

Viability issues: Stour Valley Visitor Centre at Horkesley Park Application 120965

Introduction:

The applicant has not provided any information that is in the public domain about his proposed business plan. This is apparently for reasons of commercial confidentiality that we do not accept as being valid. This is in contrast to the previous Application 090231, of which this application is a re-submission and has prevented open debate about a matter, which is of very considerable public interest.

Nathaniel Litchfield & Partners (see below under NLP) make it clear that viability, as would be demonstrated by the Business Plan, is a matter of material consideration under the NPPF and must therefore be demonstrated by the applicant if the application is to succeed.

We wish to place on the record that our ability to understand and comment upon these important proposals has been very substantially prejudiced by the absence of this information and we are therefore reduced mainly to commenting upon the conclusions reached by the independent consultants appointed by the Council to assess viability rather than coming to our own views on the submitted figures. In our view the Council should not determine this application until there has been public disclosure of this essential information and the public have had a proper opportunity to comment upon it.

Britton McGrath Associates were asked to review certain aspects of the application and they conclude that the project is financially unviable. Some further deductions that may be made from their report are given below but, in the event that Colchester does decide, against all the evidence and expert advice, to give consent, the applicant will, in all probability, lose money at the rate of £5000 per day from day one of it being opened. Furthermore we estimate that the applicant would only be able to cover the costs of about 40 full time employees at minimum wage from the projected revenues generated. It would not be possible to finance the employees necessary to operate the scheme in accordance with its plans.

Britton McGrath Associates (BMA).

The BMA Independent Project Review (the Review) prepared for Colchester Borough Council reaches certain conclusions and provides some data from which additional reasonable assumptions can be deduced.

Their conclusion on page 6 of their report gives a very simple pro-forma Profit and Loss statement comparing their numbers with those of the Applicant. All the Applicant's numbers have been redacted with the exception of visitor numbers. This table is reproduced below:

	Applicant	BMA forecast
Visitor numbers	316,250	130,000
Gross sales	redacted	£1,400,000
Net sales	redacted	£1,167,000
Less Cost of sales	redacted	£154,000
Gross Profit	redacted	£1,013,000
Less Overheads	redacted	£2,266,000
Trading Profit (los)	redacted	(£1,253,000)
Depreciation	redacted	£546,000
Net Profit (loss) Pre-Tax	redacted	(£1,799,000)

Their concluding paragraph on this page states:

“Essentially the assumptions for many of the key foundations of the Business Plan appear to be fundamentally flawed resulting in our overwhelming conclusion that this is a business which would quickly become insolvent thereby resulting in any possible wider benefit to the community being lost.”

Page 55 of their report states:

“In conclusion, whilst there may be a number of merits to this scheme, both for the Bunting family and the region, it would appear that many of these are unlikely to manifest themselves as the business itself, as it is currently conceived, is financially unviable.”

BMA do not rescind this statement in any of their supplementary reports.

Deductions concerning employees:

BMA state on p5 that:

“employment costs at the industry benchmark would result in a budget of c. £500,000 per year.”

On page 53 they state that :

“our experience of running similar leisure operations leads us to suggest that staffing should be planned to be in the order of 30-35%of turnover.”

From the P&L above, this would yield a staff cost of £490,000 assuming that a rate of 35% of turnover is used.

The minimum cost for a full time employee may be approximated as follows:

National minimum wage	£6.16 per hour
Hours worked	35 hours per week
Hours per year (including three weeks paid holiday)	1820
Pay per Year	£11,211.00
Employer NI contributions	
13.8% of pay above £7605/year	
13.8% of £3606.00	£497.00

Estimated total cost of minimum wage employee: £11,708.00

This cost excludes any possible pension cost. Some of the younger employees may be paid at a lower rate. It is however a reasonable assumption in our view on the basis that there will be a range of employees on site from site managers to gallery curator to senior lecturers to skilled maintenance staff etc, all of whom would presumably be paid well above the minimum wage level. It is therefore reasonable to assume that the average cost per full time employee will be considerably higher than this. Based on the minimum wage figure, £490,000 would cover only 41 full time employees.

