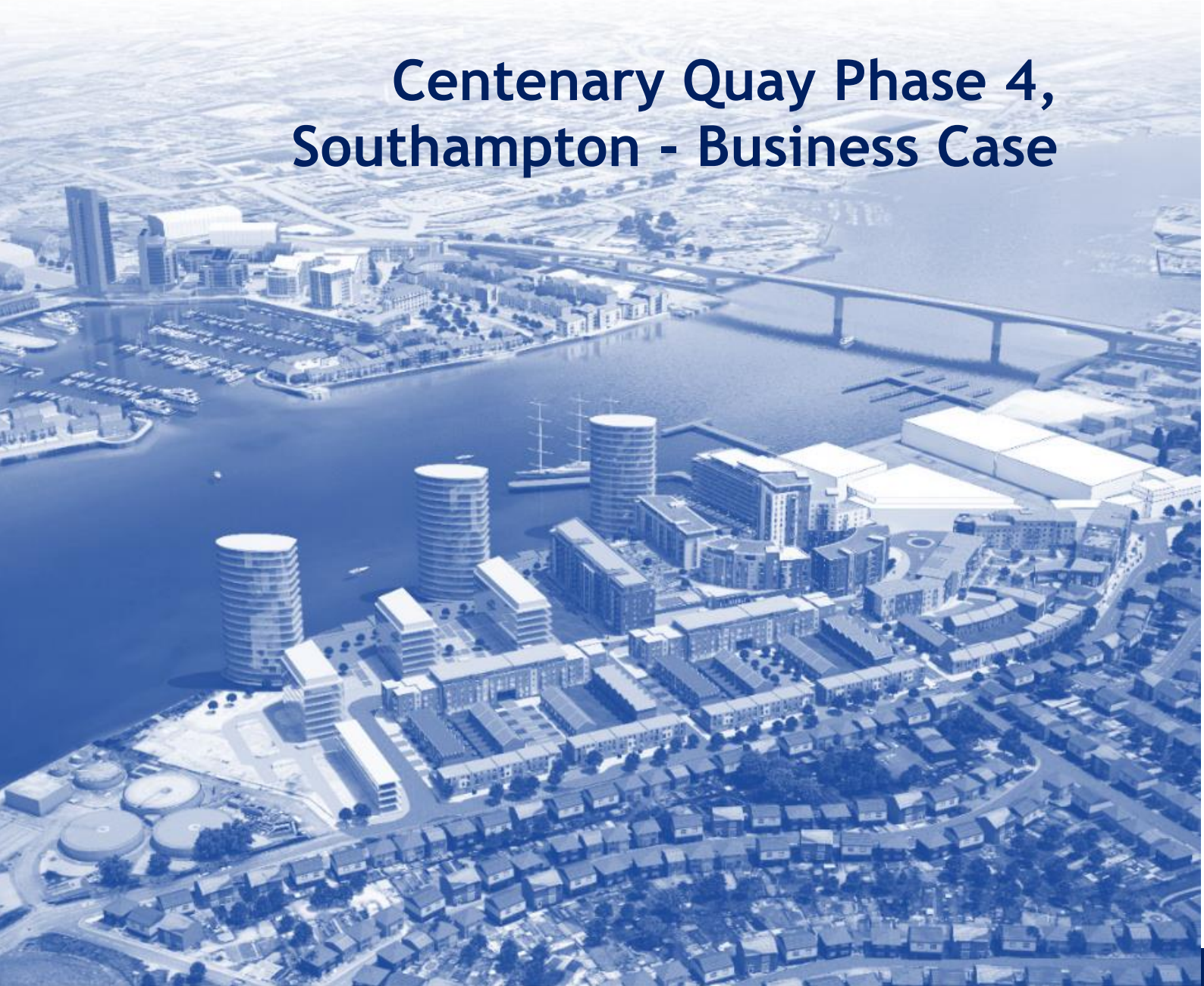


# Centenary Quay Phase 4, Southampton - Business Case



Report by **BBP Regeneration**

For **Crest Nicholson Regeneration**

**April 2016**

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# Executive Summary

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This Business Case has been prepared on behalf of developers Crest Nicholson to support an investment decision by the Solent Local Enterprise Partnership (SLEP) to award grant funding through the Local Growth Fund (LGF) for Phase 4 of Centenary Quay at Woolston, Southampton.

Centenary Quay is located on the eastern bank of the River Itchen immediately to the south of the Itchen Bridge and just off the A3025 eastern approach approximately 1.5 miles to the east of Southampton City centre.

Planning consent was granted in 2009 for Centenary Quay to provide 1,620 new homes along with retail and leisure uses, a new library and nursery on the former Vosper Thornycroft shipbuilding site. The project fully integrates with the existing neighbourhood of Woolston allowing for the local community to reconnect with its river front.

Phases 1 to 3 are now substantially completed and Phase 4 is due to start in spring 2016. There are however viability concerns over Phase 4 as the project revenues do not cover the costs. Through the award of a grant of £7.676m towards general infrastructure works it will be possible to achieve financial viability and for the scheme to proceed. Without this grant the scheme will be stalled and future phases will be at risk.

Phase 4 has been divided into 2 sub-phases. Phase 4A was granted reserved matters approval by Southampton City Council in April 2016. This sub-phase includes 185 residential dwellings in buildings ranging from 6 to 11 stories in height, 508 sq m of retail/leisure space and a multi-storey car park.

A reserved matters application has been submitted to Southampton City Council for Phase 4B and a decision is expected in June 2016. This sub-phase will create a landmark 26-storey tower comprising 157 residential dwellings.

The LGF funding will deliver both Phase 4A and Phase 4B (total 342 residential units). The funding will contribute towards the costs of a package of essential enabling infrastructure works which includes river walls, archaeological, ecological, public realm and district heating infrastructure works.

The project aligns well with Solent LEP's objectives and strategic priorities to provide new housing to support the growing workforce, unlocking employment sites and enabling infrastructure. The project makes a significant contribution to the city of Southampton's housing needs and its Core Strategy objectives to create neighbourhoods that are balanced with diverse mixed communities and creating excellence in design quality.

Significant levels of investment in remediation and preparatory works have been made in the site by its owners the Homes and Communities Agency who continue to be actively engaged as partners to Crest Nicholson.

The net additional outputs and benefits generated by the project are:

	Indicator	Outputs/Benefits
Net additional homes		471
Net additional commercial floorspace (sq m)		59



Indicator	Outputs/Benefits
Permanent jobs (FTE)	2
Construction jobs (job years)	1,526
Public realm (intervention areas)	One minor / moderate
Betterment from residential use (£m)	97.7
Willingness to pay for public realm (£m)	0.0
GVA (£m)	57.3

Source: BBP Regeneration analysis

The economic modelling shows that the Project:

- Is the most effective option for meeting the programme's strategic objectives;
- Delivers 157 new build homes, and enables a further 314 new build homes;
- Provides value for money, presenting a BCR of 6.4 – 'Very High';
- Performs well in sensitivity testing;
- Is cost effective when assessed on the basis of public sector discretionary spending per net additional new dwelling;
- Provides leverage for the Local Growth Fund grant funding measured against private investment at a ratio of 1:24.68, and;
- Achieves positive distributional benefits targeting deprived communities.

The Commercial Case for the project is based on evidence of demand and price points drawn from earlier phases as well as comparator new development in Southampton. There are drawdown arrangements in the development agreement between Crest Nicholson and the HCA which provide development rights to undertake the Project.

The Financial Case provides evidence of the project costs supported by an independent quality surveyor estimate. It describes how the Local Growth Deal funding alongside Crest's own investment will enable project viability thresholds to be met.

The Management Case sets out Crest Nicholson's relevant experience in successfully delivering large scale residential led regeneration projects and key project milestones. It also explains the extensive stakeholder engagement and consultation that has taken place.

# 1. Introduction

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- 1.1 Following acceptance of an Expression of Interest, Crest Nicholson Regeneration (Crest) have been invited to submit a Business Case to the Solent Local Enterprise Partnership (SLEP) to support an investment decision to award grant funding through the Local Growth Fund for Phase 4 of Centenary Quay at Woolston, Southampton.
- 1.2 Centenary Quay is a £500m plus regeneration project of a 31 acre brownfield site which is breathing life back into the Woolston suburb of Southampton, on the banks of the River Itchen. Located on the former Vosper Thornycroft shipbuilding site the development borders Woolston High Street. The masterplan has been devised to ensure that Centenary Quay is a fully integrated extension of the existing neighbourhood.
- 1.3 The master plan provides for a total of 1,620 homes 25% of which will be affordable, and a further significant proportion will be for private rent. In addition, the plans include 150,000 sq. ft. of commercial space, including a library, nursery and new food superstore.
- 1.4 Phases 1 to 3 are now substantially completed and Phase 4 is due to start in spring 2016. There are however viability concerns over Phase 4 as the project revenues do not cover the costs. Through the award of a grant of £7.676m it will be possible to achieve financial viability and for the scheme to proceed. Without this grant the scheme will be stalled and future phases will be at risk.
- 1.5 The purpose of this business case is to demonstrate that grant funding will provide a viable and deliverable programme which delivers value for money for the public investment and enables an award to be made satisfying the requirements of the LEP Assurance Framework.
- 1.6 The Assurance Framework seeks to ensure that robust local decision making and value for money processes are in place. It sets out a methodology for assessing overall value for money based upon the principles enshrined in HM Treasury compliant 'green book' format based on the Five Case model.
- 1.7 The Five Case Model for appraising public sector investment has been developed to provide a clear framework for thinking about spending proposals and a structured process for appraising, developing and planning to deliver best public value. It is recognised as best practice and is the Treasury's standard methodology.
- 1.8 The five cases are:
  - The Strategic Case – which demonstrates that the spending proposal has SMART objectives, provides business synergy and strategic fit and is predicated upon a robust and evidence based case for change.
  - The Economic Case – demonstrates that the spending proposal optimises public value. This is done by identifying and appraising a range of realistic and achievable options and comparing these with a reference case or do nothing option. A Cost Benefit Analysis is conducted in accordance with Green Book guidance quantifying in monetary terms as many of the costs and benefits (adjusted for additional factors) from a total public sector perspective as possible for shortlisted options. The “preferred option” is then subjected to sensitivity analysis in order to test its robustness.
  - The Commercial Case - demonstrates that the “preferred option” will result in a viable procurement and well structured “deal”.
  - The Financial Case - demonstrates that the “preferred option” will result in a fundable and affordable “deal”.

