

# Critique of the Princes Parade Cost Viability Appraisal

## EXECUTIVE SUMMARY

1. This report aims to understand the costs of the proposed development as stated in the Princes Parade Viability Cost Appraisal produced by B&M for the 16 August 2018 Cabinet. It does not look at the revenue items used in the calculation of the £2.108m which B&M claim would be the cost to the council of the new leisure centre (other than the £14.3m Savills land valuation). It should be noted however that some of these revenue items are questionable.
2. The report looks at the elemental costs not the marked up costs. Table A identifies that B&M have allowed £5,789k for external works relating to the leisure centre (phase 1 and 2 costs). This closely agrees with table B which lists phase 1 and 2 costs identified by B&M but not included in the cost for the leisure centre itself.
3. Table C lists the costs identified by B&M for phases 3 & 4, i.e. costs relating to the residential part of the site including the open spaces. These have not been included in their calculation of the cost of the leisure centre and so need to be taken into account when looking at the costs of the residential element of the development. B&M have used the Savills net residual value of £14.3m instead of their own figure so it follows that these phase 3 & 4 costs should have been taken into account by Savills. This report demonstrates that not all the costs have been taken into consideration by Savills, i.e. that their valuation of £14.3m is overstated.
4. This report also discusses some items where B&M have clearly underestimated the complexity of developing the site and so have significantly underestimated the related costs.
5. In addition I have provided a list of items which I believe have been omitted altogether from B&M's calculations. This list is not necessarily exhaustive.
6. In summary, as a result of the various issues discussed above, the net cost of the leisure centre for funding by FHDC is expected to be significantly higher than the £2.108m claimed by B&M.

## PREFACE

1. The Princes Parade Viability Cost Appraisal<sup>1</sup> report prepared by B&M contains a number of errors and omissions that impact on the viability of FHDC's development proposal, as has been approved in principle by the 16 August 2018 Planning & Licensing Committee. This analysis follows up on the invitation by Councillor Dearden, Cabinet Member responsible for Finance, in his response to my Question to Council on 28 November 2018. However, he has suggested that in my previous analysis I have double counted some of the costs, but I dispute this.
2. The proposed development entails many unusual costly facets, of which a number have been overlooked. In previous submissions to FHDC I have sought to identify the impact of those errors and omissions but am aware that my arguments may have been difficult to follow. This report seeks instead to present the data in a manner that relates more directly to the figures presented by Betteridge & Milsom (B&M), with the aim of reaching a mutual understanding with the Authority as rapidly as possible and resolving my dispute over the project's financial viability.
3. The B&M figures are somewhat difficult to interpret because many of them do not reconcile with those presented elsewhere within the documents that have been disclosed. Some of the documents are previous version that have been subject to manipulation to create the desired presentation. In order to overcome the outstanding issues my report has been broken down into two parts with self-evident supporting Appendices:
  - PART 1 – "UNDERSTANDING the B&M Financial Appraisal".
  - PART 2 – "DEFICIENCIES of the B&M Financial Appraisal".
4. This analysis has been undertaken by me individually. However, in order to accommodate the interests of the local community as stakeholder, I submitted a copy to the Save Princes Parade campaign group for review prior to its submission. They are content with its accuracy but are concerned that the complexity of the financial issues involved may lead to a continuation of the council's failure to accept the points raised.
5. I request therefore that the Authority gives this report serious attention, with a view to meeting with me to resolve once and for all the outstanding disagreements.

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<sup>1</sup> B&M report Ref 3375, Appendix A – Initial Viability Cost Appraisal.

# PART 1 – UNDERSTANDING the B&M Financial Appraisal

## HIGH LEVEL ASSUMPTIONS

1. Only the 3,013m<sup>2</sup> leisure centre option needs to be considered, since this was the version considered by the 16 August 2018 Planning & Licensing Committee.
2. Since the aim of the project is to solve the problem of replacing Hythe's ailing swimming pool, the B&M report has focussed on the net cost of building a leisure centre on Princes Parade, treating the residential<sup>2</sup> build as an enabling project to supplement other funding sources. The latter sources are principally the Nickolls Quarry section 106 Agreement and a cash receipt from the sale of the existing South Road pool site. This report will not consider the Nickolls Quarry alternative even though that site needs to be addressed as a "competitor" within the Princes Parade Business Case.
3. While issues remain concerning the validity of some of the other funding sources these will not be addressed here because the points raised relate entirely to the accuracy of B&M's assessment of the cost estimates; they are quite independent of the off-site funding sources and which, for the most part, equally applicable for other sites.
4. Following B&M's lead, I will therefore consider the cost of the leisure centre project and treat the residential build as being a funding source of £14,300k, this being the figure determined by Savills<sup>3</sup>. I emphasise however that this is not an endorsement of the Savills figure since, as will be seen, it is based upon a number of key assumptions that do not correspond to those being made by B&M.

