

SUBJECT:	Redevelopment of former Gerrards Cross Police Station site Business Case	
REPORT OF:	Resources Portfolio Holder - Cllr Barbara Gibbs	
RESPONSIBLE OFFICER	Chris Marchant	Head of Environment
REPORT AUTHOR	Anwar Zaman	Client Project Manager
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WARD/S AFFECTED	Denham Parish Council and Gerrards Cross Town Council	

Members of the PAG are requested to advise the Portfolio Holder on the proposed recommendations below that will be considered by Cabinet on 17th October 18

1. Purpose of Report

1.1 The purpose of this report is to:

- Present the final business case for the design and construction of the scheme, and
- Seek approval to progress the project.

The PAG is asked to advise the Portfolio Holder on the following recommendations to Cabinet.

RECOMMENDATIONS to Cabinet:

- 1 That Cabinet approve the final business case for the project.**
- 2 That Members note the total proposed spend of £8.331m, which will be funded from the current approved Capital Budget for this scheme.**
- 3 That the Head of Environment be authorised to conclude the delivery agreement between Wilmot Dixon and the Council for the construction phase.**
- 4 That the Head of Finance be authorised to carry out the necessary arrangements to obtain the loan finance.**
- 5 That the Head of Environment be authorised to negotiate and conclude any necessary agreements to allow the development to proceed through to completion and note that the Head of Environment has exercised his delegated authority to make an application to the Secretary of Transport for a stopping up order pursuant to Section 247 of the Town and Country Planning Act 1990.**

6 That the Director of Resources be authorised to dispose of the development to Consilio (the Council's wholly owned subsidiary).

2. Executive Summary

- 2.1 Planning consent has been granted for the redevelopment of the Gerrards Cross Police station site for 34 apartments which will provide 20 private rent apartments and 14 affordable rent apartments - to meet the 40% affordable housing requirement.
- 2.2 To enable this project to proceed, the Council will need to invest an estimated £8.3m for a traditional brick and block cavity form of construction and any associated fees.
- 2.3 The proposal is for the project cost to be financed by way of a loan from the Public Works Loan Board (PWLB).
- 2.4 The estimated annual net rental from the development is £271,591.
- 2.5 The 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.

4. Background

- 4.1 The site was acquired by SBDC from Thames Valley Police on the 31 March 2017 for £4m.

- 4.2 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.
- 4.3 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.

5. Planning Permission

- 5.1 Planning Permission for the Gerrards Cross Police station site was issued on the 17 August 18 subject to 22 conditions, of which 10 have to be discharged prior to commencement (Planning application Ref 17/02396/FUL).
- 5.2 Willmott Dixon has reviewed these conditions and are taking steps to comply with these. Overall the conditions are unlikely to have a significant impact on the project.

6. Cost of Development

- 6.1 Following Cabinet 17 April 2018 the framework contractor Willmott Dixon was asked to provide a fixed price using the framework Surety route.
- 6.2 The current estimated cost is £8.3m as set out in the table below.

Cost Element	Cost £
Willmott Dixon surety route fixed price bid for design and build including demolition. With provisional sums for discharge of planning conditions, contamination, asbestos and bats mitigation (upto £200k contamination cost are recoverable as part of purchase agreement).	7,454,363
Project Management & Planning Design consultant Fees (Pick Everard / Perfect Circle)	532,854
Surveys	72,277
SBDC Internal cost	74,610
Contamination cost recoverable as part of purchase agreement by 31 May 2020 (Max £200k)	-200,000
Total project cost	7,934,104
Client Contingency (5%) held by SBDC	396,705
Total	8,330,809

- 6.3 There is a total of £8.62m within the approved capital budget for this scheme.
- 6.4 The Willmott Dixon bid has been scrutinised by external financial consultants Pick Everards and they report that the majority of costs have been verified and agreed, and the remaining provisional sums will be subject to further verification. The consultants advise that a sum be held as client contingency.
- 6.5 The bid includes provisional sums which are potentially client risk for items below, and mitigation measures have been arranged to minimise the risk:
- Asbestos removal – further asbestos surveys planned as soon as the existing residential properties are decanted.
 - Ecology (bat) – mitigation report approved as part of planning permission and application for licence to Natural England being progressed.
 - Contamination - further surveys planned to develop remediation strategy and verification plan as also required by planning conditions.
 - Statutory services – quotations being finalised with statutory authorities.
 - Planning conditions discharge – highway alterations improvements.
- 6.6 Cost does not include project risks such as archaeology, ordinance, judicial review cost and de-contamination beyond the provisional sum allowance.

