

Appendix 1

Business Case: The Proposed Northern Arm Breakwater, Brixham – Jones Lang LaSalle, April 2013

Conclusion

We set out below our conclusions in relation to the three key questions requested by the Project Brief.

Optimal mixed use development for Oxen Cove and Freshwater Quarry

In our opinion the optimal mixed use development for Oxen Cove and Freshwater Quarry would be substantially residentially led if it is to deliver the highest land receipt. However, the inclusion of some commercial uses (subject to pre-lets being available) particularly retail and or a hotel offer significant advantages to a developer in constructing the scheme as follows:

Reduced peak borrowing through pre-let/sale of commercial accommodation
Balanced scheme which is more attractive to residents hence securing higher sale prices
A reduced number of apartments reduces the pressure on the developer to sell units quickly hence allowing a premium product which will secure additional revenue and margin over build
Creation of activity and jobs will lift the area and improve the attractiveness of the scheme
Inclusion of commercial accommodation allows reduced parking to be provided (since spaces can enjoy dual use)

The inclusion of these complimentary commercial uses will also offer benefits to the wider Brixham community.

It is very difficult to accurately assess at this stage what capital receipt would be forthcoming from the sale of the sites. There are a number of constraints in relation to the sites which need to be crystallised and or/released in order to maximise land value. For example what level of public car parking will need to be provided; obtaining vacant possession in relation to the current boat storage area etc.

Currently our indicative range of land value is between £0 and £5m demonstrating how sensitive the land receipt is to the various constraints and associated assumptions. Clearly there may well be conflict in maximising the return from the development of the sites from a community perspective versus a land value perspective. For example from a community perspective delivering a good level of public parking, public realm and access will be important and these may conflict with the aspiration of maximising land value. Therefore it could be argued that currently obtaining land values at the upper end of the range, albeit theoretically possible, is unrealistic. It is also fair to say that bringing the site forward for sale now/in the very short term (all other things being equal) is unlikely to maximise land receipt due to depressed market conditions.

Notwithstanding the above, when the site is brought forward careful thought will need to be given to how the sale is structured in order to provide the best balance between control and return. It will be important that a developer is allowed sufficient time to work up a planning application and secure pre-let/sales in order to deliver the best value from the scheme. This will allow options to be explored in greater detail and with the benefit of a full project team including surveying, planning, architects, engineers and quantity surveying advice.

Funding options available

In summary our findings in relation to available funding sources are as follows:

- Grants for major and complex infrastructure projects with predominantly indirect economic benefits such as the Northern Arm are currently very difficult to secure (and it is difficult to see this changing, certainly in the short term)
- Grant availability is likely to be modest in relation to the overall scheme cost. The most significant potential source currently identifiable is via CIL investment although this is not certain
- For the purposes of our financial case we have assumed a potential indicative range of grant funding at this stage of between £0 to £5m

The most tangible current funding opportunity is likely CIL. Therefore it is important that partners leading the Northern Arm project and supporting stakeholders fully explore the potential of CIL as the current likely key enabler for the Northern Arm. Interestingly the draft Local Plan and associated preliminary infrastructure schedules set out that the Northern Arm will be implemented over the next 5 to 10 years with completion 10 years plus away. This signifies that generating funding to help unlock the project is unlikely to be a quick process.

Going forward the LEP is likely to be a key conduit for a range of funding sources (national, flood risk, possibly European etc.). Therefore another key action is to ensure that the LEP is fully on board in relation to the Northern Arm and to shape the emerging Northern Arm project to fit as many national/local priorities as possible. This may require for example the preparation of a strategic and economic impact assessment at the appropriate stage.

Funding opportunities change over time. Therefore it will be important to continue to assess and explore all potential grant funding opportunities on an on-going basis (for example an early understanding of the new European programmes when details are clear).

Financial Case

In all likelihood based on current circumstances the Oxen Cove and Freshwater Quarry land receipt coupled with any available grant will leave a substantial funding gap versus the estimated Northern Arm implementation costs.

The key income generating activity unlocked by the Northern Arm is likely to be a major new marina, assumed currently to be in the order of 500 berths.

We have assessed the ability of a marina to underpin the borrowing costs required to fill the funding gap. Our analysis has shown that a harbour run facility (assuming it is deliverable etc.) will provide a better return when compared with a private run marina. However, in both cases, either on a rental or sale basis, the new marina is not able to generate sufficient value to finance the estimated funding gap for the Northern Arm on an affordable basis.

Conclusion

Therefore, based on the current project cost estimates using an estimate of ground conditions, currently the Northern Arm is not affordable on the basis that the value unlocked by its implementation (a substantial new marina) is not sufficient, by a significant margin, to justify the borrowing required to fill the estimated funding gap on an affordable/commercial basis.

Therefore in order for the Northern Arm to present a commercially viable business case a “game changing” variation is required. For example:

- A substantial reduction in implementation costs
- A significant award of grant funding above the indicative levels set out herein
- Identification of other substantial income generating opportunities over and above the new marina
- Willingness and ability of a partner/stakeholder to fund a substantial amount of the costs of borrowing on this project on the understanding that they will not get this back in a normal commercially acceptable manner

Additional clarity would be provided where a more accurate cost estimate was available. Tor Bay Harbour Authority and its partners should consider now whether to commission the work to better define project costs. If this is done the business case should subsequently be reviewed in light of the new information.

Alternatively partners may consider whether there is a potential different approach. For example if the driver is to facilitate development of leisure uses, specifically to include the substantial expansion of marina facilities, consideration of whether it is possible to deliver this without the expense of the Northern Arm. For example, via an extension of the current marina using the existing breakwater with less costly additional wave protection measures.