## LEISURE CENTRE PROJECT COSTS

1. For cost-estimating purposes the Princes Parade development project has in effect been divided into 2 projects:
  - a. *Leisure Centre Project* – Phases 1 & 2 – in which the whole site area is prepared and remediated, followed (11 months later) by the leisure centre construction and associated external work and car parks (including western end), re-locating the road and sewer and the promenade re-construction.
  - b. *Residential Build Project* – Phases 3 & 4 – and directly associated external work; it also includes the hotel/restaurant building shell, plus the main and central open spaces and linear park.
2. The Cost Viability Appraisal approach adopted by Betteridge & Milsom derives cost estimates for:
  - a. The **leisure centre**, for which the costs are incurred principally in Phase 2 but with a smaller element of preparatory remediation work (i.e. £394k) in Phase 1. The 'elemental' total for the leisure centre for both phases is £11,223k which includes some directly-related ground work costs.
  - b. The **ground-works required for the site as a whole**. However some of those ground-work cost have already been included within the estimates for 'a' above. Double counting has been avoided by deducting any ground work costs already covered specifically for the leisure centre.

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<sup>2</sup> The term "residential" build also includes the commercial/hotel development and self-build properties.

<sup>3</sup> Savills report - Proposed Redevelopment Scheme, Princes Parade, Seabrook, Hythe, Kent, VIABILITY ASSESSMENT REPORT 13 July 2017.

3. B&M have applied mark-up percentages to all 'elemental' estimates to determine the total Project Costs. The individual mark-ups combine to a total of **67.44%** for phases 1 and 2. Those phases cover the external ground work necessary to bring the whole Princes Parade site to a state of readiness plus all work directly related to the construction of the leisure centre itself. Appendix A gives details of how the mark-ups have been applied by B&M, most being compounded as percentages re-applied to previous percentages.
4. It is normal practice to mark-up elemental costs in this way in financial appraisals, the purpose being to cover specific types of costs, professional fees, developer's and contractor's overhead & profits, marketing, etc. It is also usual to include a relatively small contingency allowance for typical large-project risks, but the purpose is this is not for use as a means of accommodating unknowns. It is important to recognise that the presence of high mark-ups, as in B&M's appraisal, does not in any way whatsoever offset the high risk of the Princes Parade development by acting as an allowance for factors that are unknown.
5. To clarify where the costs lie and to eliminate any suggestion of double counting, I will focus only on the 'elemental' costs and relate them individually to 'project' costs as appropriate, thereby totally avoiding potential confusion about the content of the mark-ups. This is a particularly useful approach here because of the difficulty in extracting figures for all the individual elements.
6. In the un-redacted version of B&M's Cost Viability Appraisal, as made available to the public for the 16 Aug 2018 planning meeting, they estimated the following costs:

**TABLE A**

B&M Appraisal	Notes	Project Cost	Elemental cost
Leisure centre	(i)	£18,792k	<b>£11,223k</b>
Framework Fee	(ii)	£281k	£168k
Funding Fee	(iii)	£200	£119k
Total Leisure Centre cost	(iv)	£19,273k	£11,510k
Total development project	(v)	<b>£28,785k</b>	£17,191k
Available: Other external work	(vi)	£9,512k	<b>£5,681k</b>

**Notes**

*B&M have derived costs for the leisure centre project, which I have broken down into 'elemental' costs using their mark-up method.*

*The bolded figures are taken entirely from Appendix 1 (pages 53 onwards) in the B&M report.*

(i) *The Leisure Centre costs include:*

*Remediation of the associated leisure centre land only (Enabling works **£364k**)*

*Construction of leisure centre building and fit-out - £6,444k (Substructure **£1,937k**;*

*Superstructure **£3,317k**; Internal finishes **£750k**; Fittings, Furnishing & Equip **£440k**)*

*Building services (**£2,287k**)*

*Site work directly associated with the leisure centre itself, including drainage (**£2,128k**).*

(ii) *The leisure centre has been assumed by B&M to be constructed through a Framework contract for which the professional fee is 1.5% (**£190k**) of leisure centre construction work which has included the 13% m/u for prelim work. Equivalent Elemental fig = £168k.*

(iii) *Funding cost (interest) has been allocated to the leisure centre project = **£184k** which, after allowing for B&M's final mark-up of 9%, leads to an equivalent elemental fig of £119k.*

(iv) *The calculated total leisure centre Project Cost of £19,273k has been broken down into its elemental costs to enable the full comparative analysis to be undertaken using truly equivalent figures. This is close to B&M's leisure centre costs of **£19,260k** (Difference £13k).*

(v) Total development project here refers to the costs for all Leisure Centre-related work plus all the other external work not covered within the residential/commercial build programme and stated as **£28,785k** in B&M Annexe D (page 49 of their un-redacted report).

