **Place & integration:** including the approach to green infrastructure, the living environment and quality, sustainable place making;
- **Community:** including approach to community engagement & long term stewardship);
- **Delivery:** including the need for strong and proactive public leadership and innovation in delivery).

5.6 The vision and objectives have been encapsulated in the Purpose of the delivery structures and are intrinsic to the Articles of the NEGC and the LDVs.

6. Planning Background

- 6.1 As part of the new Local Plan, Members will be aware that standalone new settlements are likely to be part of the picture to deliver growth in this Plan period and beyond. This has led to the creation of areas of search in each of the preferred options consultations.
- 6.2 New stand-alone communities are being considered only where they can meet garden city principles and where the Councils are confident that they can and will be delivered. Garden communities (cities) as described by the Town and Country Planning Association (TCPA) as; *“holistically planned new settlements which enhance the natural environment and offer high quality affordable housing and locally accessible work in beautiful, healthy and sociable communities.”* If proposals do not meet these standards then they cannot properly be supported as meeting the aspirations for development.
- 6.3 Standalone settlements must have a critical mass of new homes to ensure that all the facilities necessary can be provided within the new community. This would include education facilities, including a secondary school, health, retail facilities and other 'town centre' type uses such as restaurants and banks, indoor and outdoor recreation facilities, community buildings and facilities such as halls and doctor's surgeries and significant employment opportunities. The design of a new community is intended to prioritise walking and cycling journeys within the community, and public transport options for journeys further afield, (although it is noted of course that some people will still use their cars to travel to work in other areas or high order shopping areas etc.). The new

community buildings must meet high standards of design, enhance and inhabit the local landscape and environment and deliver an inclusive community.

- 6.4 The approval of the Local Plan has its own statutory process. Each of the Local Planning Authorities will be considering the Pre-Submission Draft of the Local Plan in the New Year.
- 6.5 As noted below it is proposed that the Councils will be supporting the LDV to act as a developer in the schemes through the structures set out in this report. Importantly the Councils will always have a critical role in controlling development and setting the standards which will be applicable through the statutory plan and development management processes for the three Local Planning Authorities and Essex County Council through its statutory planning powers.
- 6.6 It is intended that any garden community taken forward under the Local Plan will be a partnership between the Local Authorities, County Council, and the private sector, with the public sector taking a key role. The public sector role is intended to provide confidence that the communities will be delivered in accordance with the Local Plan requirements: that infrastructure and social and community facilities that are needed to support the new development will be there from the very start of the community; and that housing and employment can be released more quickly to ensure that there are homes and jobs available for people when they need them.

7. Delivery Models

- 7.1 In order to give the Councils as planning authorities and the public confidence that the communities will be delivered as intended it is proposed that the public sector will take the primary responsibility – setting up and funding a local development vehicle that will enter into agreements with landowners and secure the necessary infrastructure.
- 7.2 It is accepted that delivery in this way and at this scale is untested since the delivery of New Towns. However, the Councils have taken advice which has confirmed that the approach is feasible, viable and lawful.
- 7.3 The Councils have considered a wide range of alternative delivery mechanisms and structures.
- 7.4 The principal alternatives would be to allow for the development of the settlements by the private sector or as part of a public/ private joint venture. Neither alternative approach can offer the same level of confidence that over a development programme of 30 years that the garden community objectives will be met throughout different economic cycles.
- 7.5 The proposed approach offers sufficient certainty about ambition and delivery to justify the identification of the broad locations for, and size of, the proposed garden communities. On the basis of the present evidence the other approaches cannot offer a similar level of confidence and are therefore not being pursued.
- 7.6 The projects will take in the order of 30 years to deliver; infrastructure which supports the development of the whole project will necessarily have a long payback period, the public sector is well placed to act as a patient investor taking a long term approach to payback enabling higher levels of investment at early stages.

8. Control of Land

- 8.1 The significant majority of the land within the project areas is not currently in the control of the Councils. The Councils have jointly worked to build working relationships with the

relevant landowners and promoters of the sites with a view to securing a controlling interest in the land.

- 8.2 The land deal will be entered into between the relevant landowners / developers and the LDV with the view that the LDV will then have the rights to control the delivery of the scheme ensuring that the delivery is undertaken on Garden Community principles.
- 8.3 The commercial negotiations for the land deals is currently ongoing; although reasoned assumptions about the outcomes of these negotiations in respect of the base value of land have been included within the modelling.
- 8.4 Although the LDV will only be in a position to deliver the project if it makes a suitable deal in relation to the land, there is no obligation on the LDV (or the Councils) to accept a deal on any terms. If it becomes unviable for the proposed development to proceed then the LDV has the ability to decline to take the offered deal. Should a commercially realistic deal which meets the Garden Community principles not be achieved then this will create risk for the landowner in showing that the site can be viably delivered under the Local Plan resulting in it not being included in the final adopted plan.

9. Conflicts of Interest

- 9.1 It has been raised by some responders to the local plan consultations that they consider there is a potential conflict between the Council's role as planning authority and its role with respect to the LDV. Given that the councils will be playing a significant role in the delivery of garden communities within their area it has been suggested that this could prejudice proper decision making.
- 9.2 This position has been carefully considered and external legal advice has been obtained. Decision making procedures and arrangements can be put in place that prevent any conflict arising that would justify a successful challenge to decisions. It will, however, be equally important to manage the perception of such conflicts.
- 9.3 Clearly care will need to be taken to ensure that the roles, and decision making processes, are kept separate. As reports for decision are being prepared this will always need to be monitored to ensure clarity of approach.

10. Proposed governance structure

- 10.1 The Garden Communities Joint Shadow Delivery Board endorsed the proposed arrangements for the structure of Delivery Vehicles for the Garden Communities on which the Term Sheets appended to this report have been based. The corporate structure consists of an overarching body – North Essex Garden Communities Limited – with a separate Local Delivery Vehicle ("LDV") for each of the Garden Community areas proposed. A diagram showing the interrelationship between the four local authorities and the new companies is attached as Appendix 1 to this report.
- 10.2 The LDVs will have a high level of autonomy to deliver the development and ensure that a commercially appropriate approach is taken to delivery within the context of the proposal and the Garden Community Principles. The key control mechanism outside of the planning process will be the approval by the Councils / NEGC of the business plans and budgets.
- 10.3 The key elements of the companies' constitutions (governance structures) have been drafted as "Term Sheets" (Heads of Terms) which are attached as Appendices to this report for information. The companies have now been created but are not yet owned by

local authorities pending the approval of this report. A summary of the key elements is set out in the following table:

North Essex Garden Communities Limited (NEGC):

Draft Term Sheet and Shareholder Agreement are attached as Appendix 2 and 3 respectively

- NEGC will hold the main shares (called 'A shares') in the LDV companies (see below), which oversee and hold to account the LDVs in order to develop each of the locations as garden communities, and co-ordinate funding of the LDV's.
- The shareholders of NEGC will be Essex County Council (Essex), Braintree District Council (Braintree), Colchester Borough Council (Colchester) and Tendring District Council (Tendring) (together referred to as "the Councils") with each hold a 25% shareholding in NEGC.
- Each of the Councils will have the right to appoint or remove a director (a Nominated Director) who will be a Cabinet Member to the NEGC Board. Up to a further 3 Independent Directors can also be appointed to the Board by the NEGC.
- Board Quorum: at least 3 Nominated Directors need to be present. If not, the meeting will be adjourned, and at the adjourned meeting at least 2 Nominated Directors need to be present.
- On any board decision a majority in favour is required, including all Nominated Directors. However, where a decision relates to one LDV only, the Nominated Director of a Council that does not hold B Shares in that LDV (see below) shall not be entitled to vote.
- Business Plan: the directors will from time to time produce a business plan (the Long -term Business Plan for the life of the project conform to the requirements of the Master Plan (the adopted planning policy document for each LDV). This will be refreshed every 5 years and will set out detailed objectives for the following 5 years. The Board will also from time to time produce a budget. Both the Long -term Business Plan and the budget (and any changes) require the approval of each of the relevant Councils through the Cabinet or Cabinet Member.
- Reserved Matters: there are certain matters that require the consent of all of the Councils through the Cabinet process – these include any changes to the structure of the group, and any significant deviation from the Long-term Business Plan or budget.
- Shares can only be transferred with the prior written consent of each of the Councils through the by the Cabinet or Cabinet Member.
- The Council will have a limited liability to the value of the share capital purchased. Unless additional agreements are entered into there are no liabilities accruing to the Council from holding these shares.