- The Management Case - demonstrates that the “preferred option” is capable of being delivered successfully, in accordance with recognised best practice.

1.9 The Business Case is structured as follows:

- Section 2 – The Project
- Section 3 – The Strategic Case
- Section 4 – The Economic Case
- Section 5 – The Commercial Case
- Section 6 – The Financial Case
- Section 7 – The Management Case

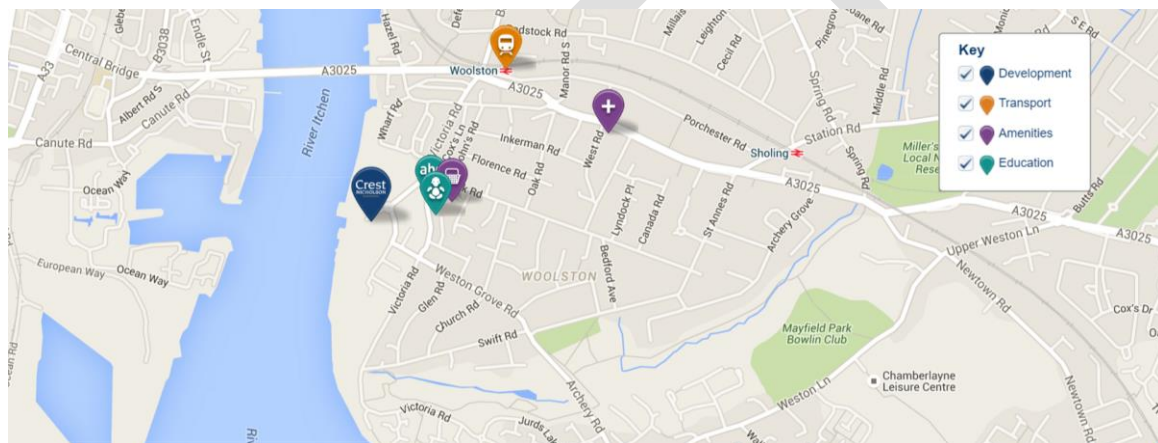


## 2. The Project

### Location

- 2.1 Centenary Quay is located on the eastern bank of the River Itchen immediately to the south of the Itchen Bridge and just off the A3025 eastern approach approximately 1.5 miles to the east of Southampton City centre. The site is within a 10-minute walk of Woolston Railway Station, which provides westbound services to Southampton Central every 30 minutes and eastbound services to Portsmouth & Southsea. Central London can be accessed from Southampton Central with journey times of 1 hour 26 minutes twice an hour. The M27 is the nearest motorway with links across the south coast providing access to Portsmouth to the east and Bournemouth and the New Forest to the west. The M3 is also within easy reach providing access to Winchester, Basingstoke and London. Regular bus services are available providing access to the City Centre.

Figure 2.1 – Location map



### Background

- 2.2 Centenary Quay is a development of a substantial brownfield site (12.5 ha (31 acres)) previously owned and occupied by Vosper Thorneycroft (UK) Ltd and had operated as a shipyard since 1876.
- 2.3 The shipyard was acquired by the South East England Development Agency (SEEDA) in March 2003 and finally vacated by Vosper Thorneycroft in March 2004. SEEDA subsequently announced plans for the site, to be split into two sections:
- A residential and retail area, to be developed and delivered by Crest Nicholson under the brand name Centenary Quay.
  - 8.2 hectares for a marine employment quarter at the north of the site

Figure 2.2 - Centenary Quay prior to Development



Source: Crest Nicholson Regeneration

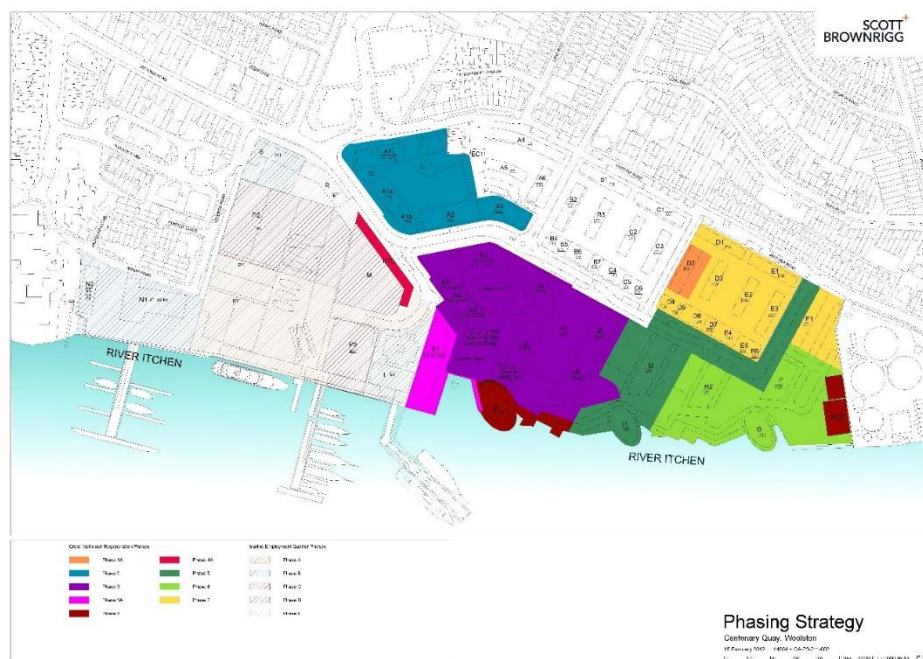
- 2.4 SEEDA commissioned Richard Rogers to prepare a masterplan for the site. This application was submitted in 2005, was heard at Planning Committee in 2006. It was formally approved in 2008, following the signing of the Section 106 legal agreement. This masterplan had gone through significant public consultation during its preparation.
- 2.5 In order to deliver the regeneration of the site, SEEDA appointed Crest as preferred developer in March 2006. Crest was charged with delivering a high density, high quality residential element, with SEEDA ultimately retaining control of the northern part of the site, known as the Marine Employment Quarter (MEQ) for the delivery of new commercial marine floorspace.

- 2.6 Crest, in conjunction with SEEDA, progressed a revised masterplan for the site, which was submitted to planning in 2008, following the grant of the original planning permission. The revised Centenary Quay proposals were granted planning permission on 31 December 2009 by SCC, following a special Planning Panel in August 2008 and the Section 106 Agreement being signed on 24 December 2009. The planning permission took the form of a hybrid approval, with detailed consent for Phase 1 and works to the river edge, and outline approval for the proposed development across the remainder of the site.
- 2.7 The responsibility for SEEDA's property portfolio transferred in full to the Homes and Communities Agency (The HCA) on 19 September 2011. The HCA remain the landowners of the undeveloped parts of the site.

## Centenary Quay - The Masterplan

- 2.8 The revised Centenary Quay proposals which were consented (Ref:08/00389/OUT) provide for:  
*'Redevelopment of the site to provide a mixed use development comprising: 1,620 dwellings (including 405 affordable homes); retail (Class A1 - 5,525 square metres, including a foodstore); restaurants and cafes (Class A3 - 1,543 square metres); offices (Class B1 - 4,527 square metres); yacht manufacture (Class B2 - 21,237 square metres); Business, industrial, storage and distribution uses (Class B1/B2/B8 - 2,617 square metres); 100 bedroom hotel (Class C1 - 4,633 square metres); 28 live/work units (2,408 square metres); community uses (Class D1 - 2,230 square metres); two energy centres (1,080 square metres); with associated parking (including the laying out of temporary car parking); new public spaces; river edge and quays; new means of access and associated highway/ environmental improvements.'*
- 2.9 The masterplan has identified 7 separate but linked phases which are illustrated on the Phasing Plan below:

Figure 2.3 - Centenary Quay - Phasing Plan



Source: Crest Nicholson Regeneration

## Phases 1-3

- 2.10 Following significant HCA and Crest Nicholson investment Phases 1 and 2 have already been delivered and provided 336 homes, 162 of which were affordable. The early phases also included a new library and day nursery which serve to link Woolston High Street to Centenary Quay and provides early amenity for the new community and helps to connect to the existing community.
- 2.11 Phase 3 is now (April 2015) completing. This phase comprises 329 apartments including 72 shared ownership and 102 'Build to Rent' units along with a 55,000 sq. ft. Morrison's superstore and retail and leisure units which will provide a new vibrant mixed use commercial focus to the new community together with significant employment opportunities.
- 2.12 The early phases of development have led to significant changes in the retail and cafe provision on Victoria Road. Several units have been renovated and modernised and there are numerous new furniture and interior design shops demonstrating the direct and beneficial impact that the new housing is having on the local economy.