(vi) This is the sum remaining to cover ALL other external work for the whole of the Princes Parade site not directly associated with the leisure centre itself. **£5,681k** is therefore the elemental allowance within B&M's estimates that remains to cover **all of the essential site-wide costs** that are not covered within Savills land valuation.

7. B&M have estimated the "cost to FHDC" as a net figure to be incurred for the leisure centre build after deducting anticipated cash receipts from (a) the Princes Parade land, and (b) various external sources. Their report masks the true costs of the project which can be presented more meaningfully when they are separated from the funding sources, as in the above table.
8. The critical factor that, according to B&M and Savills, makes the construction of the leisure centre on Princes Parade possible, is the cash receipt from the residential/commercial land. B&M have assumed that the land value calculated by Savills, namely £14.3m, will become available as a key contribution to the leisure centre build programme.
9. They claim that after deducting the £14.3m and all possible cash receipts, the net "cost to SDC [FHDC]" will be approximately **£2,108k**.
10. To determine whether this claim is correct let's first examine B&M's own elemental cost data to establish whether they have allocated all essential external work within the figure of **£5,681k** derived from their data.

## TABLE B

### External works items EXCLUDED from the Leisure Centre cost of £11,223k

B&M Ref	External items included in the "other external works" for Phases 1 & 2 figure of: £5,689k, (elemental)	Elemental costs £k	Note Ref
1.01	Site clearance	95	
1.02	Preparatory ground works	1,995	(i)
7.01	Relocation of Princes Parade road to North of site	2,388	(ii)
7.02	Other Phase 2 roads (non-Princes Parade)	188	
7.02	Kerbs to other Phase 2 roads	14	
7.02	Footpaths – Phase 2	21	
7.02	Footpath between canoe club and beach	41	
7.02	Parking bays – on-street Phase 2	159	
7.02	Parking bays for public, off-street	142	
7.02	Other hard surfacing, unknown makeup & finish – Phase 2	64	
7.02	Making good promenade after diversion of road	502	
7.02	Jetty to canoe club & enhance access route	50	
7.02	Heritage work across site triggered in phase 2	120	
9.01	Electric supply to site	300	(iii)
9.02	Water supply to site	214	
9.03	Gas supply to site	192	
9.05	Street lighting – Phase 2	22	
10.01	Grass - Turfing & seeding communal areas– Phase 2	11	
12.01	Junction connection with existing footpath – Phase 2	3	
	<b>TOTAL</b>	<b>£6,521</b>	
	Amount already included in Leisure Centre cost plan	£883	(iv)
	Net additional external cost (with error)	£5,638	
	Net additional external cost – after correcting error (i)	<b>£5,684</b>	(v)

**Notes:**

- (i) Error -- Deduction of £410k has been applied by B&M instead of £364k when determining £1,995 which should therefore be £2,041. B&M mechanical error in reading from chart for incorrect size of leisure centre.*
- (ii) This differs from the road re-location elemental fig of £2,529k shown on B&M p53 (cost build-up sheet) and is less than the £2.8m figure B&M had advised Savills.*
- (iii) This includes a 2<sup>nd</sup> electric substation specifically for the residencies but is likely to have been included in the leisure centre cost (see iv).*
- (iv) It is not clear where this £883k has been included within the leisure centre costs as claimed by B&M. However it is likely to be the cost of providing Electric, Gas, Water, Foul Drain and Telecom services **to** the site as would be expected to appear within B&M's Site Works figure of £2,128 for the leisure centre (and referred to as Associated Main Incoming Services In B&M's Annexe D).*
- (v) Assuming the B&M's deduction of £883k is correct, this figure is in close agreement with the elemental cost remainder shown in Table A against the heading "Other external work".*

**CONCLUSION – Part 1**

- 11. I have examined the elemental cost figures for the "Other external work" in a totally different, and bottom-up, manner from B&M's detail sheets. I have been able to account for all of their figures and have gained a good understanding of how they have been calculated.
- 12. Having identified all the cost elements that have been included within phases 1 and 2, it is now possible to establish the work that remains for inclusion within phases 3 and 4, for which Savills will need to have made sufficient allowances.
- 13. In addition it is necessary to determine whether either party have made any omissions and under-estimations in their estimates.
- 14. The fact that the concluding elemental totals in Tables A and B come to almost the same figure indicates that B&M have left no scope whatsoever for Savills to have omitted any of the costs for external work. This is inconceivable and immediately points to the strong likelihood of a shortfall in the estimated costs.

