

For: Elmbridge Borough Council

Viability Review Update

Sandown Park Racecourse
Portsmouth Road
Esher
KT10 9AJ

10 June 2019
DSP19029KO (F1)

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1. Notes from meeting held on 07.06.2019

1.1.1 Meeting held at Sandown Park Racecourse to discuss the estimated cost of works to improve the racecourse.

1.1.2 Meeting attendees:

- William Gittus – Jockey Club
- Gordon Balharrie – Leslie Clark (LC)
- Nick Fell – Rapleys
- Martin Warren – MWA
- Nick Molyneux – Dixon Searle Partnership

1.1.3 MWA explained that the main areas of disagreement were:

- How excavation costs were calculated (including quantum of contaminated soil that has been estimated and how excavated soil will be dealt with)
- How costs for preliminaries were calculated
- Costs added for risk (which appear to involve risk being added to costs already including risk)

1.1.4 MWA queried why the plan was to cut fill out, remove it, then replace with Type 1 fill. MWA consider that most fill can be left on site. LC explained that there is not a suitable area to spread the dig onto. Site lines have to be maintained so levels are crucial, and whilst the works are being carried out, other areas of the racecourse are in operation so there is not sufficient area to store the soil before spreading it onto other areas.

1.1.5 MWA queried the 29,000 cubic metres of soil to be removed and assumed to be contaminated. LC acknowledged that the level of contamination assumed was a worst case scenario, however if an alternative was adopted as suggested by MWA the amount included for contingency would have to rise due to the added risk. Any impact on the operation of the racecourse (which has to operate all year round) has a financial implication. LC also raised concerns about the added risk of injury to horses arising from alternative arrangements.

1.1.6 Regarding preliminaries and the timing of works, LC/Rapleys explained that the development sites were being sold in phases, with the racecourse works dependent

on the income from these sales. This is tied up within the proposed S106 for the site. Therefore, in their view there is limited ability for works to run concurrently. There are likely to be several contractors over the course of the project, not a single contractor. A similar scheme at Cheltenham did have a single contractor, however this differs in that Cheltenham is not open all year round whereas Sandown is.

- 1.1.7 Agreed that MWA would take away the information received and revisit their assessment of the cost plan.

2. Summary of comments and revised cost plan review from MWA

- 2.1.1 MWA have amended their assessment of their cost plan (attached as Appendix 1 to this report). The main areas of adjustment in MWA's assessment are Earthworks and the Risk Allowances.
- 2.1.2 There are still some areas of disagreement. MWA are still of the opinion that their assessment of the Contractors Preliminaries offers a more realistic view of the expected costs.
- 2.1.3 MWA's revised costings, having taken consideration of the applicant's representations and the information provided with the planning application, result in an increase of circa £2,085,000.
- 2.1.4 MWA's final position is that the total cost of works will be £31,997,930 as opposed to the amount in the Leslie Clark cost plan of £38,090,000. There remains, therefore, a difference between the two positions of £6,092,070.

3. Review of viability appraisals

4.1.1 As discussed in our previous report, if the BLV is assessed as per the planning guidance and best practice in viability assessment, it should be based on the value of the land in its existing use, and if assessed on this basis, the scheme will support a fully policy compliant provision of affordable housing.

4.1.2 However, we understand that the Council accepts the racecourse improvements as being of community benefit and the residential development as being crucial to facilitation of the project as a whole and therefore consider the racecourse works costs to represent a suitable benchmark against which to assess the viability of the scheme.

4.1.3 We have reviewed our versions of the applicant's submitted appraisals, using the revised cost indicated by MWA. The results are summarised in the table below:

Revised appraisals - results		Using MWA revised cost plan following meeting on 7.6.2019. GDV includes ground rents.				
Scenario	DSP RLV	MWA revised works cost		Surplus/deficit		Viable/Not Viable
100% Private	£ 49,097,054	£	31,997,930	£	17,099,124	Viable
10% Affordable	£ 43,398,975	£	31,997,930	£	11,401,045	Viable
15% Affordable	£ 39,448,348	£	31,997,930	£	7,450,418	Viable
20% Affordable	£ 37,153,296	£	31,997,930	£	5,155,366	Viable
30% Affordable	£ 32,424,257	£	31,997,930	£	426,327	Viable
50% Affordable	£ 21,176,420	£	31,997,930	-£	10,821,510	Not Viable

4.1.4 This indicates that 30% affordable housing is viable, having taken into account the cost of works to the racecourse, with a significant surplus being generated.

4.1.5 Rapleys state the following regarding ground rents:

"We have stopped applying ground rent in our appraisals and this is in line with other large consultancies. As mentioned I have no issue protecting the Council in the event that they do remain and are charged and this can be included in the viability reviews at reserved matters stage. This would potentially serve to increase affordable housing when those reserved matters applications are dealt with. The issue with including them now is that if, as the Government has directed, ground rents will only be chargeable at a peppercorn by the time these flats come to the market it is much harder to reduce affordable housing within a s106."

4.1.6 This is something for the Council to consider. Viability guidance requires us to assess a development as of today, and at the time of writing ground rents are still chargeable. Indeed, we have evidence that ground rents are still being applied on properties being sold at the moment (see example attached as Appendix 2). We understand that the Council's position is that ground rents should be included. However, to give the Council an indication of the impact of ground rental income we have run three appraisals with the ground rents removed. The results are as follows:

Revised appraisals - results		Using MWA revised cost plan following meeting on 7.6.2019. Ground rents not included in GDV.			
Scenario	DSP RLV	MWA revised works cost		Surplus/deficit	Viable/Not Viable
15% Affordable	£ 37,880,674	£	31,997,930	£ 5,882,744	Viable
20% Affordable	£ 35,569,765	£	31,997,930	£ 3,571,835	Viable
30% Affordable	£ 30,829,929	£	31,997,930	-£ 1,168,001	Not Viable

4.1.7 This indicates that without the inclusion of ground rents affordable housing could be provided as a proportion of somewhere between 20% and 30% (likely to be over 25%).

4.1.8 We need to be clear that this is based on current day costs and values assumptions as described within our review, based on the current scheme as submitted (albeit using the submitted information associated to current outline proposals in some key respects). A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.9 DSP will be happy to advise further as required.

Update report ends
10 June 2019

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APPENDIX 1

MWA revised commentary on Leslie Clark cost plan

APPENDIX 2

Ground rent example