Local Delivery Vehicles:

The Term Sheet for each LDV are broadly similar and supported by Shareholder Agreements

Names: 3 LDVs have been incorporated with working names of:

- (a) Tendring Colchester Borders Limited (relevant Term Sheet is attached as Appendix 4 and Shareholder Agreement as Appendix 5)
- (b) Colchester Braintree Borders Limited (relevant Term Sheet is attached as Appendix 6 and Shareholder Agreement as Appendix 7)

(c) West of Braintree Limited (relevant Term Sheet is attached as Appendix 8 and Shareholder Agreement as Appendix 9)

- The LDV is the operational arm of the structure whose Purpose is to secure the development of the relevant area of land as a garden community. The LDV will be responsible for leading on the preparation of the masterplan and funding the provision of the infrastructure. The LDV will either seek planning permissions for sites or control the sale and planning application process through site specific development agreements.
- The LDV will recover its infrastructure costs an appropriate time in accordance with the relevant land agreement with the landowner.
- Shareholders: NEGC will hold 100 A Shares in each LDV. The A Shares will have voting rights on most issues but not rights to a dividend. Each Council investing in the LDV will also hold B Shares (see below). The B Shares will be non-voting (except in exceptional circumstances, principally a breach of any funding agreement) but will carry rights to a dividend. There are no formal requirements for the Councils to hold B Shares or for any to be issued in order for the LDV to deliver the projects.
- Funding arrangements are to be agreed for each LDV. The expectation is that the LDV will fund the provision of infrastructure at the time when it is needed by the community rather than waiting for development to be completed prior to infrastructure being delivered. In order to do this the LDV will need access to finance. This finance will be repaid from land receipts as the scheme develops. Subject to approvals, the LDVs will be able to obtain finance from any source, but in practice the cheapest way of borrowing is likely to be from local authorities, if they are prepared to lend money to the LDV.
- There are two main ways in which the councils can provide funding to the LDV:
 - (i) Debt (by way of a funding agreement) which is repayable at a fixed or variable interest rate at a time set out in the agreement.
 - (ii) Equity funding whereby funding is provided in exchange for B Shares which attract a dividend, with the shares being repaid when the company no longer has the requirement for the funding and is able to do so. Investment via equity will have more risk but potentially more reward, depending on the financial performance of the LDV
- Each of the Councils involved in the LDV have the right to appoint or remove a director (Council Director) who will be an officer of the Council appointed by the Chief Executive. There may also be appointed [2-4] Independent Directors. Landowners/Option-holders can also appoint the same number of directors as the combined Council Directors. The Council Directors will be in a minority on the board.
- An independent chair will be appointed (one of the Independent Directors).
- Board Quorum: at least 3 directors need to be present (one of each category). If not, the meeting will be adjourned, and at the adjourned meeting at least 1 Council Director needs to be present.
- On any board decision a majority in favour is required.
- Business Plan: the directors will from time to time produce a business plan (the Short-term Business Plan). This will conform to the requirements of the Long-term Business Plan and the Master Plan. The board will also produce a budget. These key documents require NEGC approval.

- Reserved Matters: there are certain matters that require the consent of either all of the Councils (acting through the Cabinet or Cabinet Member) or NEGC – these include any changes to the structure of the LDV, and any significant deviation from the Short-term Business Plan or budget.
- Share Transfers: shares can only be transferred with the prior written consent of each of the relevant Councils.
- The Council will have a limited liability to the value of the share capital purchased. Unless additional agreements are entered into there are no liabilities accruing to the Council from the formation of the LDV.
- The LDV to take a leading role in the preparation of the Master Plan.

11. Summary of the Financial Model

- 11.1 The project has developed a detailed financial model of the proposed schemes. This enables early consideration of the viability of the projects and an understanding of the likely scope of funding required.
- 11.2 The model was originally created by the Advisory Team for Large Applications in the Homes & Communities Agency and provides a basis to assess the long term financial performance of the emerging projects. Given the extent of input required to maintain and manage the models, the Councils have secured ongoing direct support from Hyas Associates to provide direct capacity support to the Finance Working Group and continue to manage and evolve the modelling process. This resource is embedded within the project team and working directly with key finance managers and analysts from each of the Councils.
- 11.3 Separate models have been created for each of the proposed Garden Communities. Over recent months these have been reviewed, updated and evolved in light of the outcomes of the 'Garden Communities Concept Feasibility Study' commissioned by the Councils to assess the feasibility and deliverability of the potential sites. This work was undertaken by a consultant team of AECOM (international consultancy in design, planning & engineering) and Cushman & Wakefield (property advisors) and has provided further technical evidence to inform decision making on the Local Plans. For each site, the work has involved assessing the feasibility and deliverability of proposals, and costing all infrastructure requirements including transport, utilities, education, community, open space, etc.
- 11.4 Local property markets have also been reviewed, including the market context for housing and employment alongside a range of broader scheme viability considerations and assumptions. This information has been reviewed and transferred into the financial modelling process and provides the basis to the assessments undertaken to date.
- 11.5 The Councils have also appointed Price Waterhouse Coopers (PWC) to provide additional corporate finance support to the project. Their work has included an integrity check of the financial modelling process undertaken to date to ensure it is appropriate and fit for purpose, a commercial review of the delivery structure and consideration of optimum approaches to project financing, including key sources of funding and capital/revenue issues.
- 11.6 In addition, further consultancy advice has been commissioned from Cushman & Wakefield to consider in more detail the nature of local property markets and behaviour of landowners and developers, to further inform the approach to landowner negotiations.

- 11.7 The financial model incorporates assumptions on the cost and phasing of all necessary infrastructure, not only to ensure that new communities are supported by necessary infrastructure, but also to ensure that they can deliver on garden city principles. Particularly in relation to the timely delivery of infrastructure to support development.
- 11.8 The Concept Feasibility work has helped to further refine the nature of the schemes being considered, but it will be for LDVs to take on ultimate responsibility for detailed site specific master planning. It will then be possible to better understand detailed scheme cost and value implications and as such costs and values are working assumptions at this stage in the absence of more work and technical testing. All assumptions will be subject to continual refinement.
- 11.9 It should be noted that the approach taken is one of a 'master developer' (the LDV/s) undertaking the infrastructure delivery, disposing of serviced plots to house builders/commercial developers who would be responsible for physical building construction costs and property sales. Thus the gross costs and values in relation to all built development activity will be far higher than indicated in the modelling overall, generating broader employment and economic impacts across the construction and other local service industries. The approach does not preclude the opportunity for public sector stakeholders to directly deliver development should they wish, however it does enable the LDVs to manage their risks.
- 11.10 It should also be noted that the current assumptions include some contributions towards strategic infrastructure upgrades (such as towards the creation of new bus/tram rapid transit systems and delivery of an upgraded A120). Such items will however serve broader needs and objectives beyond individual sites, and thus will require additional funding (such as through Central Government, Department for Transport) to be fully realised. Ongoing lobbying for Government grant support in the delivery of key infrastructure will be an ongoing and key part of subsequent processes, especially to present the scale of the opportunity and commitment being shown by the Councils to deliver through innovative means.
- 11.11 All modelling has been done on present day costs and values without any modelling for inflation in the cost of borrowing, construction, wages, land value or house prices. It must therefore be anticipated that these will be subject to change. Figures presented in this report illustrate a base case position, and a number of sensitivity tests have also been undertaken to consider changes to the most significant variables including alternative infrastructure costs, house values, levels of affordable housing provision and the impact of cost inflation and house price changes over time.
- 11.12 Inflation will be a key factor in the changes to the actual position, as against the working assumptions of the model. Historically it has been the case that house prices have increased at a greater rate than costs. This would increase overall returns to the proposed schemes as against the modelled sums. Given the long term nature of the projects and the potential variability in inflation and costs it is not possible to give a detailed accurate assessment; however it is anticipated that the outcome would be favourable on the testing done with likely future rates.
- 11.13 The financial models are reliant upon a broad range of input assumptions and calculations. They are highly sensitive to changes and will always only present a picture based upon the best available information and evidence. In order to better understand the potential range of positions, a number of sensitivity tests have been undertaken to consider changes to the most significant variables such as:

- **House values:** to assess baseline house prices being either 10% under or over present day values. The latter could illustrate a potential garden community premium based upon the high quality nature of the environment to be created;
- **Infrastructure costs:** the base case includes a 5% contingency allowance on infrastructure costs. Scenario tests have been run to consider lower infrastructure costs, a zero contingency rate, and a 10% contingency rate (with contingency being used as a proxy for higher or lower costs);
- **Inflation:** the base case has been created on present day costs and values. Three scenarios have been run. 2% cost and 2% value inflation – this is to represent things changing as per Bank of England target, with no assumption that house values outpace costs; 2% cost and 4% value – as above but to make allowance for potential house prices outpacing cost inflation; and 3.4% cost and 6% value – based upon historic trends over past 30 years (1985-2015- Bank of England inflation data and Halifax house price index data).

11.14 The financial models are reliant upon a broad range of input assumptions and calculations. They are highly sensitive to changes and will always only present a picture based upon the best available information and evidence. Despite these caveats we are confident that the proposed garden community developments are viable and deliverable.

12. Short term requirements & revenue budget implications

12.1 An initial project budget was agreed in December 2015 and updates were brought to the Shadow Delivery Board in May and July 2016. This primarily related to the original grant funding secured from the DCLG (£640,000) as well as an additional contribution from Essex County Council (£15,000) in 2015/16 alongside forecast expenditure across a series of key workstreams.

12.2 A positive working relationship is being maintained with DCLG with a view to further support being provided as the project advances. Following further discussions with DCLG officials it is anticipated that a further £648,000 will be transferred in the current financial year. It is also anticipated that further funding would be available from DCLG for the remaining years of the Spending Review period, but any such amounts would be subject to HM Treasury approvals on a year by year basis. The Councils have also committed to contribute a £250,000 (each) to ensure the work can continue, and have been allocating significant officer time and resource to the project with particular pressures on planning, legal and financial staff together with senior management.

12.3 In total, a project budget of circa £2.3m has been committed, of which by the end of 2016/17 circa £1m will have been spent and/or allocated resulting in a residual of circa £1.3m to be carried forward into 2017/18. To date activity has focussed across the following key workstreams:

- **Project Resources:** dedicated support for project and programme management and a range of focussed inputs to planning, transport, infrastructure, funding and legal topics;
- **Legal Support:** External legal support with respect to the planning process, establishment of LDV/s and evolution of legal agreements with landowners;
- **Corporate Financial Support:** Commissioned work to investigate corporate financing, funding opportunities, and tax implications;
- **Planning and Infrastructure:** Concept feasibility work and subsequent evolution of concept frameworks for each of the sites, infrastructure planning including transport modelling, property market advice, together with wider evidence gathering to support plan examinations;
- **Others:** Other communications and consultation activities, secretariat services to the Shadow Delivery Board, Steering Group and project Working Groups.

- 12.4 Moving forward, the approach is to establish a dedicated delivery structure through the creation of NEGC and individual site focussed Local Delivery Vehicles (LDVs). These bodies will be responsible for bringing the projects forward through further design and planning stages, and into implementation through the direct delivery of infrastructure alongside the disposal of serviced plots to developers.
- 12.5 NEGC and each of the LDVs will require access to sufficient budget to create sufficient capacity (staff and support) as well as initiate more detailed design and planning consultancy activities over the first few years of operations. These will be required well in advance of potential land sales and the generation of income.
- 12.6 The extent of work required during the next year will involve further evolution of the approach, community engagement, evidence gathering and LDV business planning. The proposed model of resourcing the approach is based upon the creation of a dedicated technical 'Joint Delivery Team' with senior leadership and experience in project management, development and quality place-making to service NEGC and the LDVs from the outset prior to preparation of business plans which will set out the requirements for the next phases of work. It is proposed that the Joint delivery team will continue to be hosted by Colchester Borough Council in the interim whilst the local plans are considered at the Preferred Options Stage, with a view to preparing detailed transition plans and structures which will be implemented no later than the adoption of the Local Plans by Councils. This transition will be subject to further consideration by the Councils.
- 12.7 Initial estimates on resourcing requirements indicate costs of circa £850,000 in 2017/18 to fund the team and associated consultancy budgets. This is well within the anticipated carry over budget (£1.3m), and excludes any future assumptions on further grant support from DCLG. It is therefore not anticipated that there will be a requirement for further financial contributions by the Councils in 2017/18.
- 12.8 From 2018/19 onwards the projects will enter a new phase and require more significant funding to start to prepare proposals for planning and all necessary consents. The extent to which such costs can be appropriately covered will be explored as part of the LDVs' business planning process including consideration on how to address the revenue requirements in light of the forecast time lag between upfront expenditure and income from land sales. The overall approach is to ensure that all costs are included in the overall financial model, and paid back during the course of the project.
- 12.9 Figure 2 illustrates the anticipated overall revenue cost implications for the initial five year period from 2017/18 to 2021/22 based upon the establishment of a Joint Delivery Team and initiation of site specific masterplanning by each LDV.

Figure 2: Programme Revenue Budget Implications

	17/18	18/19	19/20	20/21	21/22	Total
Revenue						
Joint Delivery Team	0.8	1.0	1.1	1.1	1.1	5.1
Tendring Colchester Borders LDV		0.6	0.6	0.6	1.5	3.3
West of Braintree LDV			0.8	0.8	0.8	2.4
Colchester Braintree Borders LDV			1	1	1	3
Sub Total: Revenue	0.8	1.6	3.5	3.5	4.4	13.8
Expenditure						
Budget carry over from previous	(1.3)	(0.5)				

Net Revenue Expenditure	(0.5)	1.1	3.5	3.5	4.4	12
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13. Proposals for Tendring Colchester Borders Limited

Scheme Overview

- 13.1 A detailed financial model has been based created to assess the costs, income and overall viability of the Tendring Colchester Borders proposal. The modelling has been based upon Option 1 of the AECOM Concept Feasibility work, which delivers circa 6,600 residential units together with employment space, social infrastructure (including 4 new primary schools and 1 new secondary school, health and community facilities), local retail, and generous amounts of open space to accord to Garden City principles. The total site area is circa 300 hectare, located between the A133 to the south, Bromley Road to the north and the A120 to the east.
- 13.2 The Concept Feasibility set out several options in this location, with growth potentially running northwards up to and beyond the railway line and onto to the boundary of Severalls industrial area. For the time being Option 1 provides a baseline scenario for testing but any increase in scheme size will have associated impacts on the scale of costs and values.
- 13.3 The precise details of the development will be subject to ongoing evolution and refinement as proposals are further considered through work that has recently been commissioned to prepare a Concept Framework for the site, and on into subsequent planning policy making and eventual planning applications in due course. All future stages will involve further community and stakeholder engagement, to ensure proposals deliver on the level of ambition as set out in the current Garden Communities Charter and vision as established in Part 1 of Preferred Option Local Plans. As such both the quantum of development and scale of land is subject to further change; although it must be recognised that some key infrastructure requirements will drive a need for a certain minimum scale to ensure viability.

