

<b>SUBJECT:</b>	<b>Redevelopment of former Gerrards Cross Police Station site</b>
<b>REPORT OF:</b>	<b>Resources Portfolio Holder - Cllr Barbara Gibbs Health Communities Portfolio Holder – Cllr Paul Kelly</b>
<b>RESPONSIBLE OFFICER</b>	<b>Chris Marchant – Head of Environment</b>
<b>REPORT AUTHOR</b>	<b>Anwar Zaman, 01494 732753, azaman@chiltern.gov.uk</b>
<b>WARD/S AFFECTED</b>	<b>Denham and Gerrards Cross</b>

## 1. Purpose of Report

1.1 This report:

- Provides an update on key matters of concern regards construction cost reported to the SBDC joint Resources and Heathy Communities PAG 29 January 2018 and Cabinet 07 February 2018.
- Provides a revised cost estimate from framework contractor in **Appendix C** (as attached).
- Presents the draft business case, based on the latest revised estimate cost, ahead of the final business case to be approved by Cabinet once 100% cost certainty is obtained.

### RECOMMENDATION

1. **To note the current position and the draft business case following the revised cost estimate received from the framework contractor.**
2. **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.**

## 2. Executive Summary

- 2.1 Members at the SBDC Joint Resources and Heathy Communities PAG 29 January 2018 and Cabinet 07 February 2018 considered that the overall cost per square metre should be reviewed given that the initial build cost estimates at £7.90m from the framework Contractor (with resulting project cost £8.53m inclusive of cost for planning design stage, Project Management services and internal costs excluding demolition costs of £200k) was high. Members on balance felt that the scheme was worth pursuing.
- 2.2 The Gerrards Cross Police Station site was acquired by SBDC on 31 March 2017 for redevelopment to deliver rented housing.

- 2.3 The Council has procured the services of Pick Everard, through the use of the Scape framework, to act as the client Project Manager, Quantity surveyor and Designer to manage the design development.
- 2.4 A design has been developed and submitted for planning approval on 22 December 2017 with determination by Planning Committee expected on the 28 March 2018.
- 2.5 The plans provide for 34 apartments which will provide for 20 private rent apartments and 14 apartments affordable rent apartments - to meet the 40% affordable housing requirement.
- 2.6 The expenditure to further develop the detail design, fixed cost and a business case is within the allocated £800k agreed by Cabinet on 08 February 2017. The current expenditure on developing the project to planning submission stage is £352k.
- 2.7 To enable this project to proceed, the Council will need to invest an estimated £7.83m for traditional brick and block cavity form of construction and any associated fees if planning is granted.
- 2.8 The proposal is for the project cost to be financed by way of a loan from the Public Works Loan Board (PWLB).
- 2.9 The estimated annual net rental is £271,592, based on property consultant's figures.
- 2.10 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.

### **4. Background**

- 4.1 Cabinet on 08 February 2017 considered and agreed to:
- Make budgetary provision of £4,222,500 from the Capital Receipts Reserve to enable the continued purchase of the site and meet the associated expenditure required by the Council to meet its obligations in acquiring the site.

- Add £5.3m budgetary provision to the Capital Programme, which will result in additional borrowing to enable the site to be redeveloped for housing and to authorise the Head of Environment to draw down expenditure up to £800k from the Capital Programme to initiate the scope of works required to bring the site to development.
- The Head of Environment be authorised to undertake the procurement process for the demolition of the current police station and ex-police houses on a phased basis, following the receipt of planning permission.
- A project manager and developer be appointed through the Scape framework agreement, to obtain detailed design and planning approval for housing on the Gerrards Cross Police station site and to provide the detailed business plan at an estimated cost of £800k. A further report to be presented on the detailed business plan before moving to the development phase.

- 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 (7,835m<sup>2</sup>) 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 A project board was established to develop the redevelopment proposals with portfolio holder representation on the board.
- 4.5 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.
- 4.6 Consideration was given to the nature of the site and the location of the site within the existing Green Belt and as a result the proposals seek to deliver a development which retains the open space areas on site and low maintenance landscaping to enhance the built environment.
- 4.7 A total of 62 vehicle parking spaces are to be provided as part of the proposed development with 40 cycle parking spaces in addition to the existing 22 spaces.
- 4.8 The proposals developed and submitted for planning on 22 December 2017 are shown in **Appendix B**.
- 4.9 The Scape framework engaged to procure the consultancy and contracting services for developing the project is available to any public body nationally. To ensure that best value is provided to the Client in terms of financial viability, the Scape framework operates a transparent open-book process where copies of tender enquiries and subcontractor quotations are made available to the Client. Using the framework allows access to competitive market tested rates in the built environment and is an alternative to procurement through the OJEU tendering process.