Deductions concerning investment:

It is reasonable to assume that the depreciation figure given by BMA is the same as that given by the applicant on the basis that they have no reason to question the level of investment. We are

advised that it is normal to depreciate new buildings over the longest possible time scale up to 50 years. We do not know the depreciation rates assumed by the applicant but conservatively we can estimate this at 35 years for a mix of buildings and capital equipment. Based on this reasonable assumption we can conclude that the capital investment anticipated by the applicant is of the order of £19M.

We do not know the source of capital for the project but in the normal project finance environment a return reflecting the risk would be expected. We do not speculate on a reasonable level of return in this case without further information on the source of funding. Any such cost would be chargeable after Net Profit and would not be supportable by the BMA model presented.

Transport costs:

In addition, it is reasonable to assume that the applicant's business plan did not take into account the provision of all the transport requirements as set out in the letter from Essex County Highways to Colchester Borough Council dated 16th November 2012. These conditions, which would be enforced by a s106 Agreement, are stated in paragraph 2 of this letter and are:

Bullet points 12 to 17 on pages 2-3:

12 *"A local bus service(s) between the proposal site, Colchester Rail Station and Town Centre, which shall be operated on a minimum 15 minute frequency basis during the proposal sites opening times as well as a minimum period before and after opening times. Service shall be provided for a minimum 5 year period. Details to be agreed with the local bus operator(s), local planning authority and highway authority."*

13 *"Service facilities for free of charge use by local bus service operatives."*

14 *"A dedicated branded passenger transport service between the proposal site and Colchester Rail station and town centre, which shall operate on a minimum 15 minute frequency basis during the proposal site's opening times as well as a minimum period before and after opening times. Service shall be provided for the life of the development."*

15 *"A dedicated staff shuttle bus service, which shall be free of charge and based on staff shift patterns. Service shall be provided for the life of the development."*

16 *"A dedicated hopper bus service between the proposal site and the "honeypots" to include but may not be limited to those in the Dedham Vale/Stour Valley. Service shall be free of charge provided for the life of the development."*

17 *"A dedicated hopper bus service between the proposal site and Dedham Village coach park (via the A134, the A12 Junction 28, the A12 and Stratford Road), to link with a re-instated "Dedham Vale Hopper" service. The (Horkesley Park) dedicated hopper bus service shall tow especially fitted out trailers to carry cycles, be free of charge and provided for the life of the development."*

The planning application documentation does not include the provision required under bullet point 14 which would be very expensive. The costs of underwriting the public service required under bullet point 12 would also be very expensive bearing mind that the current services only run on an hourly basis and not at all on Sundays. It is very unlikely that an independent operator would provide these without such underwriting. Bullet Points 12 and 14 are not mutually exclusive as is suggested by the applicant. The Vectos report lists the schedule of transport infrastructure proposed by the applicant in para 2.1.31. The applicant is offering (inter alia) under bullet point 10:

“Enhancements to the local bus services or the provision of a branded service to provide a 15 minute average frequency to Colchester Town Centre and Colchester North Station during the times that Horkesley Park is open, for a minimum of five years.”

We do not have the mechanism to estimate the incremental transport costs without seeing the applicant’s business plan and the extent to which they have been allowed for, but they are likely to be substantial and would further reduce the viability of the attraction to the extent that they have not been included by the applicant or BMA.