Financial Modelling Headlines

- 13.4 Financial modelling indicates that the scheme is viable overall, generating a positive residual surplus of £10m after accounting for all strategic infrastructure costs, set against income from land sales. Importantly, this is based upon a base case scenario based upon high level assumptions and present day costs and values. Figure 3 sets out the base case financial headlines relating to the scheme:

Figure 3: Base Case Financial Headlines

	Tendring Colchester Borders
Houses	6,608
Jobs ¹	2,253
Total Scheme Costs ²	£583m
Total Scheme Income ³	£593m
Residual ⁴	£10m
Residual equivalent per hectare ⁵	£283k
Start on Site	2021/22
Years to complete	26
Year cashflow goes positive	2046/47
Peak Debt	£122m

¹ Jobs forecast from B1, B2, B8 and retail uses only. There will be considerable additional job opportunities created in social infrastructure, community facilities and a broad range of home based employment activities. The aspiration

- is for there to be 1 job per household within the community or within a sustainable commuting distance.
- 2 Scheme costs relate to all strategic infrastructure costs, enabling works, purchasing of land at minimum price provisions, professional fees, contingency and LDV running costs but exclude direct building construction.
- 3 Scheme values relate to disposals of serviced land to plot developers.
- 4 Residual is the balance between costs and income and illustrates viability.
- 5 Residual spread over total gross site area.

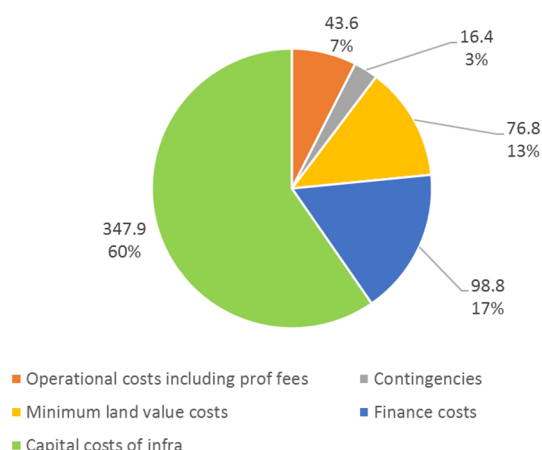
13.5 Figure 4 sets out further detail around the breakdown of costs included within the financial modelling. The analysis has been broken down to:

- **Operational costs:** including all cost related to operations such as LDV running costs (staff, administration, engagement & communications, business support, etc); professional fees (scheme wide masterplanning & planning applications, infrastructure design, project management, legal fees, property disposal fees);
- **Minimum land values:** to allow for contractual obligations to pay minimum land values as land is acquired, serviced and sold on for development.;
- **Capital costs of infrastructure:** All physical infrastructure required to deliver serviced development plots (including utilities, transport, schools, community space, open space, etc);
- **Contingencies** to allow for uncertainties and potential cost overruns; and
- **Finance costs:** interest costs on negative cash balances. Work is ongoing to assess the optimum approach to project financing. It is anticipated that the rate of finance levied on the LDVs will include a margin above the rates such finance could be secure.

13.6 As illustrated in Figure 4 the majority of costs relate to the physical provision of infrastructure (60%). Minimum land value payments will also form a sizeable proportion, and the rate of finance will have a key impact on both the scale of interest charges and overall scheme viability.

Figure 4: Scheme Cost breakdown by cost heading

Type	Tendring Colchester Borders
Operational costs	£44m
Land costs	£77m
Capital costs of infrastructure	£348m
Contingencies	£16m
Finance costs	£99m
Total Costs	£584m



Key infrastructure

13.7 A key aspect of the Garden Communities approach is to secure the delivery of a full range of infrastructure in a timely manner to ensure new communities are served by a full and extensive range of services and facilities at the point of need. This is a key component of the delivery model and underpins part of the rationale for the Councils engaging more directly in the process to secure positive outcomes for local communities.

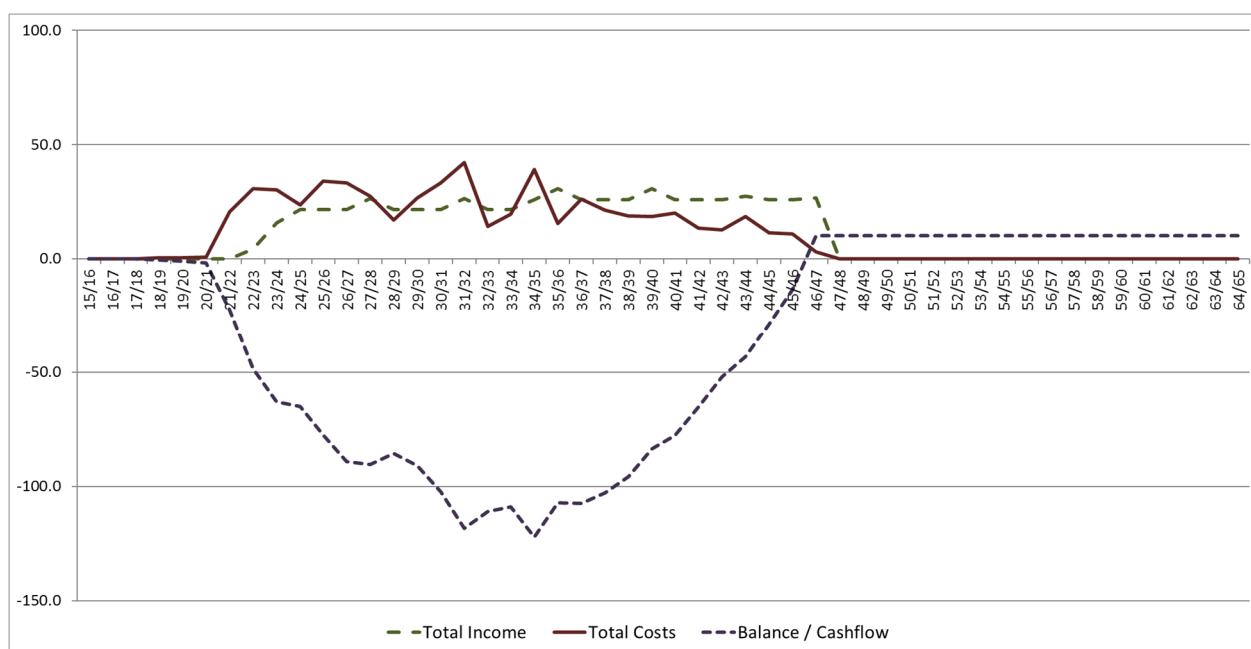
13.8 The financial modelling for the Tendring Colchester Borders Garden Community includes allowances to address a broad range of needs including but not limited to:

- **Education Facilities:** including the provision of 4 Primary Schools, 1 Secondary School and 10 Early Years Facilities (overall totalling circa £60m);
- New Community & health centres (£15m);
- **Leisure & Sports** facilities (£18m);
- New **Country Park** with facilities (£10m);
- Sustainable **transport (travel plan) measures, bus service subsidies, new on site** public transport hub, & contribution to strategic public transit system (£28m);
- New **link road** between A133 and A120 (£17m);
- Upgraded **pedestrian & cycle links** including greenways & bridge over A133 (£6m)

Phasing & Cashflow

- 13.9 The approach to the delivery of large scale strategic sites generally involves early, upfront delivery of infrastructure followed by a steady disposal of plots to housebuilders/developers enabling them to deliver houses to the market. Delivery of the Garden Communities will accord to this profile, as illustrated in Figure 5 which illustrates the scale of costs and returns on an annual basis throughout the course of the delivery of the Tendring Colchester Borders Garden Community.
- 13.10 As indicated in Figure 5, the net funding requirement will quickly rise to a potential peak debt position of circa £120m. As income from land sales outpace costs, the debt would reduce to get to a cashflow positive position towards the end of the development period.
- 13.11 As indicated across the various figures in this report, the costs will build up over time with the LDVs requiring access to substantial funding via equity/loan finance to enable them to deliver the necessary infrastructure (and all other related costs). Whilst it will be for the LDVs to source the optimum funding arrangements (which could be a blend of public and private finance/equity).
- 13.12 Clearly not all funding will be needed from the outset of the project, and requirements will closely relate to key project stages and milestones and the scale and type of activity that will be undertaken, in the following general sequence:
- 2017/18 to 2021/22: design and planning stage, mainly requiring funding to prepare planning applications (site wide and initial infrastructure) and secure related approvals;
 - 2021/22: first phase acquisition of land and on site implementation of capital works in utilities and site access (initial outlay of circa £25m);
 - 2022/23 onwards: ongoing land purchases and implementation of infrastructure delivery, partly offset by income from serviced land sales to the market. The debt would rise over time to circa £75m in 2025/26, £100m by 2030/31, and peaking at £120m in 2033/34.
 - 2033/34 debt would be reducing to circa £100m in 2037/38, £75m in 2040/41 and £25m in 2044/45.

