

# PRINCES PARADE, HYTHE, PLANNING APPLICATION Y17/1042/SH

## Additional Information and Clarification – April 2018

### ANALYSIS of: Appendix 3 – Viability Cost Appraisal Report

#### EXECUTIVE SUMMARY

In support of FHDC's Planning Application, Betteridge & Milsom (B&M) have produced a Viability Cost Appraisal that compares the funding shortfall for building a leisure centre on Nickolls Quarry (NQ) with that projected for building it on Princes Parade (PP).

Their appraisal concludes that the District Council will need to contribute circa £2.1 million to build the proposed size of leisure centre on PP and £13.87 million if built on NQ, making the latter alternative appear unviable. Those figures include allowances for cash receipts from a section 106 Agreement and from the sale of the existing swimming pool site. Additionally, in the case of PP, the net cost of £2.1m has been further offset by sales receipts from the proposed residential and commercial development that aims to provide 'enabling' money.

The financial appraisal has been heavily redacted by the local authority prior to its public release, obliterating the data that forms the basis of the B&M calculations. Their figures are in serious conflict with previous data and other independent estimates. Nonetheless it has been possible to extract sufficient data from the B&M appraisal and combine this with detailed knowledge of the PP and NQ projects to identify the errors within their analysis. Those errors can be attributed to the way in which the cash allowances have been used to offset the true build costs for the leisure centre; plus, in the case of PP, a failure to make sufficient allowance for site-specific external works that impact on both the leisure centre and residential build.

This report takes the form of a detailed analysis of the above factors.

Nickolls Quarry. The detailed analysis shows that in order for the Nickolls Quarry £13.87m figure to be correct, the true cost estimate for building the leisure centre would need to be approximately **£21.7m**. Such a high cost is inconceivable for a facility that has previously been estimated by the council to be about £8.5m. For comparison, the analysis considers the recommendations of Sport England, which leads to a cost estimate of **£12.4m** for a sports centre with exactly the same facilities, but is 30% larger with the addition of a sports hall.

Shortfall (after receipts) - B&M – errors retained = £11.0m – not viable

Shortfall (after receipts) - Sport England – realistic = **£1.6m – Potentially viable**

Princes Parade. The analysis determines whether there is sufficient financial headroom to accommodate the cost of the additional site work that has to be undertaken on Princes Parade. The total budget is calculated to be **£71.8m** including receipts. After deducting the leisure centre cost and the most optimistic cost for the residential build, the headroom is calculated as **£2.4m** using B&M's leisure centre figures. If the Sport England lower cost estimate is applied to the leisure centre the headroom is improved to **£11.8m** but that figure will be insufficient to cover more than three items from a long list, such as the road diversion, remediation, and raising site levels above the flood plain.

The Planning Application proposal for PP is therefore **not viable** by a large margin.

#### General

The B&M cost appraisal has failed to consider the cost of financing the project. For PP this will significantly exacerbate the non-viability due to the magnitude of the necessary loan and its duration for repayment. This will be much less of a problem for NQ.

The B&M financial viability conclusions are seriously in error and need to be challenged.

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## Additional Information and Clarification – April 2018

### ANALYSIS of: Appendix 3 – Viability Cost Appraisal Report

*This report critiques the Betteridge & Milsom viability cost appraisal report (24/01/2018) for the proposed Princes Parade development and shows conclusively that:*

- 1. The appraisal being used to inform the planning decision is seriously flawed and has reached incorrect conclusions.*
- 2. The Princes Parade leisure centre option is non-viable by a large financial margin.*
- 3. The Nickolls Quarry alternative is the most viable option and can provide significantly better sports and leisure facilities.*

#### **A. Leisure Centre Build Cost on Nickolls Quarry**

Betteridge & Milsom's stated build "cost to FHDC" is £13.866m for their 3,013 sqm leisure centre on Nickolls Quarry. However, that is not the true build cost of the leisure centre since we need to include their so called "source income" items.