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### **Savills Build Cost Estimate**

- 4.10 Savills initially estimated the build cost to be £5.3m. This was produced in the summer of 2016. We are now looking at a build in late 2018. There has therefore been build cost inflation in the meantime.
- 4.11 The Savills report was based on a desktop study without the benefit of the surveys, site investigations and pre planning advise that have now been obtained.
- 4.12 However the current costs are as reported and are felt to be more robust and in line with current market cost expectations.

## **5. Discussion**

### **Current Cost Estimates**

- 5.1 Following Cabinet 07 February 2018 the framework Contractor was asked to review their initial total cost feasibility estimate and their revised target cost estimate represents a significant reduction.
- 5.2 A summary of the framework Contractors project cost estimates including initial and revised target cost estimate 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 £7,829,668.
- 5.4 The revised target cost is based on the assumption that there will be savings through design efficiencies including;
- Rationalisation of below ground drainage design.
  - Re-use of existing asphalt crossover to highway.
  - Proprietary lightweight bin and cycle stores in lieu of single storey brick buildings.
  - Rationalisation of roads, footways, parking, and private patio areas.
  - Reduction of proposed planting to northern perimeters of site.
  - Remove sheds to blocks C and D.
  - Omit rear balconies on Block B, C and D. Provide Juliet balconies in lieu.
- 5.5 The estimate costs does not include for project risks such as 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 estimate 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 Council's bid for up to £400k of central Government funding from the Land Release fund through the One Public Estate to assist with decontamination cost has been unsuccessful sitting reasons of oversubscription from projects nationally.

- 5.8 The Estimates for typical budget construction cost (£/ m<sup>2</sup>) of residential developments in the local area have been obtained from local builders and developers for comparisons as table below.

Organisation	Cost (£/ m <sup>2</sup> )	Comments
Jarvis Contracting Ltd	£2,000 to £2,500	Includes overheads and profit. Excluding demolition, fees and Abnormal
Local agent	£1,800 to £2,100	Includes overheads and profit. Excluding fees and demolition
Haverstock	£2,000 to £2,500	Includes overheads and profit. Excluding fees and demolition
TPA Architects	£1,800 to £2,200	Includes overheads and profit. Excluding fees and demolition
R.Benson Contracting (small local contractor)	£2,000 to £2,250	Includes overheads and profit. Excluding fees and demolition
Lifebuild (medium size contractor)	£2,400 to £2,600	Includes overheads and profit. Excluding fees and demolition

Allow 6 to10 % for Fees

- 5.9 The revised build cost estimate of £2,340 m<sup>2</sup> from the framework Contractor on comparable basis seems to be within the range of local market testing above.
- 5.10 Further the consultant Pick Everard recommends that the revised Willmott Dixon proposal reflects current market rates/value for a project of this nature and size. A copy of Pick Everard letter is attached as **Appendix D**.

### Procurement Options

- 5.11 There are two feasible options to obtain 100% cost certainty
- i) **Surety Route through the frame work** at cost of £100k – Where the framework Contractor provides a fixed price following limited and focused design. This process will take 12 weeks to arrive at a fixed price, with a gateway agreed halfway so that an agreed Target cost at the outset is not exceeded.
  - ii) **Alternative procurement through OJEU** to develop detail design and construction through open tendering at cost of £300,000.
- 5.12 Pursuing alternative methods of procurement through OJEU would add approximately 6-7 months to the overall delivery of the scheme and there is no guarantee that using the alternative procurement methods would achieve a reduction in construction costs.

- 5.13 The Corporate Property Board on 09 March 2018 gave direction to proceed with the surety route to obtain 100% cost certainty at cost of £100k which is within the allocated £800k agreed by Cabinet on 08 February 2017.

### **Delays**

- 5.14 A delay in this project would:
- Delay these properties coming on stream. We estimate this scheme would deliver £300k rental income a year. A 7 month delay equates to £175,000.
  - Potentially increase the build cost, due to building inflation
  - Potentially increase the cost of PWLB borrowing. A 0.1% increase in the interest rate increases the total interest payable on the loan by £216,000.