Figure 5: Tendring Colchester Borders Cashflow



Sensitivity Tests

- 13.13 The sensitivity test indicate that a careful approach will be required to affordable housing, and that if house prices were to fall or infrastructure cost overrun then viability will become challenging. However, the impact of inflation would be significant under all scenarios, potentially considerably boosting the residual surplus and bringing down peak debt and the timescale for the scheme to go cashflow positive.

14. Proposals for Colchester Braintree Borders Limited

Scheme Overview

- 14.1 A detailed financial model has been based created to assess the costs, income and overall viability of the Colchester Braintree Borders proposal. The modelling has been based upon Option 1 of the AECOM Concept Feasibility work, which delivers circa 17,000 residential units together with employment space, social infrastructure (including 11 new primary schools, 2 new secondary schools, health and community facilities), local retail, and generous amounts of open space to accord to Garden City principles. The total site area is circa 800 hectares, located in an arc around Marks Tey, North, West & South of the existing community.
- 14.2 The Concept Feasibility work revealed that a number of development options could be evolved in the location, potentially providing up to a maximum of circa 28,000 residential units. For the time being Option 1 provides a baseline scenario for testing but any increase in size will have associated impacts on the scale of scheme costs and values.
- 14.3 Precise details of the development will be subject to ongoing evolution and refinement as proposals are further considered through the preparation of a Concept Framework for the site, and on into subsequent planning policy making and eventual planning applications in due course. All future stages will involve further community and stakeholder engagement, to ensure that proposals deliver on the level of ambition as set out in the Garden Communities Charter and vision as established in Part 1 of Preferred Option Local Plans. As a result, both the quantum of development and scale of land will be subject to change.

Financial Modelling Headlines

- 14.4 Financial modelling indicates that the scheme is viable overall, generating a positive residual surplus of circa £69m after accounting for all strategic infrastructure costs, set against income from land sales. Importantly, this is based upon a base case scenario based upon high level assumptions and present day costs and values. Figure 6 sets out the base case financial headlines relating to the scheme:

Figure 6: Base Case Financial Headlines

	Colchester Braintree Borders
Houses	16,858
Jobs ¹	3,190
Total Scheme Costs ²	£1,425m
Total Scheme Income ³	£1,494m
Residual ⁴	£69m
Residual equivalent per hectare ⁵	£338k
Start on Site (infrastructure)	2022/23
Years to complete	45
Year cashflow goes positive	2062/63
Peak Debt	£210m

¹ Jobs forecast from B1, B2, B8 and retail uses only. There will be considerable additional job opportunities created in social infrastructure, community facilities and a broad range of home based employment activities. The aspiration is for there to be 1 job per household within the community or within a sustainable commuting distance.

² Scheme costs relate to all strategic infrastructure costs, enabling works, purchase of land at minimum price provisions, professional fees, contingency and LDV running costs but exclude direct building construction.

³ Scheme values relate to disposals of serviced land to plot developers.

⁴ Residual is the balance between costs and income and illustrates viability.

⁵ Residual spread over total gross site area.

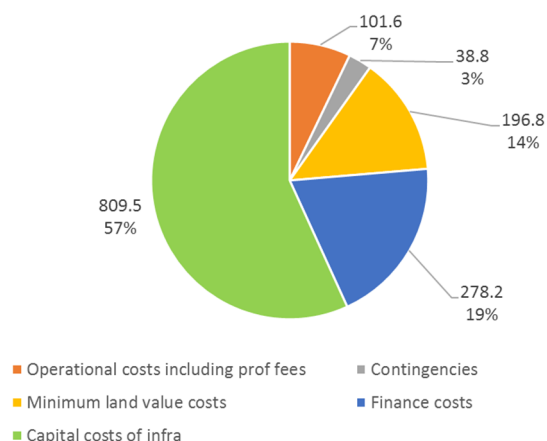
- 14.5 Figure 7 sets out further detail around the breakdown of costs included within the financial modelling. The analysis has been broken down to:

- **Operational costs:** including all cost related to operations such as LDV running costs (staff, administration, engagement & communications, business support, etc); professional fees (scheme wide masterplanning & planning applications, infrastructure design, project management, legal fees, property disposal fees);
- **Minimum land values:** to allow for contractual obligations to pay minimum land values as land is acquired, serviced and sold on for development.;
- **Capital costs of infrastructure:** All physical infrastructure required to deliver serviced development plots (including utilities, transport, schools, community space, open space, etc);
- **Contingencies** to allow for uncertainties and potential cost overruns; and
- **Finance costs:** interest costs on negative cash balances. Work is ongoing to assess the optimum approach to project financing. It is anticipated that the rate of finance levied on the LDVs will include a margin above the rates such finance could be secure.

- 14.6 As illustrated in Figure 7 the majority of costs relate to the physical provision of infrastructure (57%). Minimum land value payments will also form a sizeable proportion, and the rate of finance will have a key impact on both the scale of interest charges and overall scheme viability.

Figure 7: Scheme Cost breakdown by cost heading

Type	Colchester Braintree Borders
Operational costs	£102m
Land costs	£197m
Capital costs of infrastructure	£810m
Contingencies	£39m
Finance costs	£278m
Total Costs	£1,425



Key infrastructure

- 14.7 A key aspect of the Garden Communities approach is to secure the delivery of a full range of infrastructure in a timely manner to ensure new communities are served by a full and extensive range of services and facilities at the point of need. This is a key component of the delivery model and underpins part of the rationale for the Councils engaging more directly in the process to secure positive outcomes for local communities.
- 14.8 The financial modelling for the Colchester Braintree Borders Garden Community includes allowances to address a broad range of needs including but not limited to:
- **Education Facilities:** including the provision of 11 Primary Schools, 2 Secondary Schools and 24 Early Years Facilities (overall totalling circa £152m);
 - **New Community & health centres** (£38m);
 - **Leisure & Sports** facilities (£46m);
 - **New Country Park** with facilities (£10m);
 - **Sustainable transport** including travel plan measures (car clubs, etc), bus service subsidies, new on site public transport hub, contribution towards improvements at Marks Tey rail station & contribution to strategic public transit system (£71m);
 - **Local highways improvements** including junction upgrades and contribution towards delivery of an upgraded A120 (£60m);
 - **Upgraded pedestrian & cycle links** including greenways & bridge over A120 (£17m)

Phasing & Cashflow

- 14.9 The approach to the delivery of large scale strategic sites generally involves early, upfront delivery of infrastructure followed by a steady disposal of plots to housebuilders/developers enabling them to deliver houses to the market. Delivery of the Garden Communities will accord to this profile, as illustrated in Figure 8 which illustrates the scale of costs and returns on an annual basis throughout the course of the delivery of the Colchester Braintree Borders Garden Community.
- 14.10 As indicated in Figure 8, the net funding requirement will quickly rise to a potential **peak debt position of circa £210m**. As income from land sales outpace costs, the debt would reduce to get to a cashflow positive position towards the end of the development period.

14.11 As indicated across the various figures in this report, the costs will build up over time with the LDVs requiring access to substantial funding via equity/loan finance to enable them to deliver the necessary infrastructure (and all other related costs). It will be for the LDVs to source the optimum funding arrangements at the point of need (which could involve a blend of public and private finance/equity).