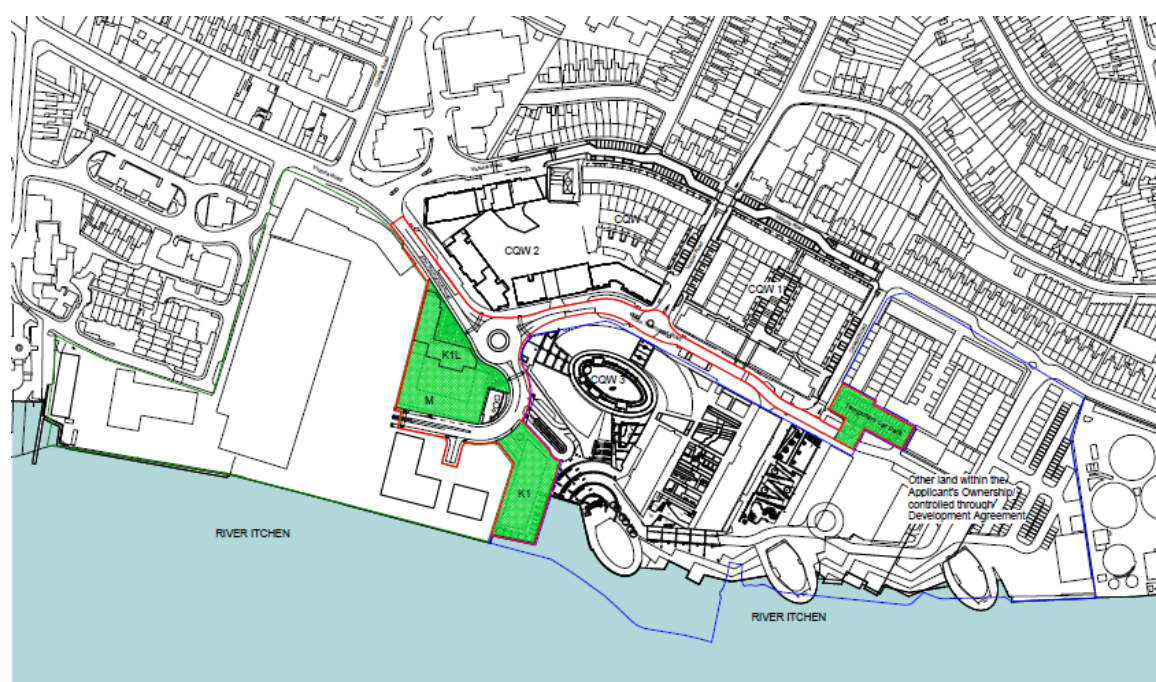
## Phase 4

- 2.13 Phase 4 has been divided into 2 sub-phases. The site for Phase 4A comprises a 0.65 hectare site bounded by the River Itchen to the west and the remainder of the masterplan site to the east and south. To the east is Phase 3 of the development, which comprises the foodstore, other retail and residential units and the new MEQ access loop road, which will serve Phase 4A and directly links to John Thornycroft Road and the existing Woolston district centre to the north. Bounding the site to the north is the MEQ. **Phase 4A was granted reserved matters approval by Southampton City Council in April 2016.**
- 2.14 Directly bounding the site to the south will be Phase 4B of the development, which will incorporate the first of the three waterfront residential towers (Block J1) and will lead to the creation of the first part of the riverside public walkway. The site for Phase 4B comprises a 0.44 hectare site bounded by the River Itchen to the west and the remainder of the masterplan site to the north, south and east. The site includes land which will form an extension to the basement car park of Phase 3 and a new landscaped open space to the south of the existing Phase 3 buildings. **A reserved matters application has been submitted to Southampton City Council for Phase 4B on which a decision is expected in June 2016.**



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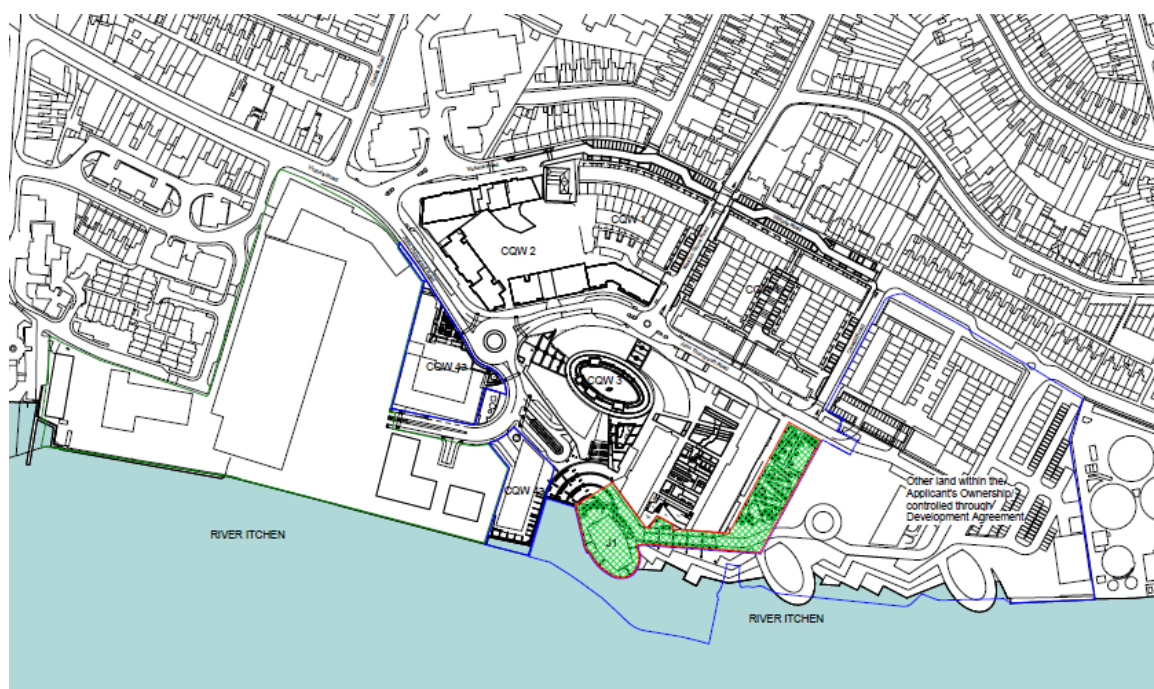
Figure 2.5 - Phase 4A Layout Plan



- 2.18 The residential element will be provided on the upper floors of blocks M and K1 and on the ground and upper floors of K1L. The multi-storey car park will be provided to the west of K1L and to the south of the MEQ.
- 2.19 The new access road will provide a looped configured access and egress into the Phase 4A parking areas, which will be provided in the multi-storey car park and will be segregated from the public parking areas. The public parking spaces within Phase 3 will be available to people utilising the retail elements in Phase 4A. Service vehicles will be able to access Phase 4A via the looped access via John Thornycroft Road.
- 2.20 The proposals for Phase 4B will create a high quality, landmark development comprising 157 residential dwellings. Phase 4B comprises two key elements, which are:
- Block J1, comprising a 26 storey residential tower incorporating 157 dwellings
  - An extension to the existing Phase 3 basement car park for 73 cars
- 2.21 Block J1 comprises a residential tower of 26 storeys. The ground floor will include a residential reception and 24 hour concierge service. This will provide an active frontage onto the civic space and pedestrian route that will run along the eastern elevation of the building, linking seamlessly to the riverside walkway to the north and south.



Figure 2.6 - Phase 4B Layout Plan



- 2.22 Residential parking for Phase 4B will be provided within the extension to the Phase 3 basement car park, which will create 73 parking spaces, and by 83 spaces within the multi-storey car park (Block M) which comprises part of the Phase 4A proposals.

Figure 2.7 - Gross outputs enabled by Centenary Quay Phase 4

New build homes (units)	A1/A2/A3/A4 (sq m)	New / enhanced public realm (ha)	Permanent jobs (FTE)	Temporary construction jobs (job years)
903	517	One minor / moderate	22	3,019

NB - 903 units is made up of 342 in Phase 4, and 561 in Phases 5-7

## Infrastructure Works

- 2.23 The following infrastructure works are included as part of Phase 4 which it is proposed will be funded by the Solent LEP through Local Growth Fund grant funding:

- **River works** - River wall; platform for J1 (part of river defence); archaeological investigations
- **Ecological works** - Installation of shingle beach within Marine Inlet
- **Public realm** - Public realm, including hard and soft landscaping
- **District Heat Network** - Strategic District Heat Network infrastructure

## 3. The Strategic Case

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- 3.1 This section describes the Strategic Case – which assesses whether the spending proposal is predicated upon a robust and evidence based case for change has a strategic fit and SMART objectives.
- 3.2 The scheme will contribute to Solent LEP growth targets and is strategically aligned with the LEP's high level **objectives and strategic priorities**:
- **Provide new housing to support the growing workforce** – this project will deliver 342 residential apartments to meet growing need and demand and will enable the delivery of 561 apartments in Phase 5 to 7.
  - **Unlocking employment sites** – approximately 500 sq m of café/restaurant space with associated employment during construction and in the delivered scheme.
  - **Investing in skills, ensuring local residents are equipped to take up the jobs that are created and businesses can source local skills and labour to underpin growth** - a Work Experience Hub on site will be opened to develop the skills of apprentices and to provide work placements for school children; the project will support a large network of local supply trades, working closely with the Woolston Traders Association and the regeneration of the local area.
  - **Enabling infrastructure priorities including land assets, transport and housing** - provision of additional residential infrastructure and public realm including public access to the river along with a new shingle beach boosting the attraction to investors and occupiers.
  - **Stimulating and supporting innovation** - encouraging innovative construction solutions to build the 26 storey residential tower quickly and efficiently.
- 3.3 More locally, the scheme contributes to the delivering the 11,121 new homes required in the City of Southampton between 2012 and 2026 and is closely aligned with the strategic objectives embedded in Southampton's Core Strategy (2015), which seeks to ensure that development:
- Creates a vibrant, high quality regional city centre that is the focus for major retail; tourism; leisure; cultural and office investment and connects with the waterfront.
  - Ensures that all development is supported by appropriate and inclusive infrastructure provision.
  - Creates excellence in design quality: Public spaces should take priority over car-dominated roads. Well-designed and contemporary public and private realms will be safe, accessible and create a sense of place and a rich built environment in which communities can flourish.
  - Creates excellent sustainable neighbourhoods and neighbourhood centres characterised by strong community infrastructure and high quality homes.
  - Delivers a mix of housing with a range of affordable house types.
  - Tackles deprivation and improves health and well-being by creating neighbourhoods that are balanced with diverse mixed communities, reducing the gap in inequality between neighbourhoods
  - Maintains an adequate gap between Southampton and adjacent urban areas and enhance the gateways to the city.
  - Creates a high quality physical environment and public realm within the city, supporting the Southampton Partnership vision for a better city for people to live, work and play.