## **6. 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 E**.
- 6.3 The reduction in the estimated build cost improves the business case as follows.

Build Cost	£7,829,668
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)	£2,465,125
Total Profit over 40 years (Negative is good)	-£3,794,079

See **Appendix E** for full details.

Note 1: The income estimate has been adjusted since the previous version of the business case, to reflect that current indications are 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 are based on various assumptions. For instance:

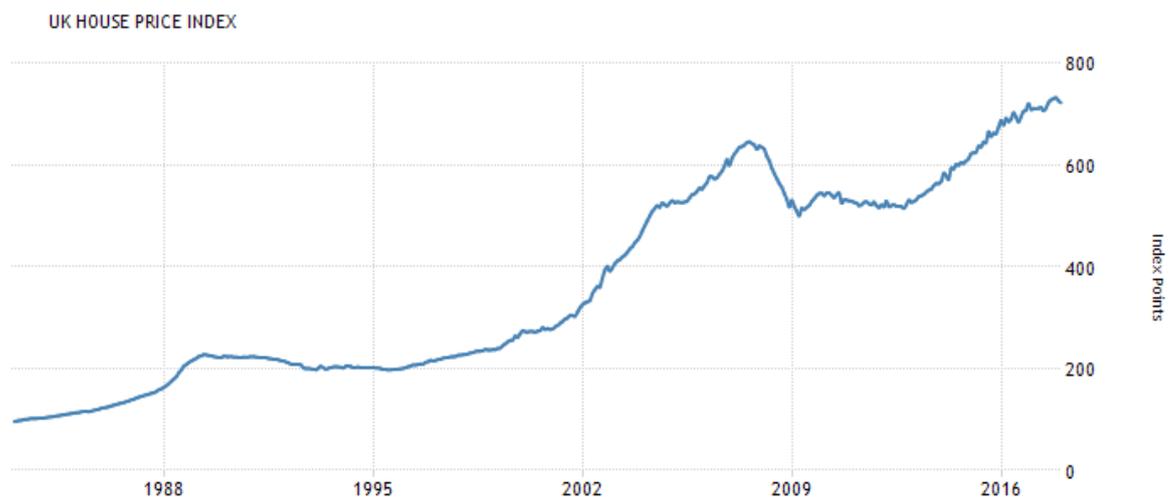
- Inflation is assumed to be 3% per annum and this is also the discount rate used.
- The rental charges are increased in line with inflation i.e. 3% per annum.

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, as it is proposed that the freehold of this site will be kept, 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
Resources PAG	22-03-18	Advise Portfolio Holder on procurement route
Cabinet	17-04-18	To note progress
Planning Approval & Judicial Review	25-05-18	
Final Contractor tender cost	08-06-18	
Special PAG	20-06-18	To advise Cabinet on final business case
Cabinet final approval	27-06-18	Report to follow special PAG & final decision to proceed with development

Technical design complete	10-10-18	
Construction starts	12-10-18	
Completion	01-10-19	

## 8. Consultation

- 8.1 A project communication plan has been established which sets out engagement with stakeholders and members of the public.
- 8.2 Before the planning application, a public consultation was carried out where display boards were set up in the reception area at the South Bucks District Council offices (Capswood) from 1 December to 15 December 2017.
- 8.3 The local residents, Denham Parish Council in Gerrards Cross Town Council were contacted and an area on our website was setup where details of the proposals could be found and comments left.
- 8.4 There were no objections received during the consultation.

## 9. Corporate Implications

- 9.1 Financial – See above and Business case.
- 9.2 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.

- 9.3 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.
- 9.4 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.
- 9.5 The remaining risks to this project include:
- Planning and any conditions that could be imposed that may have cost implications. Allow 6 weeks after consent issues 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.
- Procurement route selected will impact on the Programme.
- The project cost is currently based on estimates and 100% cost certainty needs to be developed through tendering and final business case approved by Cabinet.
- Future rental income is estimated in the business case.

## **10. Links to Council Policy Objectives**

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

## **11. Next Step**

- 11.1 The planning application will be considered by the Planning Committee.
- 11.2 The framework Contractor will continue to develop detailed design proposals and will provide 100% cost certainty through the Surety route.
- 11.3 The final cost and associated business case will be presented to Cabinet for final approval.

<b>Background Papers:</b>	Cabinet Report 08 February 2017 Cabinet Report 07 February 2018
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