## PART 2 – DEFICIENCIES of the B&M Financial Appraisal

**TABLE C**

**Full list of items identified by B&M but not costed within Phases 1 and 2**

B&M Ref	ALL items identified by B&M for Phases 3 & 4 – Note (i)	Elemental costs £k	Notes
4.01	Boutique hotel & restaurant building	1,994	(ii)
7.02	Other Phase 3 roads (non-Princes Parade)	141	
7.02	Other Phase 4 roads (non-Princes Parade)	161	
7.02	Kerbs to other Phase 3 roads	20	
7.02	Kerbs to other Phase 4 roads	18	
7.02	Footpaths – Phase 3 (Residential)	21	
7.02	Footpaths – Phase 3 (Open space)	19	
7.02	Footpaths – Phase 4	63	
7.02	Footpath RMC bridge > Promenade Phase 3 (Open space)	55	
7.02	Parking bays: private – Phase 3 (Residential)	136	
7.02	Parking bays: private – Phase 4	145	
7.02	Other hard surfacing – unknown makeup – Phase 3 (Res)	111	
7.02	Other hard surfacing – unknown m/u & finish – Phase 4	299	
7.02	Patios – Phase 3	13	
7.02	Patios – Phase 4	21	
7.02	Playground areas – Phase 3	32	
7.02	Allowance for enhanced ‘features’ – Phase 3	100	
8.01	Surface water drainage – Phase 3	287	
8.01	Surface water drainage – Phase 4	281	
8.02	Foul water drainage – Phase 3	143	
8.02	Foul water drainage – Phase 4	143	
9.01	Electric services -Phase 3 (nr 45)	12	
9.01	Electric services -Phase 4 (nr 105)	26	
9.02	Water services -Phase 3 (nr 45)	12	
9.02	Water services -Phase 4 (nr 105)	26	
9.03	Gas services -Phase 3 (nr 45)	12	
9.03	Gas services -Phase 4 (nr 105)	26	
9.04	Telecoms & other services – Phase 3	12	
9.04	Telecoms & other services – Phase 4	26	
9.05	Street lighting – Phase 3	23	
10.01	Grass - Turfing & seeding – private rear gardens - Phase 3	19	
10.01	Grass - Turfing & seeding – private rear gardens - Phase 4	29	
10.01	Grass - Turfing & seeding communal areas– Phase 3	25	
10.01	Grass - Turfing & seeding –open spaces - Phase 4	224	
10.02	Planting 24 large semi-mature trees – Phase 4	14	
11.01	Fencing – to all rear gardens Phase 3	28	
11.01	Fencing – to all rear gardens Phase 4	41	
11.01	Fencing – front courtyards Phase 3	4	
11.01	Fencing – front courtyards Phase 4	0	
11.01	Garden gates (nr 75)	15	
12.01	Connection with existing footpath – Phase 3	3	
17.02	Community Infrastructure Levy (CIL)	1,185	(iii)
	<b>TOTAL</b>	<b>£5,965k</b>	<b>(i)</b>

**Notes:**

- (i) All figures are elemental costs extracted from B&M’s detail lists. They are not the figures used by Savills, who have used a totally different estimation methodology. The B&M figures for Phases 3 and 4 have **not** been used for their Viability Cost Appraisal since they have instead chosen to use the Savills £14.3m (which however is a full project costs figure, not elemental).

- (ii) Although B&M place a figure on the construction cost the hotel and restaurant building(s) Savills have not used that figure but have instead applied their market value judgement to suggest an approximate net selling value. (See Appendix B para 6.5).
- (iii) The CIL of £1,185 is a figure actually payable by the residential developer. It has been identified by B&M but not applied within their own calculation; Savills have however included this as a cost. It should be noted that this does **not** make the project more affordable (as seems to be implied in B&M's report) because it does not contribute new funds but instead appears as a cost incurred by the developer, reducing the residual land valuation.

1. Table C above captures **ALL** of the non-Phase 3 & 4 elemental costs anticipated by B&M.
2. It is noteworthy that B&M have listed elemental costs down to a fine level of details (e.g. garden gates) so it is reasonable to assume that they will have included all the cost elements of substance.
3. From the point of view of **cost estimation** (as opposed to the approach adopted by B&M, which determines the funding shortfall to be met by the council), **ALL** the cost estimates **identified by B&M** for the project at elemental level are contained within:
  - Table A for the Leisure Centre itself, = £11,223k, and
  - Table B – covering Phases 1 & 2 work other than the leisure centre = £5,684k, and
  - Table C – Phase 3 & 4 work = £5,965k
4. However, they have
5. In the B&M model therefore all of the external work identified in Table C needs to have been included within Savills' estimates to be incurred as costs that will fall to the developer. Those costs will of course be taken into account when he values the land prior to making an offer to purchase. If the latter costs are found to be higher, his purchase price can be expected to be reduced correspondingly. Hence the importance of capturing all the external work costs that fall within Phases 3 & 4 because a competitor developer will identify those external costs during his due-diligence process.
6. Any under-estimation will create a larger shortfall (deficit) than the estimated **£2.1m** calculated by B&M and will occur if:
  - a. Savills have omitted any of the Table C items, or
  - b. Items have been included but under-estimated, or
  - c. Items have been omitted from any of the three tables A, B or C,