- Ensures that all development reduces the need to travel and is supported by a superior alternative transport system, attracting people to walk, cycle or use the bus or train.
- Adopts an 'avoid, reduce and mitigate' approach to flooding to achieve an appropriate degree of safety, so adapting positively to sea level rise.

- 3.4 The housing requirement for Southampton is set out in the adopted Core Strategy. It is 16,300 dwellings in the period 2006 – 2026. A total of 5,179 dwellings were constructed up to March/April 2012. The outstanding number of dwellings required 2012 - 2026 is therefore 11,121 dwellings, an average of 795 dwellings per year<sup>1</sup>.
- 3.5 The Core Strategy's key priorities for Woolston district centre, where Centenary Quay is located, are to ensure that the Centenary Quay redevelopment complements and enhances the centre and delivers improvements in the street scene with links from Centenary Quay into the centre. The retail space provision on Centenary Quay needs to be carefully managed to ensure it benefits the centre overall.
- 3.6 As part of the development of Centenary Quay, Southampton City Council successfully secured over a million pounds of regeneration and developer funding to invest back into the Woolston area. The Woolston District Improvements Scheme has improved pedestrian access and safety as well as providing better traffic flow and traffic calming. These improvements were designed following consultation with residents and businesses to accommodate an expected increase in visitors to this busy district centre.

### **HCA support**

- 3.7 Crest Nicholson was selected by the SEEDA (whose property portfolio was transferred to the HCA in 2011) to deliver a high density, high quality residential element, with SEEDA ultimately retaining control of the northern part of the site, known as the Marine Employment Quarter (MEQ) for the delivery of new commercial marine floorspace.
- 3.8 The HCA has further supported the development viability and cash flow with forward payment of S106 costs and deferred land payments, both to the benefit of the project. The regeneration continues to benefit from HCA involvement - land is drawn down at the beginning of each phase, where the HCA's land value is assessed and the HCA can benefit from a profit share arrangement if the phase is successful.
- 3.9 Crest Nicholson also benefits from the HCA's development expertise, and regular meetings are held with the Board to make key decisions on the progress of the scheme.

## **Socio-economic context**

### **Demography**

- 3.10 The Southampton City Council area has a population of 245,300<sup>2</sup>. Southampton supports a conurbation catchment of over 750,000 people who look to the city for shopping, work and leisure. The Port of Southampton is extremely important to the local and national economy and forms a key part of the supply chain for UK manufacturing industry, being just 20 nautical miles from the international shipping lanes of the English Channel.
- 3.11 The population of Southampton is projected to rise by over 12% across all age groups in the next 21 years. Of particular interest, is the rise of 9,000 people (11%) in the 15-29 years-old age group. There are also notable rises in older age groups, with those aged 65+ years-old projected to rise

<sup>1</sup> Southampton City Council (2013) Strategic Housing Land Availability Assessment

<sup>2</sup> ONS (2014)

by 15,000 (30%)<sup>3</sup>. In the residential sector, there is now high demand for rental property and record low new build rates.

- 3.12 There are currently 98,254 households, which are also projected to increase. The Department for Communities and Local Government's latest household population projection growth estimates an increase of 37,000 households in Southampton by 2037. This projection shows demand for roughly 1,000 new households for each year of the projection period<sup>4</sup> and is above the 13% average increase for the Solent LEP area.

### **Key economic challenges**

- 3.13 Southampton's socio-economic baseline position indicates that the area is facing a number of socio-economic challenges including high levels of unemployment, weak business demographics and low levels of educational attainment and skills acquisition amongst those of working age with a significant proportion of young people (16-18 year olds) who are not in education, employment or training (NEETs). Lower proportions of city residents are in higher order jobs resulting in low wage levels amongst city residents in full-time employment.
- 3.14 Southampton is amongst the ten Local Authorities with the largest percentage point increase in neighbourhoods in the most deprived decile according to Index of Multiple Deprivation 2015 and the 2010 Index. There is a concentration of economic deprivation in specific areas of the city, including a number of wards within Woolston.
- 3.15 In terms of productivity, a key measure in the national economy going forward, Southampton has a lower GVA per filled job of £45,646 compared to the wider Hampshire area as well as England and national averages, according to the latest available data for 2013<sup>5</sup>. Although Southampton's GVA per filled job outperforms Portsmouth, there is no steady pattern of increase over the period 2007 – 2012.

### **Opportunities**

- 3.16 Against this socio-economic background, the Port of Southampton and the marine sector in general, as well as the tourist and retail sectors are valuable economic assets and key drivers for the local and sub-regional economies to generate growth in jobs and GDP in the area.
- 3.17 Southampton's economy is dominated by the successful port, the retail and business assets of the city centre that play a regional role, higher education and the health sector. As a consequence a significant amount of employment is to be found in the public sector. The city acts as the regional centre for a populous catchment area that extends into South Wiltshire, East Dorset, the coastal strip between Bournemouth and Chichester.
- 3.18 The city has excellent links to the national motorway network via the M271 and M3. Southampton is well connected and enjoys regular rail services to London, Bristol, Cardiff, Birmingham and Brighton. Southampton International Airport is located in the north of the city and is easily accessible by train, with its own station at Southampton Parkway. The airport and has links with most large UK cities and a number of cities in Europe.
- 3.19 A significant amount of economic growth is proposed in Southampton over the next few years and this has been outlined in the Local Development Framework Core Strategy. In the city centre, this includes 300,000 sq m of office development, over 100,000 sq m of new retail, additional leisure facilities and over 5,000 new homes.

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<sup>3</sup> ONS (2014) Population projection unit

<sup>4</sup> Department for Communities and Local Government (2015) Household projections for England and local authority districts

<sup>5</sup> ONS (2016) Sub-regional productivity

## Market Failure

- 3.20 Market failure is a description of a situation where, for one reason or other, the market mechanism alone cannot achieve economic efficiency. The rationale for the investment of public monies is usually founded in some form of market failure.
- 3.21 Crest Nicholson is seeking funding to commence the development of Phase 4, which is not currently viable. Investment in general infrastructure is generally classified as a 'public good' which society as a whole is willing to pay for collectively.
- 3.22 This is a complex and long term redevelopment scheme, likely to be implemented over more than one economic cycle. The project involves significant levels of investment in site preparation works. There are exceptionally high levels of abnormal costs associated with the residential tower block. Returns through sales/letting of residential and commercial units inevitably need to be forecast years ahead with all of the uncertainty that brings.
- 3.23 For all these reasons the Local Growth Fund investment is required to contribute towards the general infrastructure costs to de-risk the project and to accelerate its delivery.

## Strategic Objectives

- 3.24 The project objectives are based on a synthesis of the local community's objectives for the site as expressed in planning policy, the wider housing and regeneration objectives of the landowner, the Homes and Communities Agency and the investors and developers.
- Contribute towards a new comprehensive and inclusive mixed use community, delivering the masterplan's identified capacity for Phase 4 of 342 new homes, across different tenures and types to meet housing needs by 2020/21
  - Secure comprehensive regeneration to bring the wider brownfield site back into productive use by 2028/29, building on the investment made to date by both public and private sectors
  - Provide the necessary critical mass and quality of development to generate demand and support new value thresholds in this part of the City, thereby securing the necessary financial viability for continued regenerative development from 2020/21 to 2028/29
  - Provide high quality public realm, including a publicly accessible waterfront and new areas of green open space by 2020/21
  - Through iconic design, improve the urban fabric of this important gateway site for the many visitors reaching the region via water by 2020/21

## 4. The Economic Case

### Methodology

4.1 Our options appraisal methodology, outlined below, draws upon the principles set out in the LEP Assurance Framework (drawing upon HMT's Green Book guidance).

- Articulate the **programme's vision, Strategic Objectives** and details of costs and funding sources
- Establish the **logic chain** from inputs and activities through to outputs, outcomes and impacts
- Discuss the **range of options considered** (long listing) and assess a short list of options available to meet the project objectives, to be compared alongside the Reference Case.
- Define a **Reference Case**, assuming minimum intervention by the public sector.
- Schedule the **delivery trajectories** for development that is enabled and accelerated through the programme.
- Quantitatively **model the benefits arising** from the project, allowing for build-up and persistence based on best available evidence and guidance.
- **Account for additionality**: estimating deadweight, then allowing for leakage, displacement and substitution, and multiplier effects (where appropriate) in order to translate gross outputs and benefits into net additional equivalents.
- A **discounted valuation** of the net benefits is then considered alongside the discounted public expenditure incurred to create them, and expressed as a **Benefit Cost Ratio**.
- Identify a **Preferred Option** based on the findings from the above, generating **SMART Objectives**.