Visitor numbers

Estimates of visitor numbers are key to the viability of Horkesley Park. These are dealt with below:

1. Sykes: (SLP)

The applicant uses the numbers derived by Sykes Leisure Projects set out in their report (TER) dated May 2012. Essentially, they outline the features of Horkesley Park and their analysis of the ‘need’ for it. They then derive their visitor numbers by defining the target market in terms of numbers and then applying a penetration rate. On page 44, para 5, of their report they quote Anian Leisure Consultants as experts who say that the geographical spheres of influence for a modern ‘state of the art’ heritage and natural attractions is less than one hour in each direction. They then go on to give the subjective opinion that *for an “attraction of the quality and scale proposed and promoted effectively with a realistic marketing budget, it is likely that the Horkesley Park catchment will be along the lines of Colchester Zoo and will be a two hour drive time. It is anticipated that approximately 60% of the Horkesley Park Visitors will travel less than one hour in each direction and 40% will travel between one and two hours.”*

They give estimates of the 0-60 minute drive time and 61-120 minute drive time markets summarized in the Table 2 on page 45 of the report. The ‘primary’ market is given as 5,667,160 and the secondary as 24,034,706 giving a total of 29,701,866. Both of these totals include residents and very substantial numbers of domestic and overseas tourists. They then have to apply a penetration rate to this overall total of 1.04% to arrive at their visitor forecast of **316,250**. This is considerably higher than any other comparative attraction give on page 73, Table 13 of their report with the exception of Colchester Zoo (which clearly has reached its visitor numbers over many years, is very well established and has a very different ‘mix’ of attractions.)

2. BMA:

In para 4.2, page 15 of the first BMA report they comment on available market and state that the 30 minute drive time is all-important. They give this as 332,000 people which is relatively small compared with other attractions reviewed. The total market in the 0-90 minute drive time is given as 4,663,000. They review Horkesley Park against other similar attractions on a sector-by-sector basis and conclude in their summary para 8.8 page 41 that:

*“Other than an initial peak in interest at first launch it is very unlikely that visitor numbers in excess of **100-130,000** per year could be sustained”*

The Sykes estimates rely very heavily on domestic and overseas tourists (22,710,000 out of the 29,701,866 total). BMA state in 9.1.1.3 that: *“our study comparator attractions suggest that there is little evidence that this will be a tourist destination. Less than 1% of the visitorship of successful sites such as Willows Farm Village are from tourists.”*

They conclude this paragraph by stating: *"It would be our recommendation that at best any assessment of visitor number from tourists should be forecast following domestic success and from then on only including tourists within a one hour catchment area. This would equate to penetrating a market in the order of 4.5 million tourists rather than the c22million adopted by Sykes."*

In the BMA supplementary review dated 18th December 2012 they record (para 1.1 para 4 on page 4) the threat to Colchester Borough Council to reach a favourable recommendation by December 20th or they (the applicant) would lodge an appeal. They then discuss the possible impact of the Chinese Garden and Constable Country offer amongst other features and conclude that :

*" We have **not** shifted fundamentally in our opinion that 310,000 visitors per annum is overly ambitious. However the investment in the Chinese Garden, should, in our view, help to ensure that the development reaches the upper rather than the lower limits of our estimate of 90-130,000 visitors per annum and could potentially reach 150,000."*

They further conclude that it has the potential to deliver as a regional visitor attraction. (Without defining clearly what *regional* means,) nor do they provide any authority for this. This is the basis on which Colchester is now supporting the application.

BMA have also produced two addenda to their reports which look at different aspects of the potential market. The second of these concludes on page 4 that visitor numbers for Horkesley Park as the paid for visitor attraction currently proposed, are unlikely to exceed **100-130,000** visitors per year.

3. Nathaniel Litchfield & Partners (NLP)

The NLP report dated 9th November 2012 reviews the application against National, Regional and Local Planning Policy. They make a number of points relevant to viability. In para 2.21 they refer to the importance of viability criterion in Para 173 of the NPPF. In para 2.22 they make it clear that their view is that viability is a material consideration and speculate on consequences of failure in terms of pressure to convert the new buildings into alternative uses that have less synergy with a rural location. In their conclusion on page 27 of the report they state that:

"There is no guarantee that the tourist attractions will be maintained and viable in the longer term. The BMA analysis suggests the development will be significantly below that claimed by the applicant and the on-going viability is a major concern."

