BNP PARIBAS REAL ESTATE

STAG BREWERY
SECTION 106 CONTRIBUTIONS AND CIL

This note provides a final update to reflect the most up to date position in respect of CIL and s106 costs.

The Section 106 contributions were originally incorporated into the FVA in full.

The total Section 106 contributions that were incorporated amounted to: £7.61m. The latest list of contributions (which are attached for completeness) amount to: £7.33m. This is a reduction of £0.28m.

With regard to CIL contributions, the FVA originally tested on the basis of receiving occupational relief and also on the assumption of receiving relief in respect of affordable housing. The total CIL assumed amounted to £45.91m (with occupational relief) or £59.04 million (no occupational relief). Using these assumptions (with the higher CIL figure), it was demonstrated that the scheme with the final affordable housing offer (7.6% by habitable rooms with a split of 80% social rent and 20% shared ownership) would generate a Developer’s profit of 14.16%, against a target of 18.15%.

Since this time, we have received LBRuT’s estimates for CIL which, on the same assumptions above, have been calculated to equate to £48.44m (with occupational relief) and £62.25m (no occupational relief. The differences in the figures are summarised in Table 1.

Table 1: GE and LBRuT CIL estimates

Demolition credit	CIL Collecting Authority	GE	LBRuT	Difference
None	MCIL	£12,136,869.00	£12,805,955.89	£669,086.89
	BCIL	£46,904,181.00	£49,441,436.72	£2,537,255.72
	Total	**£59,041,050.00**	**£62,247,392.61**	£3,206,342.61
Full	**CIL Collecting Authority**	**GE**	**LBRuT**	**Difference**
	MCIL	£9,183,441.00	£10,062,953.20	£879,512.20
	BCIL	£36,727,111.00	£38,373,036.00	£1,645,925.00
	Total	**£45,910,552.00**	**£48,435,989.20**	£2,525,437.20

We have not had the opportunity to properly assess where the difference between LBRuT’s figures and our own figures arise but for the sake of robustness, we have considered the implications of LBRuT’s CIL estimate for completeness.

As a result, the latest s106 financial contributions and LBRuT’s CIL assumptions would increase costs by £2.93m (no occupational relief) or £2.24 million (with occupational relief). In the context of the overall scheme this would not materially change the overall profit but would clearly worsen the position.

The FVA assumed as a worst-case scenario, that all costs would be borne by the Developer. At this stage discussions are still ongoing with the ESFA to agree the appropriate split of costs, but this is likely to continue beyond the committee date.

With the updated CIL and Section 106 costs, and assuming the Applicant bears the full Section 106 contributions, the Developer’s profit (assuming growth) equates to 13.81% of GDV.

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However, even if the Applicants were able to negotiate for the school to pay as much as 50% of the Section 106 contributions (a highly unlikely outcome) this would only equate to 0.36% of GDV[1], so the scheme would remain well under the target profit level at the application stage. Taking the figures in the note BNP provided on the final affordable housing offer, dated 2 May 2023, in this scenario and using the assumptions of higher s106 and CIL costs, the profit would only increase as follows:

Profit with higher CIL liability:

- With full S106: 13.81% of GDV
- With 50% of S106: 14.25% of GDV

Profit with lower CIL liability:

With full S106: 15.40% of GDV
With 50% of S106: 15.84% of GDV

(Note: the target profit is 18.15% of GDV).

On the basis of the above, it is clear that even in the context where the school were to absorb 50% of the contributions, this would have a negligible effect on improving the profitability of the scheme and it would still be some way off the target profit level of 18.15% of GDV.

In reality, the proportion that the School might pay is likely to be considerably lower than 50%.

The final Section 106 contributions borne by Applicants will be reflected in the costs incorporated into the review mechanisms. If the contribution is lower than anticipated, then the cost saving will be reflected.

Summary

Overall, based on the increased costs the position of profitability would worsen from that set out within the FVA, dated October 2022. Even taking into account an assumption that 50% of the Section 106 contributions related to the school were borne by the school, it is clear there would be no material improvement and the scheme would still be some way off the target profit level of 18.15% of GDV.

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[1] Although the change in profit would be marginally higher than this due to reductions in finance costs.