14.12 Clearly not all funding will be needed from the outset of the project, and requirements will closely relate to key project stages and milestones, and the scale and type of activity that will be undertaken, in the following general sequence:

- 2018/19 to 2022/23: design and planning stage, mainly requiring funding to prepare planning applications (site wide and initial infrastructure) and secure related approvals;
- 2022/23: first phase acquisition of land and on site implementation of capital works in utilities and site access (initial outlay of circa £25m);
- 2022/23 onwards: ongoing land purchases and implementation of infrastructure delivery, partly offset by income from serviced land sales to the market. Given the scale of potential early contributions to transport infrastructure, the debt would rise quickly over time to its peak of £210m in 2028/29.
- 2028/29 up to 2036/37: the debt remains around the £200m mark;
- 2037/38 debt begins to reduce as incomes exceed costs, reducing to circa £150m in 2044/45, £100m in 2053/54 and £50m in 2058/59.

Figure 8: Colchester Braintree Borders Cashflow



Sensitivity Tests

14.13 The sensitivity test indicate that a careful approach will be required to affordable housing, and that if house prices were to fall or infrastructure cost overrun then viability will become challenging. However, the impact of inflation would be significant under all scenarios, potentially considerably boosting the residual surplus and bringing down peak debt and the timescale for the scheme to go cashflow positive.

15. Proposals for West of Braintree Limited

Scheme Overview

- 15.1 A detailed financial model has been based created to assess the costs, income and overall viability of the West of Braintree proposal. The modelling has been based upon Option 1 of the AECOM Concept Feasibility work, which delivers circa 10,000 residential units together with employment space, social infrastructure (including 6 new primary schools, 1 new secondary school, health and community facilities), local retail, and generous amounts of open space to accord to Garden City principles. The total site area is circa 570 hectares, located to the north of the A120 between Stebbing Green, Rayne, going northwards towards Great Salling.
- 15.2 The Concept Feasibility set out two potentially options in this location. Option 2 included land in Uttlesford District Council, which would increase the site's capacity to circa 13,000 residential units. For the time being Option 1 provides a baseline scenario for testing but should Uttlesford District Council select the site for growth in its Local Plan, an increase in scheme size will have associated impacts on the scale of costs and values.
- 15.3 Precise details of the development will be subject to ongoing evolution and refinement as proposals are further considered through the preparation of a Concept Framework for the site, and on into subsequent planning policy making and eventual planning applications in due course. All future stages will involve further community and stakeholder engagement, to ensure that proposals deliver on the level of ambition as set out in the Garden Communities Charter and vision as established in Part 1 of Preferred Option Local Plans. As a result, both the quantum of development and scale of land will be subject to change.

Financial Modelling Headlines

- 15.4 Financial modelling indicates that the scheme is viable overall, generating a positive residual surplus of circa £190m after accounting for all strategic infrastructure costs, set against income from land sales. Importantly, this is based upon a base case scenario based upon high level assumptions and present day costs and values. Figure 9 sets out the base case financial headlines relating to the scheme:

Figure 9: Base Case Financial Headlines

	West of Braintree
Houses	9,729
Jobs ¹	3,688
Total Scheme Costs ²	£890m
Total Scheme Income ³	£1,075m
Residual ⁴	£186m
Residual equivalent per hectare ⁵	£579k
Start on Site (infrastructure)	2022/23
Years to complete	35
Year cashflow goes positive	2048/49
Peak Debt	£149m

¹ Jobs forecast from B1, B2, B8 and retail uses only. There will be considerable additional job opportunities created in social infrastructure, community facilities and a broad range of home based employment activities. The aspiration is for there to be 1 job per household within the community or within a sustainable commuting distance.

² Scheme costs relate to all strategic infrastructure costs, enabling works, purchasing of land at minimum price provisions, professional fees, contingency and LDV running costs but exclude direct building construction.

³ Scheme values relate to disposals of serviced land to plot developers.

⁴ Residual is the balance between costs and income and illustrates viability.

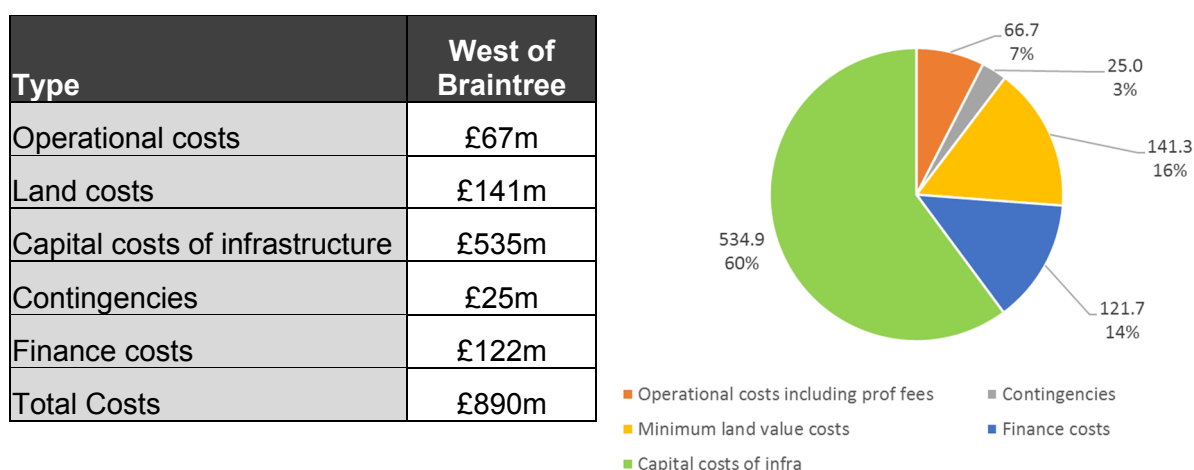
⁵ Residual spread over total gross site area.

- 15.5 Figure 10 sets out further detail around the breakdown of costs included within the financial modelling. The analysis has been broken down to:

- **Operational costs:** including all cost related to operations such as LDV running costs (staff, administration, engagement & communications, business support, etc); professional fees (scheme wide masterplanning & planning applications, infrastructure design, project management, legal fees, property disposal fees);
- **Minimum land values:** to allow for contractual obligations to pay minimum land values as land is acquired, serviced and sold on for development.;
- **Capital costs of infrastructure:** All physical infrastructure required to deliver serviced development plots (including utilities, transport, schools, community space, open space, etc);
- **Contingencies** to allow for uncertainties and potential cost overruns; and
- **Finance costs:** interest costs on negative cash balances. Work is ongoing to assess the optimum approach to project financing. It is anticipated that the rate of finance levied on the LDVs will include a margin above the rates such finance could be secure.

15.6 As illustrated in Figure 10 the majority of costs relate to the physical provision of infrastructure (60%). Minimum land value payments will also form a sizeable proportion, and the rate of finance will have a key impact on both the scale of interest charges and overall scheme viability.

Figure 10: Scheme Cost breakdown by cost heading



Key infrastructure

15.7 A key aspect of the Garden Communities approach is to secure the delivery of a full range of infrastructure in a timely manner to ensure new communities are served by a full and extensive range of services and facilities at the point of need. This is a key component of the delivery model and underpins part of the rationale for the Councils engaging more directly in the process to secure positive outcomes for local communities.

