

SUBJECT:	Redevelopment of former Gerrards Cross Police Station site
REPORT OF:	Resources Portfolio Holder - Cllr Barbara Gibbs Health Communities Portfolio Holder – Cllr Patrick Hogan
RESPONSIBLE OFFICER	Chris Marchant – Head of Environment
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WARD/S AFFECTED	Denham Parish Council and Gerrards Cross Town Council

1. Purpose of Report

Members of the Resources PAG are asked to advise the Portfolio Holder on the recommendations to Cabinet set out below.

1.1 This report:

- Provides an update on key matters of concern regards construction cost reported to the SBDC joint Resource PAG 22 Mar 2018 and Cabinet 17 April 2018.
- Provides a revised cost estimate from the framework contractor in **Appendix C** (as attached).
- Note for Resource PAG: This report presents the draft business case, based on the latest cost estimate at halfway point of the Surety route ahead of the final business case to be approved by Cabinet once 100% cost certainty is obtained. The estimate is close to the target cost reported to Cabinet 17 April 2018 with a fixed cost due 18 June 2018. The contractor has provided an indication and assurance that the final cost will be kept within the target cost envelope which represented a significant saving on the initial feasibility cost estimate.

RECOMMENDATIONS

1. To note the current position.
2. To note the final business case for the project.
3. To note that the anticipated fixed cost of £7,831,569 is in line with the amount approved in the current Capital Programme.
4. To increase the current approved pre-construction budget from £800,000 to £950,000 to allow detail design to be developed. However, this does not reflect an increase in the total estimated project cost but is merely a timing issue to allow the works to proceed to programme.

2. Executive Summary

- 2.1 Members at the SBDC Resources PAG 22nd March 2018 and Cabinet 17th April 2018 agreed to proceed with obtaining 100% cost certainty using the framework Surety route to allow a further report to be presented on the detailed business plan before moving to the development phase subject to planning consent being achieved.

- 2.2 The contractors cost estimates are within the target agreed with the contractor following review of their initial feasibility estimate which represented a significant reduction.
- 2.3 It has become apparent during the planning process that the planning application cannot be determined until September 2018 to allow ecology surveys to be carried out between the months of May and September. A mitigation report will be produced to obtain the necessary licence from Natural England. Bats would be migrated during the months of February and March.
- 2.4 Works to develop the detailed design and carry out pre-construction activities can be done whilst the bat surveys are being carried out.
- 2.5 The expenditure to develop the design, fixed cost and a business case is within the allocated £800k agreed by Cabinet on 08 February 2017. The detail design will now need to be developed after the Surety route requiring an additional sum of £150k for detail design, surveys and consultancy.
- 2.6 The delivery agreement for the construction phase will be entered into if planning consent is achieved.
- 2.7 The plans provide for 34 apartments which will provide 20 private rent apartments and 14 affordable rent apartments - to meet the 40% affordable housing requirement.
- 2.8 To enable this project to proceed, the Council will need to invest an estimated £7.83m for a traditional brick and block cavity form of construction and any associated fees if planning is granted.
- 2.9 The proposal is for the project cost to be financed by way of a loan from the Public Works Loan Board (PWLB).
- 2.10 The estimated annual net rental is £271,592, based on the property consultant's figures.
- 2.11 The draft business case indicates that the rental return on this development will be sufficient to repay the capital expenditure over the lifetime of the asset.

3. Reasons for Recommendations

- 3.1 Due to the Council's projected financial position over the next few years, it is clear that the Council needs to maximise income generating opportunities in order to counter reductions in Government grant. This development opportunity can deliver a financial return whilst also meeting housing need.
- 3.2 As well as the financial return, one of the key drivers for the Council on this project is the provision of 40% affordable housing on site which has been consistently challenged by developers with limited affordable housing built on site for the past 10 years through the planning process.

- 3.3 The final business case and decision to proceed with the development will be brought before Cabinet after the planning application has been determined.