### Theory of Change

4.2 Figures 4.1 and 4.2 provide the 'logic pathways' by which the inputs and activities of Centenary Quay Phase 4 lead to outputs, impacts and outcomes.

Figure 4.1 – Logic model for local residents / employees

Inputs	Outputs	Impacts
<ul style="list-style-type: none"> <li>• Public sector investment</li> <li>• Private sector leveraged investment</li> </ul>	<ul style="list-style-type: none"> <li>• Housing delivery</li> <li>• Job creation / safeguarding</li> <li>• Stronger identity, sense of belonging and pride of local community</li> <li>• Improved retail and leisure offer</li> </ul>	<ul style="list-style-type: none"> <li>• Increased land and property values</li> <li>• Increased human and social capital</li> <li>• Increased inward investment</li> </ul>
Activities		Outcomes
<ul style="list-style-type: none"> <li>• Strategic leadership</li> <li>• Reclamation of land from the River Itchen</li> <li>• Procurement and delivery of enabling infrastructure</li> <li>• Enabled and accelerated delivery of new build housing</li> <li>• Enabled and accelerated delivery of commercial property</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental benefits (public realm, open space, effective use of natural capital, noise, air quality)</li> <li>• Increased public sector receipts / reduced public sector costs</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced deprivation</li> <li>• Improved quality of life</li> <li>• Greater economic opportunity</li> <li>• Greater economic output</li> </ul>



<ul style="list-style-type: none"> <li>• Delivery of public realm improvements</li> <li>• Placemaking</li> </ul>		
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Figure 4.2 – Logic model for local businesses / employers

Inputs	Outputs	Impacts
<ul style="list-style-type: none"> <li>• Public sector investment</li> <li>• Private sector leveraged investment</li> </ul>	<ul style="list-style-type: none"> <li>• Increased local population, and higher consumer spending per capita</li> <li>• Increased land and property values</li> <li>• Delivery of commercial floorspace</li> <li>• Enhanced visitor experience, with improved retail and leisure offer</li> <li>• Environmental benefits (public realm, open space, effective use of natural capital, noise, air quality)</li> <li>• Increased public sector receipts / reduced public sector costs</li> </ul>	<ul style="list-style-type: none"> <li>• Job creation / safeguarding</li> <li>• Increased inward investment</li> <li>• Increased population, catchment area, higher consumer spending, and greater retention thereof</li> <li>• Improved performance of local businesses</li> </ul>
Activities		Outcomes
<ul style="list-style-type: none"> <li>• Strategic leadership</li> <li>• Reclamation of land from the River Itchen</li> <li>• Procurement and delivery of enabling infrastructure</li> <li>• Delivery of public realm improvements</li> <li>• Enabled and accelerated delivery of new build housing</li> <li>• Enabled and accelerated delivery of commercial property</li> <li>• Placemaking</li> </ul>		<ul style="list-style-type: none"> <li>• Greater economic output</li> </ul>

## Shortlisting process

4.3 The key issues and options relating to Phase 4 of the masterplan are:

- **Urban design and massing: Iconic waterfront towers versus a lower rise scheme delivering fewer units:** The current masterplan concept is predicated on massing increasing towards the waterfront, culminating in three iconic towers offering far-reaching river and sea views. If the towers cannot be delivered, there would be a significant reduction in residential unit numbers compared to those currently planned.
- **Phasing: Rolling construction trades and plant on from Phase 3 to Phase 4 versus re-mobilisation at a later date** - Additional preliminary costs would be incurred if the current construction trades and plant on site were demobilised and re-mobilised at a later date, potentially harming viability further.

- **Marketing: Achieving optimum values through confidence that the masterplan will be realised** – There is a danger that prospective buyers will lose confidence in the scheme if it is suspected that the masterplan may not be realised, impacting negatively on sales rates and values; therefore, harming viability.
- **Risk: De-risking future phases** – Delivery of the first tower in Phase 4 will provide a clearer picture of the currently untested high-rise living market in this part of the city, offer lessons to improve market positioning of future phases, and help to calibrate the required values and financial returns.

4.4 The following long list of options reflects the key issues and options described above:

- **The development is stalled following completion of Phase 3:** Without a viable Phase 4, Crest Nicholson's Board could decide to halt further investment.

The scheme would stall, jeopardising delivery of the wider masterplan as currently envisaged, and undermining investment in the site to date. Delivery may or may not resume as market conditions change in future. Public discretionary spending would be zero.

- **Deliver initial infrastructure works only:** With trades and plant currently mobilised on Phase 3 coming to the end of their work programme, and having now secured planning permission for Phase 4A, Crest Nicholson's Board could take a risk-based approach to redeployment and commit to delivering initial infrastructure works for Phase 4 whilst seeking Local Growth Fund grant funding.

However, if it becomes clear in the coming months that Phase 4 cannot be delivered as envisaged by the masterplan, delivery of the scheme would stall before new build homes and commercial floorspace is delivered. In this scenario, limited construction spending would be incurred, but there would be no new build homes or commercial floorspace delivered. Public discretionary spending would be zero.

- **Revise the masterplan to an entirely lower rise scheme:** It may be possible to deliver the identified capacity of 342 new build homes and 561 sq m of commercial floorspace in a lower rise scheme, but only by significantly reducing the quantum and quality of public realm provision.

In addition, due to the need to revise the masterplan, seek a revised planning consent, and remobilise contractors, delivery would be unlikely to be achievable by the current programme end date of 2020/21 – and additional professional fees would be incurred.

Because the quality of public realm would also be significantly diminished, and the iconic waterfront tower would not be delivered, the regenerative impact of the scheme would likely be limited, as it would not generate sufficient market demand to support new value thresholds in this part of the city. Public discretionary spending would be zero.

- **Deliver the lower rise element of the current scheme only:** With trades and plant currently mobilised on Phase 3 coming to the end of their work programme, and having now secured planning permission for Phase 4A, Crest Nicholson's Board could choose to deliver the lower rise element of the current scheme only – halting further investment at that point.

In this scenario, only 185 new build homes and 561 sq m of commercial floorspace would be delivered, as well as public realm as currently envisaged, but the iconic waterfront tower would not be delivered – in turn, making it unlikely that the high rise elements of Phases 5-7 will be delivered. Delivery may or may not resume as market conditions change in future. Public discretionary spending would be zero.

- **Deliver the masterplan as currently envisaged:** Crest Nicholson's viability modelling indicates that with income of £7.676m through Local Growth Fund grant funding, it would be possible deliver the masterplan for Phase 4 as a whole.

In this scenario, the identified capacity of 342 new build homes and 561 sq m of commercial floorspace would be delivered, as well as the iconic waterfront tower, and public realm as currently envisaged. Delivery of the high rise elements of Phases 5-7 would also be enabled, as a result of the market demand generated to support new value thresholds in this part of the city.

## Effectiveness against Strategic Objectives

- 4.5 Figure 4.3 below assesses the effectiveness of the Shortlisted Options in meeting the project's SMART objectives.

**Figure 4.3 - Effectiveness of Shortlisted Options in meeting Strategic Objectives**

SMART objectives		Development stalls after Phase 3	Deliver initial infrastructure works only	Revise the masterplan to an entirely lower rise scheme	Deliver the lower rise element of the scheme only	Deliver the masterplan as currently envisaged
1	Contribute towards a new comprehensive and inclusive mixed use community, delivering the masterplan's identified capacity for Phase 4 of 342 new homes, across different tenures and types to meet housing needs by 2020/21	x	x	(✓)	(✓)	✓
2	Secure comprehensive regeneration to bring the wider brownfield site back into productive use by 2028/29, building on the investment made to date by both public and private sectors	x	x	(✓)	(✓)	✓
3	Provide the necessary critical mass and quality of development to generate demand and support new value thresholds in this part of the City, thereby securing the necessary financial viability for continued regenerative development from 2020/21 to 2028/29	x	x	x	x	✓
4	Provide high quality public realm, including a publicly accessible waterfront and new areas of green open space by 2020/21	x	x	x	(✓)	✓
5	Through iconic design, improve the urban fabric of this important gateway site for the many visitors reaching the region via water by 2020/21	x	x	x	x	✓
<b>TOTAL (out of 5.0)</b>		<b>0.0</b>	<b>0.0</b>	<b>1.0</b>	<b>1.5</b>	<b>5.0</b>

Source: BBP Regeneration analysis

- 4.6 Based on the assessment above, delivering the masterplan as currently envisaged is significantly more effective against the strategic objectives than the rest of the long list of options, achieving 5.0 out of 5.0. The only other option achieving more than 1.0 out of 5.0 is to deliver the lower rise element of the

scheme only. On this basis, these two options below are deemed to represent the most realistic and achievable options for addressing the strategic objectives of the programme.

## Identifying a Preferred Option

- 4.7 Each of the shortlisted options is compared against the 'Do Minimum' scenario (Reference Case), to account for deadweight – that is, costs and benefits that would have arisen without Local Growth Fund grant funding.
- 4.8 The shortlisted options are summarised as follows, with assumed delivery trajectories provided at Appendix B(i) and B(ii).

### Reference Case (Shortlisted Option 1) - Deliver the lower rise element of the current scheme

- 4.9 With trades and plant currently mobilised on Phase 3 coming to the end of their work programme, and having now secured planning permission for Phase 4A, Crest Nicholson's Board could choose to deliver the lower rise element of the current scheme only – halting further investment at that point.
- 4.10 In this scenario, only 185 new build homes and 458 sq m of commercial floorspace would be delivered in Phase 4 (compared to 342 currently planned), as the iconic waterfront tower would not be delivered. Similarly, only 247 new build homes would be delivered in Phases 5 to 7 (compared to 561 as currently planned). Delivery of the towers may or may not resume as market conditions change in future.
- 4.11 Public realm would be delivered as currently envisaged, there would be £91.609m of construction spending, and public discretionary spending would be zero.