They compare different aspects of the attraction with the similar attractions in the region which includes details of visitor numbers. The list given on pages 29-32 identifies all the East of England tourist attractions but the data given is from 2008. They do however defer to BMA in the analysis of potential visitor numbers.

The Council seem to be relying on the question of regional significance to recommend approval. NLP conclude on page 17 of their report, based on their own analysis that the attraction would not be of regional significance. Furthermore they state that the tourist offer is very narrow and there is no guarantee it will be maintained over a long period and that the Council could not control the maintenance of the facility in the long term.

4. Visitor Attraction Consultants (VAC)

VAC carried out a study for SVAG during the very limited time given for consultation when the application was first recorded. (Letter dated 31st July 2012) They concluded that a *settled down* attendance level of around 100,000 visitors per annum should be considered for the Horkesley

project: 150,000 at the maximum. They said that there could be an uplift in the opening two or three years but that this could not be guaranteed.

5. Stour Valley Action Group (SVAG)

In the SVAG “ common sense’ view of financial viability prepared by financial experts and included in their report of July 26th 2012, a comparison was made with other attractions and concluded that a realistic estimate of visitor numbers would be 150,000 and that even this would be very ambitious.

Summary of annual visitor numbers:

Sykes	316,250 precisely
BMA	130,000 probable , £150,000 maximum
VAC	150,000 maximum
SVAG	150,000 maximum

The conclusion must be that independent expert opinion shows that visitor numbers quoted by SLP will not be achieved and that they will be less than half the 316,250 number quoted by SLP.

As one might expect, the applicant stands by his original forecast and attempts to undermine all other opinion.

The consensus of expert opinion, other than SLP, the attraction will not be viable based on visitor numbers alone.

Other Elements of income

The BMA report analyses all the other elements and concludes that income from all elements is overstated by the applicant. This is summarized on page 5 of their report as follows:

	Applicant	BMA
Entry Price	£14.95	£9.00, 70% yield
Catering spend per head	redacted	£2.50
Retail spend per head	redacted	£1.50
Farm food retail	redacted	£1.04
Total per head	redacted	£11.34
Total primary income based 130,000 visitors	redacted	£1,474,000 potentially rising to up to £1.8M if Farm Food Retail is available outside the perimeter.

We have no doubt that BMA are competent to provide these figures and we have no reason to question them. The analysis of these elements is given in para 9.2.2.2.1 and onwards starting on page 50. They conclude, inter alia, that the forecasted catering turnover of (redacted) is very ambitious and that retail income (redacted) is extremely ambitious based on information gathered in their study.

Opinion on Business Plan:

The applicant has supported his business plan with six letters of reference. These are from:

Mr M Tyler, Peyton Tyler Myers, Chartered Accountants to Bunting and Sons.
Mr Robert Leng, President, Essex Chamber of Commerce in which he gives his personal opinion.
Sula Rayska, Rayska Heritage Consultants. Believed to have been retained by the applicant.
Keith Brown, Chief Executive, Visit East Anglia Ltd
David Ralph, Chief Executive, Haven Gateway Partnership.
Martin Goymour, Managing Director, Banham Zoo.

All of these referees wrote their letters before seeing the conclusions of the BMA report. The applicant is unlikely to solicit letters that are not favourable and we question their value.

Conclusion:

Independent expert opinion shows that Horkesley Park is not viable and would lose money at the rate of £1.8m per annum even if it only employed 40 minimum wage full time employees. It is not known whether all elements of cost including provisions of transport required by Essex Highways and servicing of capital and working capital have been fully accounted for. The BMA forecast of visitor numbers at 130,000 (150,000) is supported by other opinion. This is all before the additional costs required to satisfy the provisos and overriding caveats in BMA's Supplementary Review are taken into account.

In the circumstances the Council could not responsibly grant planning permission to these proposals as there is no reasonable prospect of them becoming viable and even less of them performing the economic and social functions ascribed to them by the applicant.

Stour Valley Action Group. February 7th 2013