Looking at each in turn:

### **THE SAVILLS £14.3M**

7. It is important to recognise that B&M do NOT use any of their own figures (Table C) to derive a cost estimate for the residential build (i.e. Phases 3 & 4). Instead they rely entirely on the **net** Residual Land Value figure (£14,300k) derived by Savills.
8. Since Savills have treated all costs as being contained within their BCIS (£/m<sup>2</sup>) residential build estimates, they do not consider specific work items and so it would be meaningless to try and identify the estimated cost for any individual item. They provide no breakdown but aim to cover directly-related external costs (i.e. towards the cost of landscaping, parking and garaging) within a 15% mark-up on the standard BCIS costs. Any costs that are not directly related to the residences will not therefore be covered by the mark-up. Throughout they have assumed the relatively expensive site infrastructure costs will need to be paid for by the council and not therefore included in Savills' own calculation; estimates for those costs should have appeared within the scope of Table C, however that appears to not be entirely the case.

9. The Assumptions made by Savills are stated within various sections of their report, as set out in **Appendix B** of this report. The basic principle is that any external (infrastructure) costs not directly associated with the residential build have been provided by the Authority or absorbed by the developer.
10. Savills have stated (para 8.1) that they “*consider that the residential element of the site is approximately £11,300,000 assuming it can be sold in two or more serviced parcels – that is the access road constructed together with service infrastructure*”. First it should be noted that this is an approximate figure: second, their assumption of selling the land in at least 2 separate parcels differs from the assumption made by their programme consultant Hadron<sup>4</sup> who has assumed – unrealistically – that a single cash payment of £14.3m will be received from the residential build in month 17 after project start. Not only is this unfeasible it differs from the stated £11.3m.
11. Savills have made an error in their residential sales figures by splitting this into two parcels each of 53 dwellings, giving revenue for 106 instead of 105 (after allowing for 45 Affordable Homes).
12. In pars 6.5 and 8.1 they have also assumed receipts of £750k and £450k from sale of the the restaurant/convenience store and hotel as shell buildings, respectively. Those figures are **assumed and approximate** rather than calculations and are not expected to be sold until the end of the development. Likewise the 6 self-build residential plots have been assumed to net £300k (total = £1,800k).
13. The overall net effect is that the residential build programme will fail to provide the Savills net receipt of £14,300k by a significant margin. Also the receipts will be realised much later than stated by Hadron. This will impact on the council’s cash flow requirements, which are heavily reliant on attaining both the magnitude and timescale for the residential sales.

### **UNDER-ESTIMATED ITEMS**

#### 14. New road construction (£2,388k)

This not a conventional road construction but a highway required to regularly carry heavy vehicles to be constructed on a sloping bank of unstable contaminated land, requiring deep, robust piling and a substantial retaining structure. A new sewer needs to run under the diverted road from Twiss Rd and this must be completed before the leisure centre can be opened. It is adjacent to the RMC and will sit about 6 metres higher, less than 20 metres from the water-course. It needs to be constructed in an unobtrusive manner. Traffic-polluted water run-off into the canal needs to be avoided. The original planning application proposed a 2 phase construction programme covering about 150 metres more than the 866m proposed by B&M. That appears to have changed. This item has been vastly under-estimated in Table B.

#### 15. Surface water drainage (£1,098k)

While the costs have been stated for each phase there is no evidence that due account has been taken of measures to prevent pollution from contaminated landfill nor formation of an integrated drainage system with numerous attenuation tanks and a protected attenuation pool sited in the green open space, plus the structure necessary to discharge into either the canal or into the sea after breaching the sea wall.

#### 16. Deep piling

This has been underestimated throughout. B&M have assumed an extra £105 per m<sup>2</sup> for piling whereas the essential depth of piling, stability of the land, nature of the sub-soil, and the need to avoid spread of the contaminants suggest a much higher figure is

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<sup>4</sup> Financial Services Analysis, LW 110118, Hadron 31 July 2018 Scheme Summary

required, potentially as high as £250 per m<sup>2</sup>. The lower figure has been used by Savills for the residences (Phases 3 & 4) for which B&M allow £1,426k for the residential build (item 2.02).

To exacerbate the above, Savills have additionally made an error when accepting the £1,426k from page 53 of B&M's phasing sheet, where it is shown as an elemental cost that is subject to mark-up. Savills have used this as a full project costs, which therefore leads to a further under-estimation of about **£950k**.