15.8 The financial modelling for the West of Braintree Garden Community includes allowances to address a broad range of needs including but not limited to:

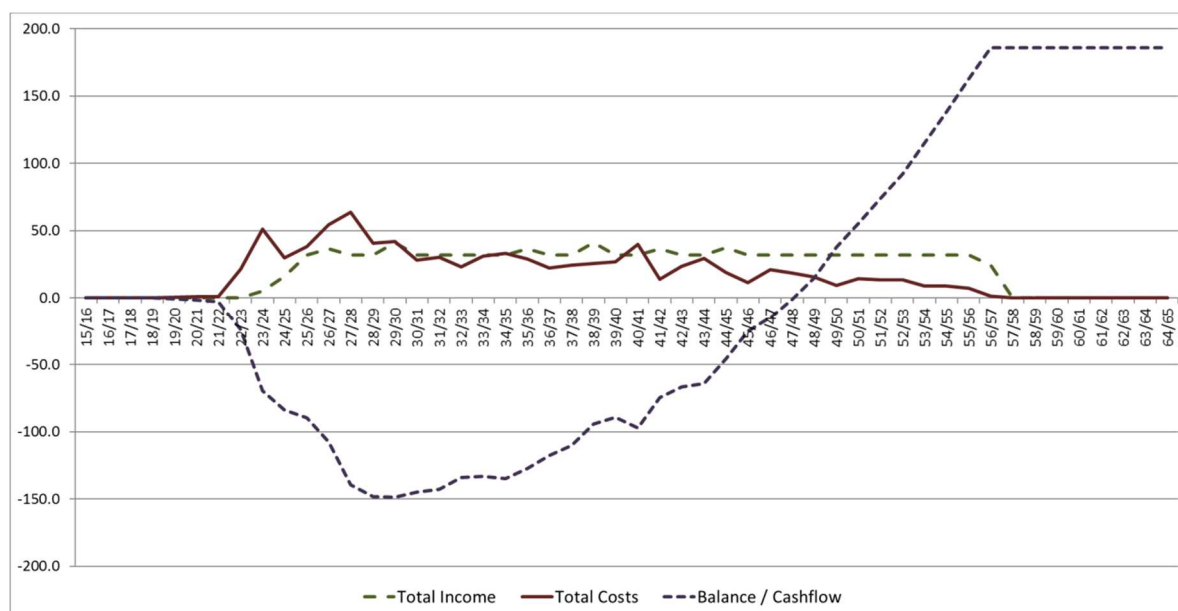
- **Education Facilities:** including the provision of 6 Primary Schools, 1 Secondary School and 14 Early Years Facilities (overall totalling circa £88m);
- **New Community & health centres** (£22m);
- **Leisure & Sports** facilities (£27m);
- **New Country Park** with facilities (£10m);
- **Sustainable transport** including travel plan measures (car clubs, etc), bus service subsidies, new on site public transport hub & contribution to strategic public transit system (£40m);
- **Local highways improvements** including junction upgrades and contribution towards delivery of an upgraded A120 (£75m);

- Upgraded **pedestrian & cycle links** including greenways & bridge connections over A120 (£13m).

Phasing & Cashflow

- 15.9 The approach to the delivery of large scale strategic sites generally involves early, upfront delivery of infrastructure followed by a steady disposal of plots to housebuilders/developers enabling them to deliver houses to the market. Delivery of the Garden Communities will accord to this profile, as illustrated in Figure 11 which illustrates the scale of costs and returns on an annual basis throughout the course of the delivery of the West of Braintree Garden Community.
- 15.10 As indicated in Figure 11, the net funding requirement will quickly rise to a potential **peak debt position of circa £150m**. As income from land sales outpace costs, the debt would reduce to get to a cashflow positive position towards the end of the development period.
- 15.11 As indicated across the various figures in this report, the costs will build up over time with the LDVs requiring access to substantial funding via equity/loan finance to enable them to deliver the necessary infrastructure (and all other related costs). It will be for the LDVs to source the optimum funding arrangements at the point of need (which could involve a blend of public and private finance/equity).
- 15.12 Clearly not all funding will be needed from the outset of the project, and requirements will closely relate to key project stages and milestones, and the scale and type of activity that will be undertaken, in the following general sequence:
- 2018/19 to 2022/23: design and planning stage, mainly requiring funding to prepare planning applications (site wide and initial infrastructure) and secure related approvals;
 - 2022/23: first phase acquisition of land and on site implementation of capital works in utilities and site access (initial outlay of circa £25m);
 - 2022/23 onwards: ongoing land purchases and implementation of infrastructure delivery, partly offset by income from serviced land sales to the market. Given the scale of potential early contributions to transport infrastructure, the debt would rise quickly over time to its peak of £150m in 2028/29.
 - 2028/29 up to 2035/36: the debt remains within the £130-150m mark;
 - 2036/37 debt begins to reduce as incomes exceed costs, reducing to circa £75m in 2041/42, and £25m in 2045/46.

Figure 11 West of Braintree Cashflow



Sensitivity Tests

15.13 The sensitivity test indicates that the scheme remains viable under the majority of scenarios with the exception of a 10% fall in baseline house values. However, whilst macro-economic factors cannot be prevented, the design approach to deliver a quality living environment should mitigate against this risk materialising. The impact of inflation would be significant under all scenarios, potentially considerably boosting the residual surplus and bringing down peak debt and the timescale for the scheme to go cashflow positive.

16. Funding principles for the LDVs

16.1 The four Councils have been working on the basis of equal partnership in the delivery of the projects; it is proposed that this approach is maintained at this stage.

16.2 The decision in principle to fund each of the LDVs does not create a formal legally binding agreement with the LDVs that the Council will fund them. This will be a separate decision for Cabinet and Council at a later stage once there has been further development of the business case and the detailed funding requirements. The decision before Members is to commit to being a proactive funding provider to the schemes within its area, providing that the schemes meet appropriate business case and viability thresholds.

16.3 In light of the information set out in Sections 13 to 15 of this report, and the relative cashflow and peak debt funding needs of each of the proposals, Figure 12 sets out one potential scenario for the order of magnitude which proportionate funding may require from each of the Councils. This is based upon equal apportionment of requirements based upon the geographic location of each of the proposed Garden Community, and the relevant Councils for them. The scenario is based on the Councils being the only funder, without recourse to any third party funding.

Figure 12: Proportionate share of peak debt

	Tendring Colchester	Colchester Braintree Borders	West of Braintree Limited	Total
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	Borders Limited	Limited		
Braintree District Council		1/3 of total = £70m	1/2 of total =£75m	£145m
Colchester Borough Council	1/3 of total =£40m	1/3 of total =£70m		£110m
Essex County Council	1/3 of total =£40m	1/3 of total =£70m	1/2 of total =£75m	£185m
Tendring District Council	1/3 of total =£40m			£40m
Total	£120m	£210m	£150m	£480m

Note: Where a Council is involved in more than one scheme, the actual peak debt may be different across the combined schemes due to the combination of separate cashflows.

- 16.4 Each LDV is a separate legal entity with its own financial requirements and delivery aims and objectives. The principle is that each Council will make available funding in equal amounts for the schemes in which it is a partner.
- 16.5 At this stage the Councils are providing an in principle commitment to providing funding. The LDV will in determining its own business plans develop a detailed set of funding requirements; including the scale of funding required and the timescales which will be relevant to each block of funding. It is unlikely that it will seek to borrow the whole amount required in a single funding allocation, the information from specialists indicates that it will be advantageous to split borrowing requirements into phases and deal with these as required. It must be noted that as per the cashflows presented for each project, funding requirements will be phased over the life time of the projects, and reflect the timing and scale of necessary costs, set against the phasing of land sales driving income.
- 16.6 In addition, the Councils will also need to address short term revenue funding implications of the initial planning and design work related to both the operations of the Joint Delivery Team and individual LDVs, as set out at Figure 2 of this report. Work is ongoing to further consider the optimum approach to addressing such costs with support from Price Waterhouse Coopers, and financial officers across each of the Councils concerned. This will form a key part of the evolution of more detailed business plans during 2017/18 so as to create suitable funding arrangements and minimise impacts on Council revenue budgets.
- 16.7 Whilst it will be open for the Council to seek a range of funding sources depending on the detailed financial position at the time funding is requested it is likely that if needed the majority of the funding will be in the form of borrowing by the Council. Should the Council borrow funds then this will be subject to the prudential borrowing code requirements and subject to a detailed decision of the Council the relevant time. The Council would expect to borrow at rates which are preferential to those obtainable by the LDV, given its status as a local government body, in order to comply with State Aid rules the lending to the LDV would be on commercial terms; therefore, the Council would expect to receive a margin between the rate at which it borrows and that at which it is repaid, this margin would represent a gain to the Council; in part offsetting the risk that it is taking in providing funding.
- 16.8 Detailed considerations about the accounting treatment for the loans and the capitalisation of costs is being developed and would form the basis of subsequent detailed decision making.

