

We have read the critique set out by Dr. Burrell, dated 13th January 2019, in regard to the Princes Parade Cost Viability Appraisal. The response below refers to B&M cost elements. We understand that the critique made on Savills' appraisal items will be responded to by Savills.

Dr. Burrell's critique is split into two parts; Part 1 being "*Understanding the B&M Financial Appraisal*" and Part 2 being "*Deficiencies of the B&M Financial Appraisal*".

Part 1 – Understanding the B&M Financial Appraisal

Dr. Burrell has reviewed the costs presented and carried out a critique upon them.

- a) Under Leisure Centre Project Costs item 1b. Dr. Burrell refers to our costs for residential build project (Phases 3 & 4). However, it should be understood that although costs for the residential element of a scheme are included within our costings, they have not been used within the viability of the scheme, as the intention is to provide serviced parcels of land for developers to build out. The costs for carrying out works within the parcels demise is included within Savills assessment of the site valuation. This point is re-iterated and understood by Dr. Burrell who notes in Para 14 that "*they are relying on the Savills valuation figure having taken into account all other external costs for the rest of the site*".
- b) Para 3; refers to a review on our elemental estimates and Dr. Burrell's opinion that "*mark-ups have been applied by B&M, most being compounded as percentages re-applied to previous percentages*". However, it should be noted that we follow the RICS New Rules of Measurement (**NRM1**). This RICS publication is a guidance document and represents 'best practice'. The cost plan exercise we carried out for this scheme, follows NRM1 guidance. This includes applying on-costs to build up to a Project Cost Estimate.
- c) Para 4: refers to contingencies. The critique states that "*it is usual to include a relatively small contingency allowance for typical large-project risks, but the purpose of this is not for use as a means of accommodating unknowns.*" This is not the case; the NRM1 guidance sets out the principals of risk and includes for uncertainties at each stage of a project. We have applied suitable risk allowances to the scheme, which equate to circa **£4.17M**, over and above the costed elements.
- d) Table A sets out the costs included within our cost appraisal. This table is included to show the "*Available: Other External Work*" cost at **£5,681K**. However, firstly, it should be kept in mind that a further cost allowance of £365K is included within the Leisure Centre cost for site remediation to that area, and £2,127K for additional External Works to the Leisure Centre area. Secondly, the costs included within our cost plan allow for remediated parcels of land, with allowance for services (gas/water/electricity etc.), ready to dispose of to the developer market.
- e) Dr. Burrell does note the above (item d) within his sub-notes for Table A, and expands on the detail of the £5,681K sum in his Table B. This does pick up a minor error in the B&M calculation (Table B note i), which indicates a £46K error and is a discrepancy.
- f) The concluding comments within Part 1 (para 14), states that B&M "*are relying on the Savills valuation having taken into account all the other external costs for the rest of the site.*". This is correct. Our cost plan allows for all works to enable the remediated parcels of land to be disposed of to developers, including incoming and outgoing services to the boundary of the site(s).

Part 2 – Deficiencies of the B&M financial Appraisal

- g) Dr. Burrell sets out in Table C a list of costs noted within our cost report, equating to £5,965K, which are not included within our Project Cost Estimate. Firstly, these costs are not carried through to our cost summary, because these are developers' costs, to which Savills valuation has taken into consideration. The costs include:-
 - a. Boutique Hotel & Restaurant **£1,994K** - this would not be provided by FHDC, but a developer: see Savills response item 2.2.
 - b. Community Infrastructure Levy (CIL) **£1,185K** – this would be a developer cost, not FHDC.
 - c. Remaining External Works **£2,786K** – this includes possible costs required by to be expended by developers to complete the site works. These works are included within Savills' valuation. Savills have actually added a 15% allowance for this work (see Savills response item 1.3).

On this basis, none of the costs stated are relevant to the calculation made by B&M, as these are developers' costs.

- h) Paras 7 – 13 are in respect of Savills' valuation and are responded to by Savills. However, it should be noted that Savills have confirmed that their valuation considers the value of the sale of a Serviced Development Area.
- i) Paras 14 – 18 pick out a number of specific items, suggesting that they are under-costed or not included. However, we have based our costs on information available at this stage of the project, based on planning information. This includes allowances based on available cost data. We have then applied a suitable level of contingency for risks, including unknowns - as stated above (response note c). For example, some of the comments made are items which are treated as risk allowances within RICS NRM1 (*refer to NRM1 Group Element 13: Risks*). This includes items such as ground water (13.2.7), ecology issues (13.2.11), additional infrastructure (13.2.18) etc. This is why a suitable level of risk allowance has been applied to the construction cost.
- j) We have not commented here on matters in respect of documents prepared by others (Savills, Hadron etc.), only to the fact that our costs allow for serviced parcels of land, for which Savills have valued.

For and on behalf of Betteridge & Milsom Ltd.
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29/01/19