7. Business Case

7.1 The current business case is detailed in **Appendix B**.

7.2 In summary the current business case figures are as follows.

Current Cost Estimate	8,330,809
Figures include sunk costs	
Net Income (full year)	271,591
Net income as percentage of build cost	3.26%
Business Case Model	40 yrs
IRR - should be more than borrowing cost	4.09%
Net Present Value - negative is good	1,816,860
(Profit) / Loss - negative is good	-4,596,312

7.3 Investing in the construction of 34 new apartments, will generate a financial return from the resulting rental income. This shows that the estimated annual net rental income of c£271,500 will be sufficient to cover the loan interest and any repairs & maintenance costs. Furthermore the profit on rental income will be sufficient to repay the build cost over the lifetime of the asset.

8. Assumptions Regarding Rental Income

8.1 The Business Case has made the following assumptions about rental income.

- The rental income from a 1 bed flat will be approximately £800 a month, and a 2 bed flat will be approximately £950 a month.
- The affordable units will be let at 80% of market value.
- Voids have been assumed at 2 weeks per property per year.
- The cost of managing the units and collecting the rent has been budgeted at £60,000 a year.
- Rents will rise by approximately 3% a year.

9. Sensitivity Analysis

9.1 The Business Case is based on various assumptions. Changing any of the assumptions will affect the return. For instance

- If the build cost goes down, the profitability goes up
- If the loan rate goes down, the profitability goes up
- If we increase the rent assumptions, the profitability goes up

And of course vice versa.

9.2 The following table shows the effect on the Internal Rate of Return, Net Present Value and Profitability figures if we change some of these assumptions.

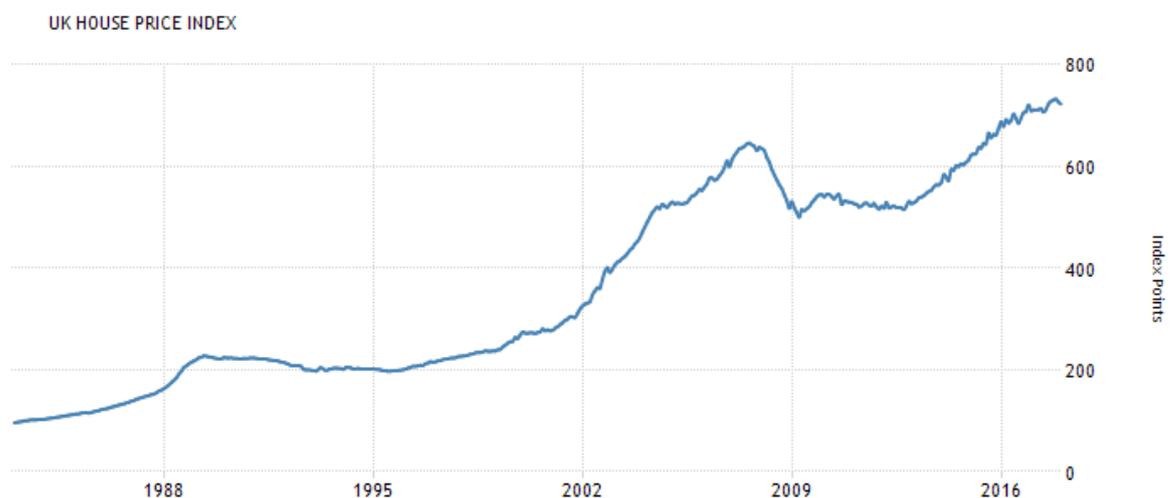
9.3

	Base Model	Interest rate 0.25% higher	Rents 10% higher	Increase rents by rpi +0.5%
Build Cost (Including sunk costs)	£8,330,809	£8,330,809	£8,330,809	£8,330,809
Loan Interest Rate	2.58%	2.83%	2.58%	2.58%
Annual Rent	£271,591	£271,591	£298,751	£271,591
Annual increase in rent	RPI	RPI	RPI	RPI+0.5%
Internal Rate of Return (IRR) (Should be above loan interest rate)	4.09%	4.09%	4.68%	4.63%

Net Present Value over 40 years (Negative is good)	£1,816,860	£2,205,038	£764,333	£754,210
Total Profit over 40 years (Negative is good)	£4,596,312	£4,010,241	£6,641,882	£7,081,106

9.4 Any delay in the project could result in the build cost increasing due to construction inflation.

9.5 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



10. Funding

10.1 This project will be funded by borrowing from the Public Works Loan Board (PWLb).

10.2 The financing cost is based on borrowing at a fixed rate from the PLWB, on an annuity basis, over 40 years. The rate as at 22 August 18 is 2.58%. The actual rate will be fixed on the day the loan is organised.

10.3 The precise timing and structure of the loan will be determined by the Director of Resources and will reflect the proposed disposal to Consilio.