4. Background

- 4.1 Cabinet on 17 April 2018 considered and agreed to proceed with obtaining 100% cost certainty at cost of £100k which is within the allocated £800k agreed by Cabinet on 08 February 2017 with a further report to be presented on the detailed business plan before moving to the development phase subject to planning consent being achieved.
- 4.2 The site was acquired by SBDC from Thames Valley Police on the 31 March 2017 for £4m.
- 4.3 The site is shown edged in red on the plan at **Appendix A** which extends 0.784 Hectares (7,835m²) and comprises the now disused Gerrards Cross Police Station, with eight number residential properties. The site is located adjacent to Oxford Road in Tatling end in Denham.
- 4.4 The proposed development comprises 34 residential dwellings which are to be delivered in four separate buildings - A three-storey building which seeks to replace the former Police Station, and three two-storey pitched roofed properties to be developed across the remainder of the site.
- 4.5 The proposals developed and submitted for planning permission on 22 December 2017 are shown in **Appendix B**.

5. Discussion

Current Cost Estimates

- 5.1 Following Cabinet 17 April 2018 the framework Contractor was asked to provide a fixed price using the framework Surety route and the cost received is within the agreed target cost estimate.
- 5.2 A summary of the framework Contractor's project cost estimates including initial, revised target cost estimate and fixed cost for brick and block form of construction is shown in **Appendix C**.
- 5.3 Revised project cost estimates for traditional brick and block construction is £7,831,569.
- 5.4 The revised cost is achieved through design efficiencies where the principal variations to the original design for planning are considered as non-material significant for planning;
- All buildings have been reduced in height/mass; specifically building A. With internal heights remaining above client requirements (2.4m generally)
 - Dual amenity spaces serving apartments, reduced to single zones. Private amenity area presented complies with London Housing Standards.
 - Relocation of Substation to South-West corner of the site.
 - Revised access road layout meeting current position

- The stepped formation of blocks C & D is proposed to be altered to single height profile
- Proposed relocation of cycle store and bin store to building A
- Reduced scope of hard landscaping to Northern aspect of site
- Reduced cycle storage to that represented with the current planning application
- Brick finish to building specified to align with the 2-tone/contrasting principle to that represented in planning.
- Provision of PV panels updated following SAP calculations
- Notional amendments to fenestration detail

- 5.5 The estimate costs does not include for project risks such as de-contamination, archaeology, ordinance, judicial review cost, planning condition discharge or conditions on unreasonable working hours, dealing with any invasive or protected species.
- 5.6 The contamination costs are not included for in the estimated cost as the Council can reclaim up to £200,000 for any contamination costs incurred as part of a condition of sale on purchasing the Police site. These costs need to be claimed within 2 years.
- 5.7 The revised build cost estimate of £2,352/m² from the framework Contractor on comparable basis is within the range of local market testing reported to Cabinet 17 April 2018.

6. Draft Business Case

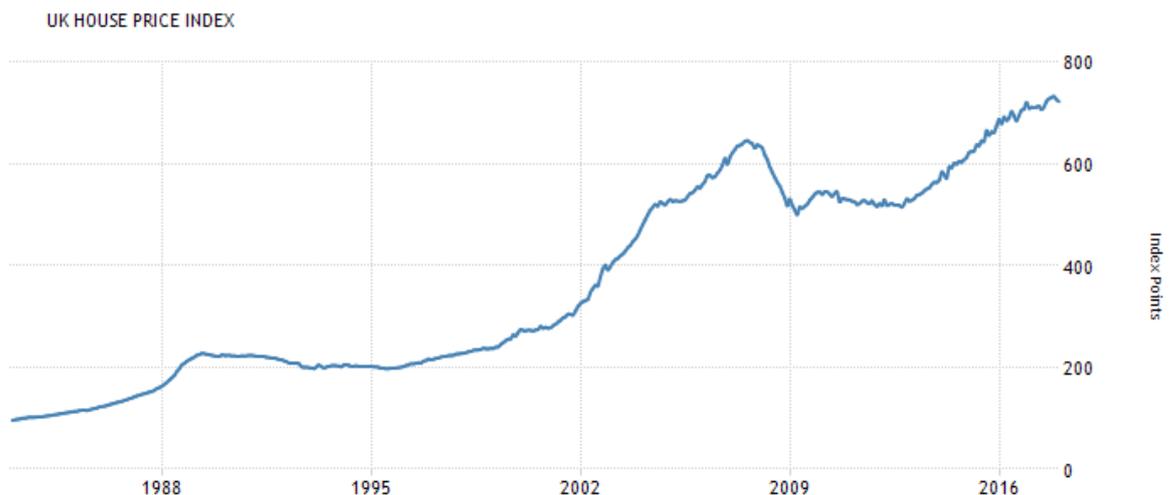
- 6.1 Investing in the construction of 34 new apartments, based on the framework Contractor current estimate for traditional brick and block construction, will generate a financial return from the resulting rental income.
- 6.2 The estimated cash flows from this development have been modelled and are shown in **Appendix D**.
- 6.3 The reduction in the estimated build cost improves the business case as follows.