### Shortlisted Option 2 - Deliver the masterplan as currently envisaged

- 4.12 In this scenario, Local Growth Fund grant funding of £7.676m would provide for strategic infrastructure and enabling works to continue, enabling the masterplan for Phase 4 to continue to be delivered as currently envisaged.
- 4.13 In this scenario, 342 new build homes and 517 sq m of commercial floorspace delivered in Phase 4, as currently planned. Similarly, delivery of 561 new build homes would be enabled in Phases 5 to 7, as currently planned.
- 4.14 Public realm would be delivered as currently envisaged, there would be £185.215m of construction spending, and public discretionary spending would be £7.676m.

## Comparison of Shortlisted Options

### Benefits

- 4.15 Figure 4.4 below provides a comparison of the gross outputs arising from the Reference Case and Shortlisted Options. Figure 4.5 provides the net additional outputs arising from the shortlisted options. The key assumptions and data sources underlying the economic modelling are set out in Appendix C.

**Figure 4.4 - Gross outputs, and gross additional benefits arising from Shortlisted Options**

Indicator	Reference Case (Shortlisted Option 1)	Shortlisted Option 2
New homes	432	903
New commercial floorspace (sq m)	458	517
Permanent jobs (FTE)	20	22

<b>Construction jobs (job years)</b>	1,493	3,019
<b>Public realm (intervention areas)</b>	One minor / moderate	One minor / moderate
<b>Betterment from residential use (£m)</b>	8.9	18.6
<b>Willingness to pay for public realm (£m)</b>	0.2	0.2
<b>GVA (£m)</b>	56.9	114.2

Source: BBP Regeneration analysis

**Figure 4.5 - Net additional outputs, and net additional benefits arising from Shortlisted Options**

Indicator	Shortlisted Option 2
Net additional homes	471
Net additional commercial floorspace (sq m)	59
Permanent jobs (FTE)	2
Construction jobs (job years)	1,526
Public realm (intervention areas)	One minor / moderate
Betterment from residential use (£m)	97.7
Willingness to pay for public realm (£m)	0.0
GVA (£m)	57.3

Source: BBP Regeneration analysis

- 4.16 As shown in Figure 3.7, Shortlisted Option 2 delivers an additional 471 new build homes above the Reference Case, with an additional £97.7m of betterment arising as a result of this. An additional £57.3m of GVA arises from 2 additional permanent jobs and 1,526 construction job years.

#### Costs

- 4.17 In the Reference Case (Shortlisted Option 1), public discretionary spending is zero.
- 4.18 In Shortlisted Option 2, the discretionary cost to the public sector is £7.676m for pump priming of strategic and enabling infrastructure, closing the current funding gap.

#### Benefit Cost Ratios and sensitivities

- 4.19 Figure 4.6 below summarises the BCRs resulting from the economic modelling for each option. As is convention, neither growth nor inflation have been applied to the costs and benefits.

**Figure 4.6 – Benefit Cost Ratios resulting from economic options appraisal**

Shortlisted Option	PVB (£)	PVC (£)	BCR
Shortlisted Option 2	51,218,218	8,008,283	6.4 – 'High'

- 4.20 The modelling shows that all Shortlisted Option 2 generates a BCR of 6.4, which can be considered 'Very High'.
- 4.21 Based on the methodology that we have followed in modelling the costs and benefits of the Shortlisted Options, there are a number of factors that may not transpire exactly as assumed over the modelling period. It is therefore prudent to consider the sensitivity of such changes upon BCRs.
- 4.22 The sensitivity of a BCR to reductions in persistence is often tested in sensitivity analysis; however, we have already used conservative estimates of persistence throughout (see Appendix B(ii) for further detail). We have, however, considered three sensitivities, as set out below.

- **Sensitivity 1:** We recognise that some economic benefits are harder to measure and attribute. We have therefore tested the removal of benefits arising from public realm improvements from the BCR.
- **Sensitivity 2:** We recognise that the construction jobs only persist with further construction spending, which is not certain. We have therefore tested the removal of benefits arising from construction spending from the BCR.
- **Sensitivity 3:** Finally, we recognise that programmes for the delivery of the project might slip due to risks such as those highlighted in the Risk Register (see Section 5). We have therefore tested a delay in the enabled delivery of the high rise element of Phases 5-7 by five years.

4.23 Whilst the cost of the strategic and enabling infrastructure elements of the project may increase due to risks such as those highlighted in the Risk Register, it is assumed that this additional cost would be borne by the private sector.

4.24 Construction costs for the project as a whole may also increase due to risks such as those highlighted in the Risk Register, however, an increase in construction spending will increase benefits.

**Figure 4.7 – Benefit Cost Ratios resulting from sensitivity testing**

Shortlisted Option	BCR of Sensitivity 1	BCR of Sensitivity 2	BCR of Sensitivity 3
Shortlisted Option 2 with sensitivities applied	6.4 – ‘Very High’	0.9 – ‘Poor’	5.7 – ‘Very High’

4.25 The BCR resulting from the economic modelling with Sensitivity 1 applied shows a low level of sensitivity to benefits that are harder to measure and attribute. The BCR for Shortlisted Option 2 remains at 6.4, retaining its original value for money band of ‘Very High’.

4.26 The BCR resulting from the economic modelling with Sensitivity 2 applied shows a high level of sensitivity to the benefits arising from construction spending, which is unsurprising for a residential-led project. The BCR of 0.9 would drop Shortlisted Option 2 into the ‘Poor’ value for money band.

4.27 The BCR resulting from the economic modelling with Sensitivity 3 applied shows a low level of sensitivity to programme delays. The BCR of 5.7 means that Shortlisted Option 2 retains its original value for money band of ‘Very High’.

### Preferred Option

4.28 In summary, the economic appraisal shows that:

- Shortlisted Option 2 outperforms the Reference Case in terms of economic outputs and benefits
- The BCR of Shortlisted option 2 arising from Cost Benefit Analysis is ‘Very High’
- Shortlisted Option 2 performs well in sensitivity testing, retaining its ‘Very High’ value for money band in two out of the three sensitivity tests.

4.29 As a result of the above selection process, Shortlisted Option 2 emerges as the Preferred Option.

## Value for Money

### Financial leverage

4.30 Figure 4.8 indicates the amount of funding that the public sector’s contribution towards the Shortlisted Options will leverage from other sources.



**Figure 4.8 – Financial leverage ratios**

Ratio	Leverage ratio (£m)	
Discretionary public: Private	7.7: 189.5	1: 24.68
LGF: Private	7.7: 189.5	1: 24.68

Source: *BBP Regeneration analysis*

- 4.31 When comparing the potential LGF funding against private sector investment, there is leverage at a ratio of 1:24.68 – that is to say, for every pound of LGF investment, an additional £24.68 will be spent by the private sector.
- 4.32 This demonstrates that Crest Nicholson maintains a significant financial interest in delivering the programme on time, budget and quality, at acceptable levels of risk.
- 4.33 The LGF funding represents all of the discretionary public funding, the ratio of discretionary public spending to private sector investment is the same.

### Cost-effectiveness

- 4.34 To assess cost-effectiveness, we have assessed the amount of public sector discretionary spending required to generate each net additional output (e.g. net additional FTE job, net additional dwelling), and compared these to benchmarks.
- 4.35 As the Shortlisted Options generate more than one type of output (both homes and jobs) from the same public sector discretionary spending, it is necessary to apportion this spending to each type of output. We have attributed the spending of delivering new build housing based on the residential floorspace area (based on an assumed average of 65.8 sq m per dwelling) as a proportion of total floorspace, with the remainder of the spending attributed to job creation.

**Figure 4.9 – Public sector discretionary spending per output**

Option	Public sector discretionary spending attributed to additional new build housing (£, incl. Optimism Bias)	Public sector discretionary spending per additional dwelling (£, incl. Optimism Bias)	Public sector discretionary spending attributed to additional jobs (£, incl. Optimism Bias)	Public sector discretionary spending per additional job (£, incl. Optimism Bias)
Benchmark	n/a	77,427	n/a	32,312
Preferred Option (Phase 4 delivered outputs only)	7,626,606	48,577	381,677	190,839
Preferred Option (Phase 4, delivered outputs, and Phases 5-7 enabled outputs)	7,939,264	147	69,020	34,510

Source: *DCLG (2010) Valuing the Benefits of Regeneration; BBP Regeneration analysis*

- 4.36 The table shows that the Preferred Option is cost-effective in terms of providing additional dwellings, with public discretionary spending per additional dwelling well below the benchmark level.

- 4.37 As the scheme is residential-led, with limited additional commercial floorspace provided in the Preferred Option, it is unsurprising that it is less cost-effective than benchmarks in terms of job creation.