- 16.9 In terms of affordability there are expected to be opportunities to control costs through changes to the assumptions in the funding model to react to changing circumstances as the project develops and any decisions made by Councils to provide funding to the LDVs will be made with regard to the Prudential Code as explained in the Legal Powers Section of this report.
- 16.10 It must also be noted that the LDV will have the right to seek to secure funding from other sources as against the Councils. This could be from independent financial institutions, the developers or landowners within a scheme or other funding sources. Should the LDV do this it would reduce the amount sought from the Councils, reducing the call on the Councils' finances. This would however reduce the scope for the Councils to obtain a financial return from the project. Any determination of funding will be determined by prevailing market conditions and the needs of the LDV for any given element.

17. Legal Powers

- 17.1 The General Power of Competence ("the Power") provided for by the Localism Act 2011 is relied upon as the authority for the District/Borough/County Council to establish and subscribe to North Essex Garden Communities Limited and to subscribe for B shares in relevant Local Delivery Vehicles.
- 17.2 In exercising the General Power of Competence local authorities must do so in a way which does not compromise any pre-existing statutory limitations, and the actions identified in this report do not compromise those restrictions. Any activity which local authorities wish to take for a commercial purpose must be undertaken via a company, given the need for the LDVs to act in a commercially aware way and to develop the projects commercially (although within the requirements of the Garden Community principles the use of a company structure enables reliance on the General Power of Competence in this respect).
- 17.3 Deciding to establish a company, in the context of this report, being North Essex Garden Community is an Executive Function in accordance with the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended). The 'in principle' funding decisions are in accordance with the Council's Budget and Policy Framework, (subject to Council approval as set out in the recommendations).
- 17.4 The statutory framework for local authority borrowing and investments is set out in Chapter 1 of the Local Government Act 2003, supplemented by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).
- 17.5 A local authority may borrow money or invest (a) for any purpose relevant to its functions under any enactment, or (b) for the purposes of prudent management of its financial affairs. All money borrowed by a local authority, together with any interest on the money borrowed, shall be charged indifferently on all the revenues of the authority.
- 17.6 Local authorities must determine and keep under review how much money it can afford to borrow which is set by each Council as an "Authorised Limit". This borrowing limit cannot be exceeded without the approval of full Council. (In the event that the Council agrees to provide funding to the LDV's as illustrated in paragraph 16.3 then its borrowing limits will need to be revised accordingly).
- 17.7 In setting its borrowing limit, Regulations require a local authority to have regard to the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code has been developed as a professional code of practice to support local authorities in taking decisions on capital investment which can be affordable, prudent, and sustainable.

These requirements will need to be demonstrated through the business case developed for each of the Garden Communities.

18. Risk Assessment

- 18.1 The project has developed a strategic risk assessment profile. This is attached as Appendix 10.
- 18.2 At the present time there are a significant number of risks, many of which are inherently uncertain given the timescales over which the project will develop. Officers have considered the risks carefully and recommend that these are broadly reflective of the risk profile associated with any project of this scale.
- 18.3 The project has a number of break points particularly the development of the detailed business case. Should this demonstrate a scenario which provides an unacceptable commercial viability, or other significant uncontrolled risk, then it is open to the partner Councils to terminate the project at that juncture.
- 18.4 The two largest risks relate to Land Control and Local Plan. Both of these have the potential to halt progress on a particular scheme. Should landowner agreements not be reached by the time the Pre Submission Draft is agreed by the Council, then this will represent a key change to the relationship between the landowners and the Councils / LDV; the underlying assumptions in the agreements would then need to be reconsidered and are not able to be implemented in the form indicated in this report. Equally if a scheme is not included in the Pre Submission Draft of the Local Plan on the basis of appropriate planning Policy determination, then it would not be possible for the LDV to pursue any development and accordingly it would be wound up.

19. Equalities Impact Assessment

- 19.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires the local authority to have regard to the need to:
 - a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Equality Act 2010. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.
 - b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 19.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (a) or (b) although it is relevant for (c).
- 19.3 The proposals are to create an inclusive community which meets the needs of all residents regardless of whether or not they have a protected characteristic. The intention is to provide housing and facilities for all. By participating in the development in the way proposed the local authorities will have a greater influence over the content and layout than a development undertaken in a traditional way. The differing needs of people with different protected characteristics will need to be considered during the design and planning of the development and kept under review as the scheme progresses.

20. Implementation

- 20.1 The project is currently seeking the support of the four relevant Councils in order to form the North Essex Garden Communities Limited, and it will then set up the constituent LDV's. It is anticipated that the LDV's will enter into legal agreements with landowners / developers before the end of the year.
- 20.2 The three local planning authorities are publishing the pre-submission versions of the Local Plans in the New Year. Should any of the proposed project sites not receive support in the local planning process this will be a critical point in the project; effectively closing it and the relevant LDV will be wound up.
- 20.3 For clarity the outline timetable for the project is set out in the following table:

25 November 2016	Tendring District Council; Cabinet
29 November 2016	Braintree District Council; Cabinet
29 November 2016	Tendring District Council; Council
30 November 2016	Colchester Borough Council; Cabinet
8 December 2016	Colchester Borough Council; Council
12 December 2016	Braintree District Council; Council
13 December 2016	Essex County Council; Cabinet
14 December 2016	Councils sign Shareholder Agreements and subscribe to NEGC
Prior to determination of the Local Plan Pre Submission draft.	NEGC Board meet and agree the subscription of LDVs including appointment of Directors
Prior to determination of the Local Plan Pre Submission draft.	Each of the LDVs Boards meet and agree the Landowner Agreements.
Prior to determination of the Local Plan Pre Submission draft.	Landowner Agreements completed.
January 2017	Local Plan Pre-Submission Draft Published for Committee Consideration
January / February 2017	Council meetings to approve Local Plan Pre-Submission Draft
March 2017	Relevant LDVs either wound up on basis of non-allocation; Or continues the development of the schemes.

20. Strategic Plan References

- 20.1 The Strategic Plan Action Plan includes a commitment to make Colchester a vibrant, prosperous, thriving and welcoming place. The new Local Plan will contribute to the attainment of this commitment through new development, conservation and regeneration.

21. Financial Considerations

- 21.1 See sections 12 to 16 of this report above.

22. Equality, Diversity and Human Rights Implications

- 22.1 See section 19 of this report above.

23. Consultation and Publicity Implications

- 23.1 The concept of new settlements crossing the boundary of Colchester and Tendring has already been the subject of public consultation both through the Colchester Issues and

Options consultation and the recent Tendring Issues and Options consultation. Braintree District Council also made reference to Garden Settlements in their Issues and Options consultation.

24. Community Safety, Health and Safety and Implications

24.1 No direct implications.

25. Risk Management Implications

25.1 See section 18 of this report above.

Summary of Appendices:

1	Diagram showing Corporate Structure
2	Draft Term Sheet North Essex Garden Communities Limited
3	Shareholders Agreement North Essex Garden Communities Limited
4	Draft Term Sheet Tendring Colchester Borders Limited
5	Shareholders Agreement Tendring Colchester Borders Limited
6	Draft Term Sheet Colchester Braintree Borders Limited
7	Shareholders Agreement Colchester Braintree Borders Limited
8	Draft Term Sheet West of Braintree Limited
9	Shareholders Agreement West of Braintree Limited
10	Risk Assessments

In view of their size, the appendices have not been printed in the Council Summons but are available [here](#) or by following the pathway www.colchester.gov.uk / Your Council / Committees, Agendas and Minutes / Council/ 08 December 2016.