10.4 The Treasury Management Strategy that was approved by full Council on 27 February 18 set an Authorised Borrowing Limit of £35m and an Operational Borrowing Limit of £30m for 2018/19.

The Authorised Limit for South Bucks represents the maximum temporary borrowing limit. The Operational Limit is the limit beyond which external debt is not normally expected to exceed. SBDC does not currently have any borrowing.

11. Consilio

- 11.1 Under the 'general power of competence' introduced by Section 1 of the Localism Act 2011 local authorities have a general power that enables them to do anything that a private individual is entitled to do, subject to certain statutory limitations. However things done for a commercial purpose even under the Localism Act 2011 must be done through a company.
- 11.2 As it is intended that the property is held in order to make a financial return, this requires the Council to do this via a company. Consilio Property Limited has been set up by SBDC as a wholly owned company, and it is therefore proposed to dispose of the development to Consilio.
- 11.3 SBDC will still have ultimate ownership and control of this development, as the sole shareholder of Consilio. The effect of the disposal will be that rather than SBDC obtaining its return directly from rental income, Consilio will earn the rental income and the profit will be paid over to SBDC via dividend or as a profit margin on loans to Consilio.

12. Communication Plan

- 12.1 An updated communication plan is attached at **Appendix C**.

13. Risks

- 13.1 Once the Delivery Agreement has been signed the contractor takes on the majority of the construction risks.
- 13.2 The main remaining risks to this project are:
- Provisional sums included within the contract for various items, these remain unexpended and may change once verified.
 - 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.

14. Options

14.1 SBDC has the following options.

- Progress with this scheme now. This option provides additional homes and an income stream as quickly as possible.
- Delay the project in order to have more time to complete all contractual agreements and / or seek alternative build prices. This would delay generating rental income, and may not result in a reduction in build cost due to the impact of construction inflation.
- Decide not to progress with the scheme. This option would not provide additional homes and would not provide an income stream.

15. Corporate Implications

15.1 Financial – The detailed business case is shown in Appendix B

15.2 Legal –The Council is required to obtain a stopping up order pursuant to Section 247 of the Town and Country Planning Act 1990 in order to comply with a pre-commencement planning condition to extinguish the highway rights over the front access road contained within the former Gerrards Cross Police Station site. The Section 247 Order will enable the Council to stop up the front access road and provide parking spaces in association with the development on this front access road to provide amenity for the future occupiers of the site. Cabinet should note that the Head of Environment exercised his delegated powers on 5 September 2018 to make an application on behalf of the Council to the Secretary of State of Transport for a Section 247 Order. There will be a public consultation carried out by the Secretary of State on the Section 247 Order. The Secretary of State usually processes applications within 13 weeks and it is estimated that the Section 247 Order will be made by the Secretary of State in early December 2018 subject to no objections being made to the proposed Order. Once the Section 247 Order has been made, the Council will be in a position to enter into any legal agreement required by Buckinghamshire County Council (as the local highway authority) pursuant to Section 278 of the Highways Act 1980 to improve the existing highway access into the site. Cabinet will need to authorise the Head of Environment to agree any Section 278 agreement that may be required by the County Council with any associated costs being met within the proposed spend of £8,331 million that Cabinet is requested to authorise for this project.

16. Links to Council Policy Objectives

- 16.1 This matter is related to the Council's corporate aims to deliver cost effective, customer focused services, and to promote local communities.
- 16.2 This report also progresses the aims of the Council's asset management plan.
- 16.3 This scheme will help towards meeting the affordable housing need in our district and provides an income for the Council.

17. Next Steps

- 17.1 The proposed programme is as follows:

Activity	Date
Planning JR period ends	26 th Sept 18
Cabinet meeting – Business Case final approval	17 th Oct 18
Execution of Delivery Agreement	22 nd Oct 18
Completion of stopping up Highways agreement	Early Dec 18
Decant of residential buildings (Residents moving out)	Early Dec 18
Disconnection of existing utilities	Dec 18
Determination of Natural England Bat License	Dec 18
Contractor Mobilisation on site	Jan 19
Completion of de-contamination related works	31 st Mar 19
Bat relocation (subject to Natural England licence) Watching brief by Ecology consultant being provided to ensure this is done correctly.	Mar/Apr 19
Commencement of Construction works	Apr 19
Completion and handover	1st May 20

Background Papers:	Cabinet report 4 Jul 16 – Acquisition of site Council 19 Jul 16 – Acquisition of site Cabinet report 8 Feb 17 – Acquisition of site Cabinet report 7 Feb 18 Cabinet report 17 Apr 18 Cabinet report 27 Jun 18 SBDC Planning Application Ref 17/02396/FUL
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