#### 17. Promenade (£502k)

The new widened 11 metre promenade has been a significant selling feature for this development. B&M have allowed simply for "*making good the promenade after diversion of Princes Parade road (Phase 2)*" covering a total area of 4,780 m<sup>2</sup>. Since that area corresponds to a promenade width of about 5 metres, it is questionable whether the allowance is sufficient: the promenade and road form an integrated sea wall defence structure, also provision needs to be made for restructuring the existing *under-promenade* drainage system and for a secondary sea wall.

### **ERRORS and OMISSIONS**

18. The following do not appear to have been addressed by B&M and can therefore be expected to lead to increased costs:

- The preparatory ground works in item 1.02 for the leisure centre costs in Table B is too small by **£45k** due to a transposition error in reading the remediation cost from a detail sheet for a larger leisure centre.
- £625k of costs incurred on the project prior to Mar 2018 have perversely been included in the Hadron cash-flow figures while retaining an overall project cost that is unchanged from that claimed by B&M. This means that the project contingency allowed by B&M will have been reduced by **£625k** to incorrectly accommodate it in an already high risk development.
- No cost estimates have been included for the protection of the wildlife, e.g. badgers and reptiles.
- Workers operating in the contaminated environment (including heavy metals and asbestos) will require protective clothing with related Health & Safety measures plus supporting facilities.
- Additional cost of constructing the swimming pool within the contaminated ground and the requirement for enhanced strengthening of the pool structure in the presence of unstable landfill.
- Remediation undertaken in Phase 1 will not be effective when later excavating and piling. Protection measures will need to be implemented to prevent the spread of contaminants throughout all phases of the development. The proposed remediation mitigation method does not remove the contamination but simply covers it with soil. Ongoing disturbance of the contamination during the construction work could be a major problem that is difficult to estimate. This is likely to also impact on the residual land value and capital receipts from a developer who will expect to factor in this additional cost and a substantial risk allowance.
- Prevention of spread of Japanese Knotweed rhizomes & disposal of excavated land as controlled waste.
- The estimates for providing green open spaces do not cover everything intended, e.g. the linear park.
- It is unclear where to find the figure for the Western car park.

- While the removal and replacement of a top layer of soil is addressed, the quantities are insufficient to raise the levels to the specified 7.8m FFL AOD.
- Gas vents have not been addressed, although membranes are costed.
- Finally the project timescales implied by B&M and Hadron are unachievable by a very large margin. (NB. This is irrespective of the fact that the programme Gantt chart is out of date and will probably have been updated).  
The complexity of this project, which involves many parties and relies on finding a developer willing to release sufficient cash to make the project viable while expecting him to carry a large proportion of the risk, will mean a very much higher overall cost than stated by B&M. The delays will be extensive and the related costs escalation will be excessive, almost certainly leaving the Authority carrying a burden of excessive risk.

## **CONCLUSIONS – Part 2**

19. I have devoted a large proportion of this report to replaying the B&M material in detail but in a different manner to give the project team confidence in my analysis. The areas of under-estimation, errors and omissions are described in Part 2 paras 6 to 17 (including the latter's bullet points).
20. It is apparent that the Savills report needs to be interpreted with greater care than appears to have occurred for the B&M Appraisal. The Savills report provides a good basis for establishing general expectations prior to tendering. It correctly includes important caveats that have largely been overlooked by B&M, who have drawn conclusions to a level of accuracy that defies those caveats – illogically advising the council that their funding shortfall will be a mere £2.1m. That is a misleading, massive under-estimation that needs to be understood and rectified prior to approval being given to proceed with the development.
21. While I do not have possession of sufficient information to provide definitive figures, it is absolutely clear from my detailed analysis of B&M's estimates and the impact on Savills calculation, that inadequate allowances have been factored in for all of the external work. Most of the under-estimated or omitted work falls within the remit of B&M rather than Savills. Unfortunately the costs concerned have not been covered by either. In some cases it appears that the need for such work may not have been recognised.
22. The list of deficiencies is lengthy and can only be appreciated by inspecting the details in Part 2 above.
23. It is likely that updates will have been made by the project team, of which I am unaware. However B&M's cost viability report to which I refer is the version that led to the decision of the 16 Aug 2018 Planning & Licensing Committee, so it remains relevant.
24. This report does not aim to address the Business Case that is due to be presented to Cabinet shortly. It should however inform the Investment Appraisal part of the Business Case in that the capital funding shortfall, arising from a deficit in the Princes Parade development project will need to be included and justified in terms of overall benefits to the community. Further, the Business Case will need to justify why Princes Parade is a more cost effective alternative than the competitive alternative, namely Nickolls Quarry.
25. A close inspection of the costings discussed in this report would show that the Princes Parade development will suffer a significant number of expensive and risky work items that would not be experienced with the Nickolls Quarry alternative. While the B&M analysis for Nickolls Quarry is known to be substantively deficient and misleading, that is not an appropriate subject for this report which focusses entirely on Princes Parade.

