

**STROUD DISTRICT COUNCIL**  
**STRATEGY AND RESOURCES COMMITTEE**

**AGENDA  
ITEM NO**

**13 JUNE 2017**

**11**

<b>Report Title</b>	<b>BUSINESS UNITS, LITTLECOMBE, DURSLEY</b>
<b>Purpose of Report</b>	To seek approval to funding and to commence construction of these units
<b>Decision(s)</b>	<p><b>The Committee RESOLVES to:</b></p> <ol style="list-style-type: none"> <li><b>1. delegate authority to the Head of Asset Management to enter into a contract with St. Modwen to construct a phase of business units at Littlecombe, Dursley and acquire the freehold interest in those units, as set out in this report and</b></li> <li><b>2. approve the revised budget of £1.93m.</b></li> </ol>
<b>Consultation and Feedback</b>	The Investment and Development Panel has considered the detailed business case for this project and is supportive of the proposal.
<b>Financial Implications and</b>	<p>A budget of £1.75m, funded by borrowing, is currently included in the capital programme for the new business units at Littlecombe.</p> <p>An increase in cost of £180k would also require additional borrowing to be undertaken which will increase the revenue costs associated with borrowing (interest payments and minimum revenue provision) by £13k per year. If the additional budget is approved this would need to be included in the Medium Term Financial Plan.</p> <p>If the contract is not signed by 16<sup>th</sup> June the cost of the works is expected to increase by £20k. If a full retender is required this is likely to increase to £50k.</p> <p>If the scheme does not progress, the costs incurred to date of approximately £56k would need to be met by the Council.</p> <p>Lucy Clothier, Principal Accountant          Tel: 01453 754343 Email: <a href="mailto:lucy.clothier@stroud.gov.uk">lucy.clothier@stroud.gov.uk</a></p>
<b>Risk Assessment</b>	As costs are now fixed for the Council, the main risk is in letting the units at the estimated rental levels. The Council's agents advise that this is a specific, minor market with consistent enquiries from small businesses wanting to buy and lease premises in Dursley. Their opinions on rental and sale value have helped form the project estimates

<b>Legal Implications</b>	<p>This project will be the subject of a development agreement between the Council and St Modwens involving a transfer of the freehold estate to St Modwens with a simultaneous lease back of a 999 year lease to the Council. A separate building agreement will be entered into for the construction of the units to be procured by St Modwens through their successful tenderer. This is a tried and tested model for such a development agreement. The parties are at an advanced stage of settling the draft documentation. All agreements will need to be concluded prior to the 16<sup>th</sup> June in order for the construction contract to proceed in accordance with the revised budget figure referred to in recommendation 2 of this report.</p> <p>Alan Carr, Solicitor  Tel: 01453 754357 Email: <a href="mailto:alan.carr@stroud.gov.uk">alan.carr@stroud.gov.uk</a></p>
<b>Report Author</b>	<p>Alison Fisk, Head of Asset Management  Tel: 01453 754430 Email: <a href="mailto:alison.fisk@stroud.gov.uk">alison.fisk@stroud.gov.uk</a></p>
<b>Options</b>	<p>The Council could decide not to go ahead with this project.</p>
<b>Performance Management Follow Up</b>	<p>In contract by June 16<sup>th</sup> 2017</p>
<b>Background Papers/ Appendices</b>	<p>Appendix A – Scheme Layout</p>

## 1.0 INTRODUCTION / BACKGROUND

**1.1** The objective of this project was to bring forward 20,000sqft of new buildings for use by small-medium businesses. The decision was based on a business case estimate which showed pay-back on full build cost: 12 years, with a minimum 0 years depending on pre-let, pre-sale and contract terms.

### 1.2 Progress since May 2016:

- Terms agreed with St Modwen for the design and build and acquisition of the units.
- Planning permission secured and design completed.
- Appointed marketing agents (Ash and Co.) and agreed marketing strategy .
- Appointed Employer’s Agent to monitor the project on SDC’s behalf.
- After receiving cost estimates from St. Modwen’s Quantity Surveyors (Wakemans, Birmingham), redesigned scheme to reduce costs to within budget) – from 20,000 to 18,350 sq ft (i.e. loss of one small unit) before tendering.
- Selected the preferred contractors through an open tender with 3 responses received in January 2017. An additional bid was secured from a 4<sup>th</sup> contractor to validate the bids.