Build Cost	£7,831,569
Loan Interest Rate	2.77%
Annual Rent (Note 1)	£271,592
Internal Rate of Return (IRR) (Should be above loan interest rate)	3.67%
Net Present Value over 40 years (Negative is good)	£2,468,919
Total Profit over 40 years (Negative is good)	-£3,788,373

See **Appendix D** for full details.

Note 1: The income estimate has been adjusted since the previous version of the business case, to reflect the current indications that the management fee for managing affordable housing is likely to be in the region of 30% rather than 10% as previously estimated.

- 6.4 This shows that the estimated annual net rental income of c£271,500 will be more than sufficient to cover the loan interest and any repairs & maintenance costs. Furthermore the profit on rental income from the development will be sufficient to repay the build cost over the lifetime of the asset.
- 6.5 The model has been drawn up using the best figures currently available and is based on various assumptions. For instance:
- Inflation is assumed to be 3% per annum and this is also the discount rate used.
 - The rental charges are increased in line with inflation i.e. 3% per annum.
- 3% is in line with the Government's RPI figures published in the Autumn Statement.
 The initial monthly rental is in line with commercial agent rentals figures for the local area.
- 6.6 The proposal is for the project cost to be financed by way of a loan from the Public Works Loan Board (PWLB). The current rate of interest on a 40 year annuity loan is 2.77%.
- 6.7 In addition there is the potential for SBDC to benefit from capital growth. The following chart shows the growth in UK house prices over recent years.



7. Programme

- 7.1 The following table outlines the current timetable based on appointing framework for a Brick and Block construction.

Task	Date	Comment
Cabinet	17-04-18	To note progress & agree Surety route
Resources PAG	13-06-18	To advise PAG on updated business case
Final Contractor tender cost	18-06-18	
Planning Approval & Judicial Review	26-09-18	Revised from Mar-2018 due to presence of bats
Cabinet final approval	tbc	Report to follow planning

		determination for final decision to proceed with construction phase
Technical detailed design complete	10-10-18	
Construction starts with enabling works	14-01-19	Demolition of building can only take place during Mar and April due to Bats on site
Completion	19-06-20	

8. Corporate Implications

8.1 Financial – See above and Business case.

8.2 The Council's current Medium Term Financial Plan assumes net additional income from the Police Site as follows.

2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
(129)	(276)	(285)	(285)	(285)

The latest income estimates in paragraph 6.3 above are therefore slightly below, but not materially different to these.

8.3 The Council's current Medium Term Financial Plan assumes a total build cost of £8.620m, which is slightly above the current total build cost in paragraph 6.3.

8.4 Overall the current estimates are therefore roughly in line with the assumptions in the Medium Term Financial Plan. When the Plan is next update the assumptions will be updated accordingly.

8.5 The remaining risks to this project include:

- Planning determination and any conditions that could be imposed that may have cost implications. Allow 6 weeks after consent issued for any JR period before contracts signed for construction.
- Condition being imposed by highways necessitating the need for an agreement to extinguish highway rights which may delay the commencement of the project.
- Relocating the current tenants in the existing 8 police houses in time for the enabling works to start. These houses are currently occupied by the housing association tenants on a short term lease basis.
- Future rental income is estimated in the business case.

9. Links to Council Policy Objectives

9.1 This matter is related to the Council's corporate aims to deliver cost effective, customer focused services, and to promote local communities.

- 9.2 This report also progresses the aims of the Council's asset management plan.
- 9.3 This scheme will help towards meeting the affordable housing need in our district and provides an income for the Council.

10. Next Step

- 10.1 The planning application will be considered by the Planning Committee.
- 10.2 The framework Contractor will continue to develop detailed design proposals
- 10.3 Construction works will start on site early 2019

Background Papers:	
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