To determine the true build cost we first need to deduct the allowance of £2.9m for remediating/capping Princes Parade since that is not being spent on the leisure centre itself. (That figure is taken from HE's published objection). We need therefore to add the NQ s106 contribution of £5.175m plus the (redacted) sales receipt from the sale of the South Road site, which is likely to be in the range £5 to 6 million. I have assumed £5.5m and then proceeded to undertake calculations based on the B&M figures.

That analysis yields the total cost to build the leisure centre on NQ as **£21.7m<sup>1</sup>**, including the external works for which an approximate cost of **£6.0m** can be derived mathematically<sup>2</sup> from the B&M figures. The latter is exceptionally high for a site for which the land will be prepared by the NQ developer, ready for construction to commence, together with the provision of all utility services, as per the s106 Agreement.

The basic build cost, as implied by the B&M "cost to FHDC" figure for the leisure centre building alone, is therefore approximately **£15.7m**.

The B&M leisure centre and external works figures are very much higher than previous estimates by the council and others, suggesting that they must have been founded on incorrect assumptions or simply made a mistake.

It is appropriate to consider the nearest equivalent recommended by Sport England, namely their 3,906 sqm sports centre (Option C) which they have costed at £7.12m (at Q4 2014 prices) based upon previous projects. That design comprises a 6 lane 25m swimming pool and secondary pool + 4 court sports hall + 100 station health & fitness gym + 2 studios, which can readily be fitted onto the NQ site without the space constraints of PP.

The Sport England total including the external works and internal equipment fit-out is **£8.606m** at Q4 2014 prices.

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<sup>1</sup> 13.9 – 2.9 + 5.2 + 5.5 = £21.7m.

<sup>2</sup> The net costs for 3 sizes of leisure centre enables the cost breakdown calculation using 3 simultaneous equations.

**Cost Estimates for Leisure Centre on Nickolls Quarry**  
using the same all-in Tender Price Indices and dates as B&M

	B&M Q3 2017 (3,013 sqm)	Sport Engl Q4 2014 (3,906 sqm)	Sport Engl Q3 2020 fcast (3,906 sqm)	
Leisure Centre	£15.7m	£7.12m	£10.3m *	* £1m has been added for piled foundations.
External works	£6.0m	£1.49m	£1.95m	Car park, paths, landscaping, drainage.
Total	<b>£21.7m</b>	£8.61m	<b>£12.3m **</b>	** As appropriate to NQ.
Net cost for NQ	<b>£11.0m</b>	NA	<b>£1.6m</b>	After deduction of receipts of £10.7m, as applicable to NQ.

**The net cost of £1.6m based upon the Sport England leisure centre design is considered to be a fair and reasonable assessment of the projected overall net cost to FHDC and shows this option to be potentially viable. That design also delivers a more spacious facility for users, plus a sports hall.**

**NOTE:** B&M have made no allowance for the asset value for the new leisure centre land (1.4 - 1.6 Ha) that will be transferred to FHDC for the sum of £1, whereas a (redacted) land value appears to have been included for the Princes Parade option.

Since there can be little doubt that the B&M calculations for Nickolls Quarry are substantially in error, it is appropriate to apply both their figures and those of Sport England to the case of Princes Parade in order to assess fairly the site's financial viability.

**B. Financial Viability of proposed Princes Parade development**

The same basic build cost will apply for building the leisure centre on Princes Parade, if site specific costs are excluded. But the proposed Princes Parade development involves a range of major cost items that are not required for NQ, many of which have been omitted from B&M's PP financial appraisal. The following summary analysis shows that the net cost to FHDC will be substantially greater than the £2.1m derived by B&M.