## **RECOMMENDATIONS**

- A. The Authority's project team is strongly encouraged to conduct a detailed review of the content of my report, preferably involving the contractors, Betteridge & Milsom, Savills and Hadron.
- B. The review should, as a minimum, consider each of the cost estimate deficiencies I have identified in Part 2 paras 6 to 17 and determine acceptance or rejection for each.
- C. I respectfully ask for a meaningful response, based upon recommendation B, plus a meeting to discuss the inevitable items with which the project team may disagree. (It would be beneficial to iron out any remaining disagreements once and for all).

***Dr G J Burrell***  
***Hythe***

## APPENDIX A – Analysis of Mark-ups

### Mark-ups applied to elemental costs by Betteridge & Milsom

Markups (each compounded on previous Sub-total)		Mark-ups	
		Elemental	Compounded
Main contractor prelims	Sub-total	13.00%	13.00%
Main contractor OHP (but on B&M p53 it is 8.5%)	Sub-total	7.00%	20.91%
Risk - design		5.00%	26.96%
Risk- construction	Sub -total	5.00%	33.00%
Contractor design fee		9.00%	44.97%
Contractor surveys	Sub-total	1.00%	46.30%
Project team design fees		3.00%	50.69%
Project team surveys	Sub-total	2.00%	53.62%
Employer's Risk allowance		9.00%	<b>67.44%</b>

#### **Notes:**

- (i) Specifically for the Leisure Centre B&M have allocated the following additional costs which are subjected to different mark-ups:
- Framework Fee of 1.5% (£190k) which after mark-up becomes 2.08% = **£263k** as a project cost.
  - Funding Fee of £184k which has been marked-up 9% within the Employer's Risk to become = **£201k**.
- (ii) As a general note of clarification, mark-ups are not normally identified at the level of individual elements but instead for a project as a whole. In this case it is convenient to reverse the mark-ups to ensure all cost details are considered on the same basis, namely at the elemental level, because doubt exists as to whether all the significant cost elements have been accounted for. While it is sometimes thought that the purpose of applying mark-ups is to create a contingency headroom to accommodate all unknowns risks, that is not their purpose and would be bad practice, leading to the likelihood of project cost escalation. For the most part mark-ups are actual costs that would be incurred to pay for directly associated preliminary work plus professional fees (including overheads and profit) as set out in the negotiated contracts.

## APPENDIX B – Extracts from Savills report

### Savills Viability Assessment Report dated 13 July 2017

*The following paragraphs (as identified in brackets) have been extracted in full from the Savills report. Statements that indicate included or excluded costs have been highlighted in yellow. In some areas however it is not clear who is responsible for providing the particular item.*

(Section 1.6): Our appraisals assume fully serviced development sites but some infrastructure is assumed to be provided by contractors of Shepway District Council including realignment of the road, remediation treatment for the former tip area and off-site service infrastructure, together with the provision of the linear park landscaping.

(2.3): The road itself is proposed to be diverted as shown on the plan which will add more interest to the landscape but also act as a traffic slowdown mechanism; however, this will be constructed on the land which is a former tip and therefore will require special construction techniques which will be more costly than a traditional spine road. We understand that the road has been costed at about £2.8m by Messrs Betteridge and Milsom. An open space will connect with the Royal Military Canal, on both sides of the new road alignment, linking with the bridge across the canal to the north; flanking the open space (which will include the play areas) will be a proposed boutique hotel with at least 10 letting bedrooms, together with a restaurant. There will also be a small element of car parking adjacent. The principal car park will be adjacent to the leisure centre; we have excluded the public car park by the leisure centre, together with the leisure centre and the canoe club in terms of our calculations of costs and their impact on the development value.

(6.4): We have applied costings based on latest BCIS sub and superstructure cost figures (see **Appendix 3**); for the private flats and houses we have taken the upper quartile figures (general) and added 15% towards the landscaping, parking and garaging (assuming a high quality design for the development); and for the affordable dwellings we have used the mean column of costing, plus 15% for external works, and the flatted accommodation takes into account communal areas and lifts, assumed to be 15% additional to the net floor areas of the individual units. Promenade works and open space works to the south of the realigned Princes parade will be at developer's cost. Within our appraisal we have specifically incorporated the piling estimate provided by Betteridge and Milsom amounting to approximately £1,426,000; and we have allowed 5% contingency as well as professional fees and marketing.