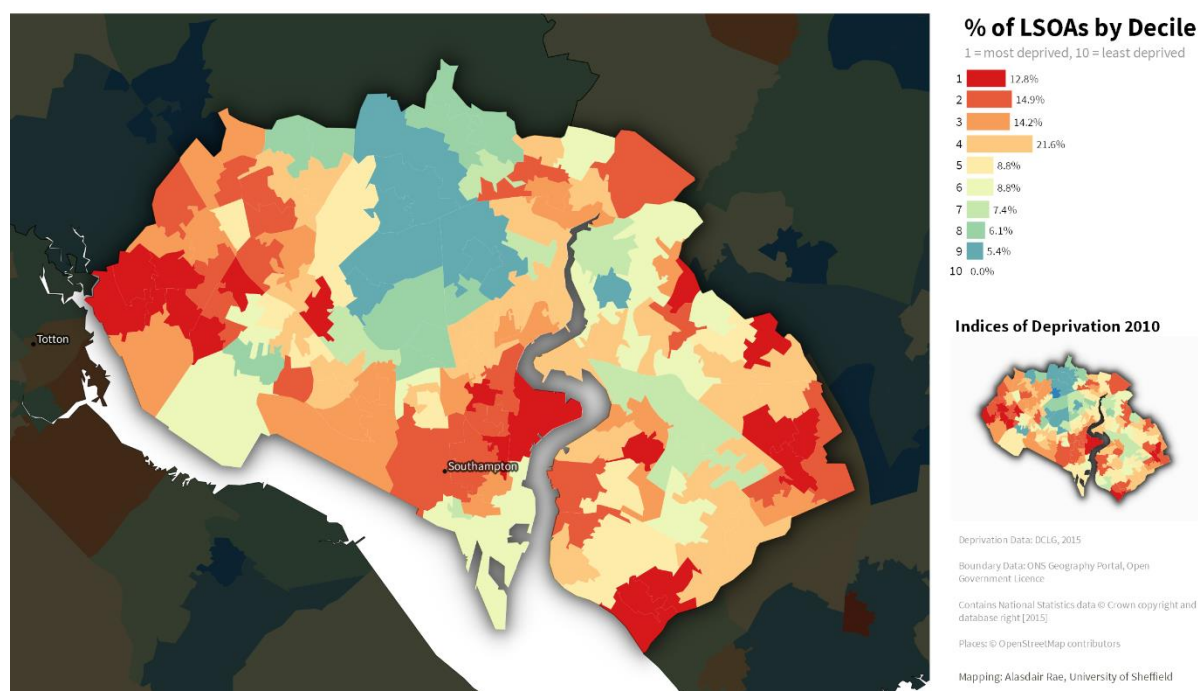
### **Strategic Added Value**

- 4.38 The inputs and activities arising from Local Growth Fund grant funding has the potential to lead to further positive projects and outcomes delivered by other parties. Examples of such capacity building include:
- The Preferred Option would require partnership working between Crest Nicholson, Solent LEP, Southampton City Council, the HCA, and other private and public sector bodies in order to achieve their shared objectives for the programme, building the capacity for potential further coordination and influence in future
  - The scale of the comprehensive scheme, with its iconic design, will inevitably improve the profile of the banks of the River Itchen - in particular, improving the urban fabric of this important gateway site for the many visitors reaching the region via water. This has the potential to raise interest in future inward investment opportunities, as well as the ambitions of existing local businesses.
  - Bringing the wider brownfield site back into productive use, will build upon on the investment made to date by both public and private sectors
  - Improving densities in this accessible location will increase the capacity utilisation and viability of existing public infrastructure
  - Landowners, developers and property agents will be actively promoting Southampton as a place for businesses and property investors to invest. In particular, the market demand generated for the high rise elements of Centenary Quay will support new value thresholds in this part of the city, potentially supporting further higher density development

### **Distributional impact**

- 4.39 The Green Book (HMT, 2011) requires appraisers to identify how the costs and benefits of public sector investment accrue to different groups in society. This is particularly relevant in the case of land and property projects because they often deliver greater benefits to those located in closest geographical proximity - a phenomenon known as 'distance decay'. Land and property owners also tend to benefit disproportionately to other beneficiaries due to betterment arising from increases in demand and values.
- 4.40 Figure 4.10 shows that the banks of the River Itchen experience high levels of deprivation, as calculated by the Index of Multiple Deprivation (which takes into account income; employment; health and disability; education; skills and training; barriers to housing and services; crime, and; living environment).
- 4.41 The two Lower Super Output Areas (LSOAs) that cover Centenary Quay (031C and 031D), are in the second and sixth most deprived deciles nationally.

**Figure 4.10 – Index of Multiple Deprivation 2015**



Source: Alisdair Rae, University of Sheffield (based on DCLG data, 2015)

4.42 The logic model in Figure 4.1 shows how Centenary Quay Phase 4 will deliver positive impacts and outcomes to the residents living in these deprived areas, ultimately leading to:

- Reduced deprivation;
- Improved quality of life;
- Greater economic opportunity, and;
- Greater economic output.

## Summary of Economic Case

4.43 The Preferred Option is Shortlisted Option 2, which sees the delivery of the masterplan for Phase 4 as currently envisaged, which:

- Is the most effective option for meeting the programme's strategic objectives;
- Enables 903 new homes to be delivered in total of which 471 are net additional
- Provides value for money, presenting a BCR of 6.4 – 'Very High';
- Performs well in sensitivity testing;
- Is cost effective when assessed on the basis of public sector discretionary spending per net additional new dwelling;
- Provides leverage for the Local Growth Fund grant funding measured against private investment at a ratio of 1:24.68, and;
- Achieves positive distributional benefits targeting deprived communities.

## 5. The Commercial Case

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### Demand and Pricing

- 5.1 A detailed Marketing Report is attached as Appendix E. Sales on Phase 3 offer strong comparable evidence being adjacent to phase 4, however evidence has also been drawn from Admirals Quay, which whilst it is located in Central Southampton in Ocean Village, benefits from a waterside setting where apartments with water views command the level of premium which are expected for Phase 4.
- 5.2 Centenary Quay has proved to be a preferred location for buy to let investors and owner occupiers. With strong yields and a history of growth phase 4 is expected to promote even more confidence from this sector.
- 5.3 The second hand market locally is generally of poor quality and lacks sound investment opportunities. With strong yields Crest expect to be able to maintain sales rate whilst continuing to push values. The government's Help to Buy schemes and assisted ISA saving provisions for owner occupiers are expected to continue to buoy demand.
- 5.4 The sales rate at Admirals Quay of circa 20 units per month is excellent and demonstrates how popular the scheme has been. The development has benefitted from a lack of central Southampton competition, a good market and Help to Buy. Centenary Quay has benefitted from two of these, however the location on the other side of the Itchen has diminished the level of demand to an extent.
- 5.5 Centenary Quay phase 3 has achieved on average 9 sales per month over the last six months, with current levels of interest in the development this is expected to continue. Crest continue to increase prices to set a benchmark in achieving the proposed prices for phase 4.
- 5.6 There is very little in terms of new build accommodation coming to the market within a 1-mile radius of phase 4. Although many local residents see Woolston as a lower market area the continued development, its scale and quality, has encouraged confidence.
- 5.7 The detailed pricing proposal for Phase 4 seeks to maintain a realistic achievable price based on comparable evidence in particular providing a competitive alternative to the second hand properties coming back to the market in Ocean Village.

### Land Ownership and Drawdown Arrangements

- 5.8 A Development Agreement has been entered into between Crest Nicholson Operations Ltd and the Homes and Communities Agency (HCA), guaranteed by Crest Nicholson Holdings PLC, which enables land to be drawn down land for each phase. It places full responsibility on the developer for carrying out the development at its own risk.
- 5.9 The Development Agreement for Phase 4 is based heavily on the existing agreements for Phases 1-3. The underlying structure is the same whereby Crest build under a license arrangement with and arrangements for sharing 'overage' after Crest has taken a priority return.

### Procurement

- 5.10 Phase 4A will be procured as a single entity as both blocks will be constructed concurrently. It is proposed to competitively tender the piling, groundworks/frame and the remaining envelope packages using Approved Crest Nicholson contractors.

- 5.11 When dealing with internal trades it is propose to competitively tender the M&E, dry lining and carpentry whereas and to negotiate with long-term 'partners' for the finishing trades such as painting and tiling. The kitchen supplier has been identified as being Manhattan.
- 5.12 Phase 4B will be procured subsequently as a separate package.

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## 6. The Financial Case

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- 6.1 The Financial Case examines whether the Preferred Option will result in a fundable and affordable 'deal'.

### Project costs

- 6.2 A detailed cost plan has been prepared by cost consultants, Arcadis (formerly EC Harris) and is based on the information available from planning documentation and the working Architects specification / drawings. This was initially produced independently before a series of meetings with the commercial team at Crest to better develop the cost plan and reflecting orders let on CQ3. The cost plan reflects a direct build approach to the scheme.
- 6.3 To date Crest have been able to test 48% of the budget with subcontractor data for a number of the main packages associated with the build.
- 6.4 A separate cost breakdown has been prepared of the infrastructure works which the Local Growth Fund grant funding is sought.

### Programme funding and affordability

- 6.5 The Local Growth Fund grant of £7.676m will enable the project to meet the threshold returns for financial viability and will enable conditions the land to be drawn down from the HCA. The balance of the development of costs will be funded through Crest Nicholson's internal resources.

### State Aid

- 6.6 In this case it is proposed that the Local Growth Fund grant funding is spent on public infrastructure. For public infrastructure the central question is whether it is "general" or "user-specific". Where infrastructure is general rather than user specific, it will not generally constitute State Aid, on the basis that general infrastructure spending does not give specific undertakings an economic advantage and/or is not selective.
- 6.7 The works selected for Local Growth Fund grant funding in this case consist of general infrastructure providing a public benefit i.e. whether multiple parties will benefit from the work, including the general public and local businesses. It is not therefore considered by Crest that any State Aid issues arise.



## 7. The Management Case

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- 7.1 The Management Case considers whether the Preferred Option is capable of being delivered successfully, in accordance with recognised best practice and that there are appropriate processes in place to support effective delivery.