Financial headroom available for the proposed development based on the B&M figures:

Gross revenue from residential sales (less sales fees) (including 45 Affordable Homes).	=	£57.9m	
NQ s106 (indexed to Q3 2020 – <u>not</u> Q3 2017) (NB. This has been indexed to the same date as for NQ because no payment can be claimed until the 250 <sup>th</sup> residence has been completed)	=	£5.175m	>> £63.1m
Sale of South Rd site	=	£5.5m	>> £68.6m
CIL Princes Parade site (NB. The basis for including this figure is unknown. If it arises as a receipt from the PP residential development and then recycled back into the leisure centre part of the project then that receipt will appear as a loss elsewhere in the project. I have nonetheless retained this but it is unlikely to be valid.)	=	£1.184m	>> £69.8m

Affordable Housing s106 (I have excluded the £1.4m included by B&M since it is not new money and if allocated to this development it would not remain available to be spent elsewhere.)	=	Nil	>>	£69.8m
Princes Parade Land Value (my allowance) (NB. It is not clear what B&M have included here but it appears that the residential element is not valid since it has already been included within the 150 homes. I have allowed £2m as capitalisation for the commercial element).	=	£2m	>>	£71.8m
TOTAL site construction budget (Excludes financing costs)	=	<b>£71.8m</b>		

Princes Parade Construction Costs Based on B&M figures

Basic Leisure Centre building (3,013 sqm) including external works as for NQ	=	£21.7m	>>	£50.1m
Residential Build Costs (This is 78% of full market sales value, which would be the typical baseline costs for a development on straightforward land if profit is ignored but including all fees. In this case no land purchase is involved, which would normally equate to about half of normal profit. This figure therefore allows in principle both the land value plus half the profit to be re-cycled back into the project. However a saving of half profit is unlikely to be achievable in practice. 45 Affordable Homes have been included in this figure.)	=	£47.7m	>>	£2.4m

**This leaves only £2.4m for all other site work on Princes Parade – clearly insufficient by a very large margin.**

(For example the diversion of the road alone will cost more than double this).

Construction Costs applying Sport England figures to Princes Parade

Basic Leisure Centre building (3,906 sqm) including piled foundations & external works as for NQ.	=	£12.3m	>>	£59.5m
Residential Build Costs	=	£47.7m	>>	£11.8m

**Even though the leisure centre will cost less, this leaves only £11.8m financial headroom for all the other site work on Princes Parade.**

So let's identify the principal items of additional site work that need to be accommodated within the financial headroom in order make it possible to deliver the planning application.

Additional site work specific to Princes Parade Planning Application

1. Site preparation/clearance work (planning application states 11 months duration).
2. Personnel protection expenses for work on contaminated site.
3. Remediation of contamination & disposal of excavated contaminated subsoil.
4. Importing soil to raise site level by 1 metre to 7.8m AOD.
5. Provision of new utility infrastructure to site.
6. Surface water drainage system with attenuation tanks & discharge outfalls into sea.
7. Diversion of road and retaining structure.
8. New promenade with primary and secondary sea wall/flood protection.
9. Provision of residential open space areas, playground & car parking.

These items alone swamp even the £11.8m financial headroom offered by the Sport England figures. My overall estimate for the listed items exceeds £19m. The costs listed against just three of the items are sufficient to exceed the headroom (3. Remediation, 4. Raising site levels and 7. Road diversion). The Princes Parade scheme proposed in the planning application is therefore non-viable for both sets of data.

B&M have stated that they have ignored the financing costs, which is remiss of them since those costs will significantly exacerbate the loss. The project phasing requires that the up-front costs will build up rapidly and require a loan for which repayment will rely on downstream receipts from the residential and commercial developments.