(6.5): In terms of the boutique hotel, restaurant and convenience store, we have assumed that this would be constructed by an investor and therefore a developer would deliver a fully serviced site as most house developers would not consider the construction of commercial premises; we have assumed approximately £750,000 site value in respect of the restaurant and convenience store and £450,000 for the boutique hotel site on the basis that it is fully serviced, although the commercial developer/investor would be responsible for constructing the car park element servicing the commercial parts.

(6.6): In our calculations we considered that the site would be developed in two parcels possibly on a side-by-side or subsequent basis and we have therefore carried out an appraisal based on 50% of the housing development site, approximately, as shown in **Appendix 4**.

(8.1): We consider that the residential element of the site is approximately £11,300,000 assuming it can be sold in two or more serviced parcels – that is the access road constructed together with service infrastructure. It is assumed that the developers will carry out landscaping around the residential elements, together with promenade improvement works. In addition we have allowed approximately £1.2m in respect of revenue from the sale of the boutique hotel and convenience store/restaurant site; and as a further addition we consider that six prime self-build plots with consent for up to around 280 sq m dwellings would attract bids of around £300,000 each. Thus, the total site value over time would be **£14,300,000 (Fourteen Million Three Hundred Thousand Pounds)**; however, we emphasise that the costs of the road and linear park opposite need to be taken into account in order to show the

net benefit to the Local Authority. As an alternative, a single developer could be asked to tender for the construction of the road and linear park.

(Section 9): The scheme is sited in a prestigious location directly overlooking the English Channel and fronting the beach itself. The success of the Fisherman's Beach scheme on the west side of Hythe shows that there is a good demand for high quality well designed dwellings which encourages specialist developers to the area. Provided market conditions continue in a reasonably buoyant economy, the sale of the residential development site will attract competing bids particularly if offered in two or three lots. It is important to note that to carry this through, relatively expensive infrastructure required to service the land is funded by Shepway District Council; if a residential developer had to construct this infrastructure (realigned road, remediation and off-site services) then the cost of this would be deducted from the land value and would impact upon the profit return together with the cost of finance.

## **APPENDIX C**

### **RISKS from Unknowns, Inconsistencies, Omissions and Underestimations**

1. Project timing and Financing Costs.
2. Contamination worse than expected.
3. Personnel protective measures for work on contaminated site.
4. Second round of remediation after construction disturbance.
5. Relocation of PP road, retaining structure, drainage.
6. Road unacceptably close to RMC.
7. Ground instability construction vehicle problems.
8. Ground conditions require additional strengthening for swimming pools.
9. Structural damage caused by piling.
10. Rate of residential sales being impacted by contamination issues.
11. Contamination reduces value of self-build plots.
12. Prevention of vehicle pollutants from entering the canal from the road.
13. Inadequate budget to widen the promenade.
14. Issues arising from road & promenade forming an integrated sea defence structure.
15. Phasing of foul water drain provision.
16. Unacceptability of attenuation pool location/design, filtering.
17. Japanese Knotweed, worse than expected, prevention from spreading off site.
18. Failure to maintain public access to promenade and beach during construction.
19. Failure to maintain public rights of way during construction.
20. Combined drain unable to accept surface water.
21. Wildlife protection programme.
22. Responsibilities for open space provision.
23. Public access to newly provided open space.
24. Discharge of surface water into canal against EA and HE objections.
25. Road relocated less than the EA-prescribed 25 metre from canal – now less than 20 metres.
26. Stopping up of road not being approved by DfT, requiring re-design of scheme
27. Impact of tide on landfill at depth.
28. Unrealistic phasing
29. Disturbance of residual contaminants after prior remediation.
30. Disposal of excavated landfill.
31. Road crossing levels for public footpaths.
32. Insufficient on-street car parking.
33. Retention of bridleway.
34. Tram shelter protection.
35. Promenade underfunded.
36. Covenant on seafront land covering road, promenade & verge.
37. Ensuring promenade is consistent with planning application diagrams.
38. Practicality of spectator seating for swimming pool.
39. Under-estimation of surface water drainage system.
40. Insufficient site width to accommodate leisure centre as designed.
41. Collateral warrantee to developer to offset risk.
42. Proposed gas protection measures are inadequate.
43. Need to remove more landfill than anticipated as controlled waste.
44. Requirement for more robust piling.
45. Ground stability impact on swimming pool construction.
46. Inability to devise an acceptable cost effective scheme for surface water drainage
47. Use of Imperial Green s106 money is disallowed.
48. NQ developer late in completing 250 houses.
49. NQ developer inability to release S106 cash.
50. Load bearing capacity of site inadequate to support construction work.
51. Insufficient allowance for levelling the site.
52. Attainment of requisite height above sea level (7.8m AODN)
53. Linear park accessibility.
54. Off-site services delays
55. Judicial Review