

# Chichester District Council

## THE CABINET

11 July 2017

### Plot 21 Terminus Road Chichester

#### 1. Contacts

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#### 2. Executive Summary

This report updates the Cabinet following a procurement process to select a developer to construct the proposed speculative 6 unit industrial scheme on Plot 21, Terminus Road. The report recommends approval to proceed to the next stage in which the Council will enter into a contract with the preferred contractor to build the development on the Terminus Road Industrial Estate.

#### 3. Recommendations

- 3.1 That the Cabinet notes the updated information relating to the capital cost of the project in the confidential appendix 2 and the Return on Investment (ROI) under section 8 of this report and releases the budget to enter into a contract with the preferred contractor, contractor (A), to deliver the business unit scheme on Plot 21 Terminus Road Chichester.**

#### 4. Background

- 4.1. At its meeting of 2 June 2015 the Cabinet agreed to release some £166,000 from Capital Reserves in order to enable the demolition of the existing buildings on Plot 21 and submit an outline planning application to redevelop the site for an industrial, storage and distribution use.
- 4.2. With demolition works underway and having secured outline planning consent, a further report was submitted to the Cabinet on 12 July 2016 seeking approval to progress a detailed scheme and tender for its development.
- 4.3. The work required to cover the detailed planning consent and pre-construction tender activities was estimated at some £150,000 with construction costs estimated at £1,767,000.

- 4.4. On 12 July 2016 the Cabinet considered the options available to the Council for the development of the Plot 21 site and with a reported total cost plan estimate of £2,083,000 resolved to recommend:
- (1) That funding of the amount set out in recommendation 2.1(i) of the report be released from Capital Reserves to enable the detailed design, planning matters and pre-construction tender process to be progressed for a five unit scheme.
  - (2) That the £1,767,000 balance of the estimated total project cost is allocated from capital reserves and that, following the tender process, a report is brought back to the Cabinet to review capital costs, return on investment, and prevailing condition of the property market before the budget is released to enter into a construction contract.
- 4.5. The Cabinet resolution was subsequently endorsed by the Council at its meeting of 19 July 2016.
- 4.6. Officers have appointed an Employers Agent to ensure that the design of the B2/B8 business unit scheme meets the requirements of potential occupiers and the Council's objectives for the development of the site. The Employers Agent has also been working to ensure the Council's appointed design team provide good value for the Council.
- 4.7. On advice from local commercial property agents, Henry Adams, the earlier scheme was subsequently re-designed as a six-unit scheme to provide a better mix of units and to maximise the letability of the development. This scheme has full planning consent. (see appendix 1 for approved layout)
- 4.8. The April 2016 Market Overview Report previously prepared by Henry Adams has now been updated by the agents to advise the Council of current market conditions in respect of industrial rented space in Chichester (see Background Paper referenced at Section 13 to this report).
- 4.9. The report indicates the potential to achieve a total rental income in the range of £160,000 to £180,000 per annum once the scheme is fully let to a mix of trade counter and non trade counter lettings, see table in section 8.3. The report also concludes that it is highly likely that if an aggressive marketing campaign was adopted some of the units could go under offer during the build out period. The report also highlights that a total income of up to £204,500 per annum could be received by the Council if all the space was let to trade counter operators.
- 4.10. A single stage tendering process was employed in order to allow the Council to appoint a contractor on a design and build basis to complete the final technical design for the development.
- 4.11. A procurement process was undertaken from 11 April 2017 to 26 May 2017 and the Council received nine responses to the invitation to tender by the noon deadline. The results of this process are contained at appendix 2 to this report.
- 4.12. The leading tenderer was interviewed by the Council's officers and Employers Agent on Monday 5 June 2017. The outcome of this review was that Contractor (A) was

identified as the preferred contractor to deliver the development for the Council. It is proposed that the Council proceed to enter into a design and build contract with Contractor (A) as main contractor.