### 1.3 The Scheme

The project will deliver 18,350 sq ft (net internal area) of modern employment space in 3 blocks with the following mix of units\*:

5 x	1000 sq ft
2 x	1500 sq ft
1 x	3500 sq ft
1 x	5000 sq ft

Plus approx 1,850 sq ft of mezzanine across the units\* *all figures rounded*  
(See attached layout plan at Appendix A).

## 2.0 ISSUES FOR CONSIDERATION

### 2.1 Construction costs

- St Modwen encountered reluctance among construction companies to tender for the contract due to the location and relatively small project size. The 3 principal tenders exceeded the QS's estimates. A fourth tender was sought by St. Modwen to benchmark the prices and their bid was above the shortlisted contractor which demonstrated that the pricing structure was realistic.
- The tenders showed that the cost of construction at this location is up to 30% higher than those for similar size projects currently being built within 10 miles, including Stroudwater, Quedgeley, Hardwicke, Tewkesbury and Cheltenham. St Modwen has thoroughly examined the costing outcome by interviewing the 4 companies who were approached and reviewing the effect of location on construction costs with other contractors.
- By value engineering the tender price has been reduced without significant change in quality or the specification and there are now no further avenues for savings to be made.
- The project cost requires a 10% increase to the original budget.

2.2 The cost of construction plus fees is now fixed (this excludes the Council's costs in terms of officer time and professional advice and any borrowing costs). However, the price will be held by the contractor until 16th June 2017. Beyond that because of the cost of materials, the contract price will increase by at least £20,000.

### 2.3 Revised Business Case

The reduced building floor area and the increased costs have been put into the financial appraisal. Crudely, building costs per sq ft are 20% above the original estimates, but this has been partly offset by the decrease in total floor area, requiring a 10% overall increase to the budget.

2.4 If all the units were let rather than sold (a mixed tenure approach has been discussed and can still be considered) the minimum pay-back period is extended from 12 years to 15 years. Return on capital has dropped by between 0.1% - 1.7%. If the whole phase were sold in the current market, using the scenarios of modest and reasonable growth, its value is expected to meet costs or exceed them by £100,000.

Table 1

	March 2016	May 2017
Floor area	20,000sq ft	18,350 sq ft
No of units	10	9
Cost	£1,75m	£1,93m
Cost per sq ft	£87.50	£105.17
Return on capital	6.7%-8.4%	6.6%-6.7%
Payback period (modest growth)	12 yrs	15 yrs
Freehold Market Value	£1.7m to £2.1m	£1.9 m to £2.0m

## 2.5 Construction Programme

Tenders were going to be awarded on 7<sup>th</sup> April, but this has been put on hold whilst cost savings were identified and a further tender secured. The contract will not be let until the Council confirms it wishes to proceed.

- 2.6 The construction programme once started is:
- |   |          |
|---|----------|
| Discharge of pre-commencement planning conditions | 6 weeks  |
| Contractor mobilisation                           | 12 weeks |
| Construction period                               | 30 weeks |
- 2.7 Assuming the Council confirms it wishes to go ahead and is in contract by the middle of June, completion would be by early May 2018.

## 3.0 CONCLUSION / RECOMMENDATION

- 3.1 The risks of this project were set out clearly to Council in 2016. Whilst the returns on the investment are lower because of the increase in costs and recouping the investment will take longer, it still provides the Council with a future income stream, generating revenue to offset the increasing pressure on the Council's financial resources and/or a capital receipt if it decides to sell on all or part of the asset.
- 3.2 The original reasons for the Council wishing to invest in these units remain valid i.e. to bring forward part of the remaining 4 acres. The land has been prepared for development but construction has not gone forward because of values and profitability, location and business risk. This has been amply demonstrated by the changes in the financial appraisal for the Council and the need to put in the land at nil cost.
- 3.3 Full design and build costs are prohibitive for small businesses, particularly as units would be aimed at local companies expanding and new investors from the SME community, often without the financial wherewithal to carry design and build costs. Given the issues facing St Modwen in bringing this whole site into profit, speculative development will not happen.
- 3.4 It is still a Council priority to see the land at Littlecombe remediated, brought into economic use and this part of Dursley and Cam (which has seen substantial job losses) provided with new homes and jobs. Creating more employment uses in the area will support corporate and community objectives.
- 3.5 It is therefore recommended that the Council proceeds with this project.