### **C. Observations on the Betteridge & Milsom Cost Appraisal**

1. The cost appraisal has been heavily redacted, even obliterating data that cannot reasonably be claimed to be commercially sensitive. It is therefore not possible to establish with any degree of certainty the breakdown of costs being claimed by B&M nor the true basis of their calculations. Their report fails to provide any details of the cost inputs used for deriving the residual land value. The receipts from the land sales will be highly dependent on who takes on responsibility for, and the timing of, the substantial amount of ground work, including major cost elements such as the diversion of the road.
2. Nonetheless it has been possible to identify the areas where some of the false assumptions have been made. While the B&M figures will inevitably differ from those I have derived, it is anticipated that this analysis should enable anyone with full access to the data to compare and understand the true reasons for the different conclusions.
3. The appraisal makes no allowance for the very substantial cash-flow needs in the early stages of the project. It is inevitable that a major loan will be required and will need servicing for the entire duration of the project and possibly beyond. Much preparatory enabling work needs to be funded before any construction can take place on Princes Parade, and possibly before any land sale takes place. Repayment will rely on returns generated some years later from the sale of the land and/or dwellings.
4. The timescales / phasing needs, as proposed in the planning application, are incapable of being met. The start date of Q3 2017 (Oct – Dec 2017), as assumed by B&M, has already passed and the leisure centre construction work cannot commence until phase 2 of the Tibbalds programme, which is at least 11 months after the start date. It is unlikely therefore that the leisure centre construction work could commence until early 2020, meaning that the BCIS indexed cost used by B&M will be too low. They state that for NQ: *“Construction inflation estimate has been included for works to commence 3Q 2020. Inflation has been calculated from tender price index from the BCIS database and is the main cause of the cost increase to the scheme, this represents a 6.29% increase to the project costs”*. In reality there is likely to be very little difference between the construction start dates for the two options, and PP will suffer the same inflation conditions, or possibly worse, due to the long duration of the residential build. After construction has commenced on the leisure centre, it can be expected to proceed at a significantly faster pace on NQ because of the landfill conditions on PP. Further there is no need to pre-fund the essential major preparatory work, such as raising the land above the flood plain, diverting the road, and installing a major drainage system; also the NQ option will not be reliant on a major residential development to provide retrospective funding.
5. The implications of the NQ s106 Agreement appear to have been misunderstood:
  - a. The cash release date is the same for both sites (after 250<sup>th</sup> house completion).
  - b. If requested by FHDC the NQ owner is required to make the land available prior to completing the 250<sup>th</sup> dwelling.
  - c. The NQ owner is required to *“remediate the Sport Leisure & Community land of any contamination, grade and compact the Sport Leisure & Community land above the flood plain in preparation for development and Provide Services for the benefit of the Sport Leisure & Community land”*.

6. B&M's appraisal assumes incorrectly the ability to connect into a non-existing combined (foul & surface water) drainage system; their costings will therefore differ substantially from the planning application. Their appraisal has not addressed the need for the proposed drainage scheme that will discharge surface water into the sea through new outfalls, while protecting the RMC water-course from the risk of contaminated water leakage via the disturbed landfill. Nor have they made allowance for flood protection measures raising the site levels to 7.8m AODN for flood protection – this is a major cost item.
7. £2.9m has been attributed to the NQ option for remediation / capping of Princes Parade. However in the planning application, the contamination consultant has stated that the contamination risk is currently low on PP because of the existing vegetation, which however needs to be removed for the development. The proposed so-called capping method (300mm cover with topsoil) would leave the contaminants in situ; for the PP development that mitigation method fails to address the risks arising from disturbance of the landfill by construction work that involves deep piling. For the NQ option there would be no practical benefit in spending £2.9m to mitigate a contamination problem that will not arise if PP remains undeveloped.

#### **D. Conclusions**

The B&M figures have been shown to be seriously in error, leading to totally incorrect conclusions. The company needs to be challenged on this.

Even without detailed knowledge of the input assumptions and data used by Betteridge & Milsom, sufficient information has been released to undertake this analysis, from which it has been possible to determine the viability of both sites.

This analysis shows that the Princes Parade scheme presented in planning application Y17/1042/SH is not financially viable by a very large margin. This is contrary to B&M's conclusion. In practice the funding shortfall will be exacerbated yet further when the cash-flow needs for the early stages of the project are addressed.

Contrary to the claim made in the B&M report, the Nickolls Quarry option is extremely close to being viable and does not suffer from the anticipated long timescale required for the acquisition of funds from a residential development, as is the case for Princes Parade. Further, the positive assessment for Nickolls Quarry relates to the provision of a leisure centre with more comprehensive facilities as recommended by Sport England. A saving would of course be possible were the leisure centre to be reduced in size to match the lesser facilities capable of being offered on Princes Parade, as in the planning application.

**Geoff Burrell**

*Hythe*

*10 May 2018*