## **5. Outcomes to be Achieved**

- 5.1. The outcome that has been sought is the redevelopment of the Plot 21 site with six new sustainable industrial buildings that can be let to achieve c £160,000 to £180,000 per annum income for the Council and a Return on Investment of 7% plus.
- 5.2. A key driver behind building the scheme has been to improve the economy of the local area by attracting new employers and/or providing an opportunity for an existing Chichester based company to relocate to the site and expand economic activity in Terminus Road.
- 5.3. The proposed project supports the Corporate Plan 2015 -2018 "Priority to improve and support the local economy" and the objective to "Promote commercial activity and economic growth".

## **6. Proposal**

- 6.1. The six unit B2/B8 industrial scheme with ancillary trade counter use has been progressed to a detailed design stage that has full planning consent and has subsequently been tendered for development.
- 6.2. The estimated total build costs from the preferred contractor for the delivery of the project are summarised at appendix 2. These costs come within the balance of the estimated total project costs of £2,083,000 allocated from capital resources and it is recommended to keep the full allocated budget. Any remaining budget on completion of the project can be returned to reserves.
- 6.3. Alongside the selection and appointment of a main building contractor, the Employer's Agent will be responsible for the delivery of the building to practical completion, under the direction of Council officer's.
- 6.4. The Employers Agent has proposed a construction programme with start of design 1 August 2017, start on site 4 October 2017 and practical completion 21 May 2018.

## **7. Alternatives Considered**

- 7.1. Various options for the development of the site have been considered and where outlined in paragraph 7 of the Cabinet report of 12 July 2016.

## **8. Resource and Legal Implications**

- 8.1. While government funding to the Council continues to reduce the legal requirement to maintain a balanced budget remains. It is recognised that this can be achieved, in part, by maximising income from Council owned properties.
- 8.2. If, as advised in the market overview report prepared for the Council by Henry Adams, some c £160,000 to £180,000 per annum rental income can be achieved from this 6 unit scheme then the ROI to the Council is illustrated in the following table. The units will be let under the terms of full repairing and insuring leases with the tenants contributing to a service charge account for the recovery of the costs incurred in managing any future repairs and general maintenance of the premises.

The investment will be managed by the Estates Service Team and the net ROI shown below includes a notional 2% deduction from the annual income. It is not envisaged that any asset replacement costs will be required for this new building over the next 25 years or more. The capitalised value of the investment in the last column of this table is an indication of how much this investment would cost an investor to purchase.

### 8.3.

Total allocated budget (includes all costs incurred to date)	Income pa	ROI (Net)	Capitalised Value of Investment based on an estimated yield of 7% (rounded net of purchaser's costs of 6.8%)
£2,083,000	£160,000	7.5%	£2,130,000
£2,083,000	£180,000	8.4%	£2,400,000

## 9. Consultation

- 9.1. External consultation is not appropriate at this stage but there has already been some coverage of the proposed development in the Council's quarterly magazine *initiatives*.
- 9.2. The Economic Development Service and Commercial Programme Board have been consulted and support the proposal.

## 10. Community Impact and Corporate Risks

- 10.1. There is a risk that the tendered construction costs will produce project costs that are above those estimated in the initial cost plan, say from unknowns currently underground, however this risk will be mitigated by the project contingency sum contained in the total project cost. There is a risk that the ROI as indicated by Henry Adams is not achieved.
- 10.2. The redevelopment of this brownfield site would improve the environment and present an opportunity for existing Chichester based businesses seeking to expand to secure new premises. That in turn may release existing premises for occupation or redevelopment as well as provide an opportunity to attract a new business in to Chichester.

## 11. Other Implications

<b>Crime and Disorder</b> Additional employment created could assist in the reduction of Crime and Disorder.	Yes	
<b>Climate Change</b> The development will be to sustainable standards	Yes	

<b>Human Rights and Equality Impact</b>		No
<b>Safeguarding</b>		No

## **12. Appendix**

- 12.1 Appendix 1 – Architect’s plan of the six unit scheme for which full planning consent has been granted, subject to conditions.
- 12.2 Appendix 2 – Tender summary and Costs, Plot 21 Terminus Road [Part II – confidential document exempt from publication]

## **13. Background Papers**

- 13.1 Plot 21 Terminus Road Chichester Market Overview – by Henry Adams June 2017 [Part II – confidential document exempt from publication]