### Crest Nicholson plc

- 7.2 Crest Nicholson is a leading residential developer operating in the Southern half of England with an emphasis on creating well designed homes in sustainable communities. The Group has a wide product range, varying from homes for first time buyers through to large family homes, and includes a mixture of houses, apartments and supporting commercial premises as part of its larger developments.
- 7.3 The Group, which has established a brand over 50 years also has a history of 39 years' on the Official List and trading on the London Stock Exchange's main market between 1968 and 2007. The Group re-listed on the London Stock Exchange in 2013.
- 7.4 The Group currently operates through five regional housebuilding divisions, a Major Projects division (Crest Nicholson Regeneration) which specialises in larger scale partnerships with public and private vendors and a Strategic Projects division which focuses on sourcing, promoting and delivering large-scale land sites which do not have planning consents.
- 7.5 Over the last 20 years, Crest Nicholson plc has secured a reputation for developing quality homes within well-conceived masterplans which create places where people want to live, work and enjoy their free time. The company's record in delivering high quality places is reinforced by the fact that Crest has more Building for Life Gold Standard Awards than any other developer.
- 7.6 A few case studies of other Group projects are presented below:

#### **Oakgrove, Milton Keynes**

1,105 homes.  
New neighbourhood centre with retail and leisure uses.  
Waitrose supermarket.  
Primary school and nursery.  
Extensive landscaping and a wildlife corridor.  
3 new play areas.  
Planned new rapid bus service to CMK.

#### **Bristol Harbourside**

662 homes.  
30,000 m<sup>2</sup> of office space.  
18,000m<sup>2</sup> of retail and leisure space.  
Leisure uses including hotels, restaurants and bars.  
CABE Building for Life Gold Award.  
A new exemplary riverside public realm.

#### **Bath Western Riverside**

2,281 homes.  
Commercial uses including restaurants and cafes.  
New infrastructure including new roads, walkways, bicycle routes and a new bridge.

2 riverside parks. Primary school. 2 energy centres providing Combined Heat and Power to the site.
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## Programme and Project Management

- 7.7 A dedicated project management team is leading the development of Centenary Quay supported by head office functions. This team has successfully led the development of Phases 1 to 3.
- 7.8 The key project milestones are:
- Sign Development Agreement – Achieved Oct 15
  - Planning Permission – 4A, April 2016 (achieved); 4B June 2016 (target)
  - Detailed Design – Oct 15 to Aug 16
  - Procurement – Nov 15 to Jul 16
  - Start on Site Blocks K1L, M and K1 – May 16
  - Start on Site Block J1 – May 17
  - Completion of Blocks K1L, M and K1 – May 18
  - Completion of Block J1 – May 2020

## Delivery and capacity

- 7.9 It is recognised by Crest and the HCA that phase 4 is currently financially challenged. The Development Agreement with the Homes and Communities Agency (HCA) enables Crest to draw down land for each phase. Crest Board approval was granted on 11th June 2015 enabling the project to move forward on a phased approach which will ensure project viability on a block by block basis.

## Planning and Stakeholder management and engagement

- 7.10 The proposals for Centenary Quay have been developed through the consideration of the approved outline masterplan for the wider site (ref 08/00389/OUT) and refined through the detail of the subsequent development phases. Phase 4A was granted reserved matters approval by Southampton City Council in [April 2016]. A reserved matters application has been submitted to Southampton City Council for Phase 4B on which a decision is expected in June 2016.
- 7.11 Substantial community involvement was undertaken for the outline planning applications 05/00816/OUT and 08/00389/OUT. There was significant interest in the masterplan scheme and its potential to transform this area of the City. Issues such as the quantum and overall density of development were discussed and debated throughout this process. This helped to develop a more consensual, sustainable scheme to meet the regeneration objectives for this area, resulting in a positive resolution to grant planning permission for the masterplan scheme.
- 7.12 During the time since the outline planning permission was granted, the site and development has started to take shape. The first phases of development have come forward, with Phases 1 and 2 both fully occupied and Phase 3 nearing completion with occupation commencing. In addition, a significant amount of work has been done in bringing forward the highway infrastructure to serve the development. It has been important for Crest to maintain ongoing dialogue with the community,

its contractors and statutory undertakers throughout the process. This has often been at a discrete local level with those specifically affected by particular phases of the works.

- 7.13 It is of paramount importance to Crest that Centenary Quay becomes an integrated part of the wider Woolston Community. To this end, Crest has been involved in sponsoring and hosting a number of community events. Events and programmes provide the opportunity for Crest to talk with the local community and to listen to people's views of the development throughout the process. Crest is also involved in citywide regeneration focus groups, such as with Business South.
- 7.14 As is the nature of master plan development, inevitably some changes become necessary as the detail of schemes evolve. Due to the changes to the land uses between Phases 2 and 3 of the Centenary Quay Development, Crest felt that it was important to inform the local community of the proposed changes to hear their views.
- 7.15 In order to inform the wider local community of the progress with regards the scheme and Phases 2 and 3, it was decided to hold a public exhibition on 8 November 2011. A further exhibition was held specifically for the Phase 3 proposals on 6 and 7 February 2012. These events were well attended and the response to the proposals was positive.
- 7.16 In progressing with phase 4 of the development, Crest has taken the same approach in engaging with the local community on the Phase 4 proposals and held a public exhibition at the St Mark's Institute on Victoria Road on Tuesday 4 August 2015 between 10am and 7:30pm. The exhibition was very well attended with over 141 attendees signing in. The overwhelming response from this exhibition was one of support for the proposals, with many positive comments being provided.
- 7.17 The community engagement and interaction that has become a significant part of the ongoing day to day management of this project, will continue and evolve throughout the project as appropriate.

## Risks and Risk Management

- 7.18 Risk management is a key component of Crest's corporate governance, from the Board, through the Executive Management Team and across all divisions of the Group. The fundamental aim is to assess and manage risk, in order to maintain continuous improvement.
- 7.19 At divisional level, each management board undertakes a regular assessment of its exposure to financial, operational and strategic risks. All necessary operational and resource changes are then made to ensure that the risks are managed and business continuity is maintained.
- 7.20 The Group risk register draws on information provided by the divisions and the work of the Group Board, which assesses the wider market environment. Each risk is classified and prioritised for action using approved acceptance thresholds. The Group's principal risks are monitored by the Executive Management Team, the Audit and Risk Committee and the Board.
- 7.21 Figure 7.1 below considers the key project risks and how it is planned to mitigate these.

**Figure 7.1 – Key project risks**

Risk Area	Mitigation
Planning	<ul style="list-style-type: none"> <li>An outline planning permission has been granted</li> <li>Pre app consultation has taken place</li> <li>Reserved matters approval has been obtained for Phase 4A and is expected for 4B in June 2016</li> <li>Close dialogue will be maintained through Crest's planning consultants, Savills and the planning officers at the City Council</li> </ul>

Market	<ul style="list-style-type: none"> <li>• Macro risks caused by global/geopolitical risks including uncertainty around the UK referendum on the EU are kept under close review by the Crest Group</li> <li>• Local market risks are reviewed in detail through regular market reports informed by local property agents looking at demand and supply</li> <li>• Phased approach allows for products ranges to be varied according to demand</li> </ul>
Programme	<ul style="list-style-type: none"> <li>• Dedicated project management team</li> <li>• Oversight and risk-based review by Group Technical &amp; Quality Director</li> <li>• Consultative and partnership approach at planning/ designing stage</li> </ul>
Costs	<ul style="list-style-type: none"> <li>• Robust Group contract arrangements are in place to control costs</li> <li>• Leverage is obtained through long term partnerships with strategic suppliers</li> <li>• Preliminaries and set up costs are minimised by maintaining momentum across the development phases</li> <li>• Advance tendering of 48% of the total costs</li> <li>• Site investigations to minimise unforeseen below ground risks. Regular costs and forecast reviews are undertaken by the project team</li> </ul>
Viability	<ul style="list-style-type: none"> <li>• Funding support from Solent LEP for Phase 4 infrastructure works to close funding gap</li> <li>• Close liaison with the HCA as landowners</li> <li>• Regular updates and reviews of project viability including value engineering workshops</li> </ul>
Environmental and Legacy Risks	<ul style="list-style-type: none"> <li>• Maintaining appropriate insurance cover</li> <li>• Implementing Environmental Management Plans</li> <li>• Periodic review of key contractual obligations. Training for all employees</li> </ul>

## Monitoring and evaluation

7.22 Project monitoring will be undertaken by Crest based on methodologies approved by the Solent LEP in order to assess the performance of the project against its SMART objectives.

7.23 The monitoring and evaluation plan will be prepared which will reflect the LEP's own monitoring requirements to BIS and the evaluation will be proportionate to the scale of the investment by the LEP. It will target key evidence gaps relating to the delivery of Phase 4 of Centenary Quay.

# Glossary of terms

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<b>HM Treasury Green Book</b>	HM Treasury guidance for public sector bodies on how to appraise proposals before committing funds to a policy, programme or project
<b>Reference Case</b>	An option where government takes the minimum amount of action necessary (the 'do minimum option'), so that the reasons for more interventionist actions can be judged
<b>Additionality</b>	The extent to which something happens as a result of an intervention that would not have occurred in the absence of the intervention
<b>Benefit Cost Ratio</b>	An indicator, used in the formal discipline of cost-benefit analysis, that attempts to summarize the overall value for money of a project or proposal
<b>Persistence</b>	Along with duration and build-up, accounting for benefits which may develop faster than others and persist for different periods of time
<b>Willingness to pay</b>	The maximum amount an individual is willing to sacrifice to procure a good or avoid something undesirable
<b>Betterment</b>	Up lift in value attributable to the intervention
<b>Cost Benefit Analysis (CBA)</b>	A process by which business decisions are analysed. The benefits of a given situation or business-related action are summed and then the costs associated with taking that action are subtracted
<b>Leverage</b>	Other funding which is secured as a result of the intervention



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