



## **Herefordshire Council, Development & Regeneration Programme**

### **Station Approach Site**

#### **Stage 1 Submission – Updated 18 October 2018, Rev 3**

## **1. Introduction**

- 1.1. The Station Approach (SA) site has been earmarked by the Council as a site suitable for the development of a student accommodation scheme primarily for the Hereford College of Arts (HCA). The College recognise that the lack of quality accommodation for their higher education students is serving as a barrier to recruitment. They also face the prospect of having their arrangement with the Royal National College for the Blind terminated at the end of the 2019/20 academic year. It is therefore imperative to supporting the HCA's growth ambitions that an accommodation block be provided ready for the September 2020 academic year.
- 1.2. The building could also be shared by the new university, NMiTE for one year, starting September 2020. NMiTE are anxious to secure accommodation for their September 2020 intake. The block will therefore have the benefit of supporting both key higher education providers in the city.
- 1.3. A New Project Request setting out the requirements of the Council was issued on 1 August 2018 and signed by Engie on 2 August 2018. A copy is included in Appendix 1.
- 1.4. This Stage 1 Submission has been prepared following the initial stages of the design development for the project. Programme Board are requested to consider the submission and make recommendations to the Council to support the Stage 1 Submission.

## **2. Template Development Agreement**

- 2.1. Discussions are ongoing with the Council regarding how the project will be funded. The options being considered are:
  - 2.1.1. Funding from the Council's own resources.
  - 2.1.2. Funding by the Council utilising Public Works Loan Board (PWLb) funding.
  - 2.1.3. Funding via institutional investors through an income strip arrangement.
  - 2.1.4. Other private funding sources.
- 2.2. A financial model and background report has been commissioned to fully understand the implications of the various funding options for the Council. This included consideration of risk and reward to the Council in following each of the options noted above. The commercially confidential document produced by QMPF has been provided separately to the Council.
- 2.3. A review of the funding options and structure of the deal is ongoing with the Council and includes reviews with key Members. Discussions have also been commenced with a potential funder for the scheme. A soft market testing exercise on potential funders is about to commence and will be reported on at Stage 2.

- 2.4. A decision on the funding option is targeted for the end of November to allow final negotiations and due diligence with any potential funder to take place. This due diligence will include a review of the proposed Development Agreement for the project and the nominations agreement between the Council and HCA and NMiTE.
- 2.5. Support has been provided to the Council on the proposed wording for a Memorandum of Understanding and nominations agreement based upon experience elsewhere and these are being reviewed with HCA and NMiTE. Copies of the original documents circulated are included in Appendix 2.
- 2.6. On this basis it is considered too early to consider potential amendments to the template DA as this will be influenced by the decision on the proposed funding route.
- 2.7. The decision around funding will also have an impact on how the completed facility is managed and operated. The funder will have an input into how this is undertaken and by whom. These services can be provided by Cityheart and/or another external operator or by the Council extending their own operations.

### **3. Development Programme Fee**

- 3.1. The Development Programme Fee submitted at New Project Request Stage confirmed a fee for Stage 1 of £350,010 and an indicative Stage 2 fee of £683,588, both underwritten by the Council.
- 3.2. Reviews have been undertaken with the aim of reducing the risk of delivery on site. It is now proposed that the building be built using a modular form of construction. It is felt that both the speed of delivery and quality of the building will be greatly enhanced by utilising this delivery method. However, the implications of following this route are that design works that would have been carried out post Stage 2 now need to be advanced into the Stage 1 and 2 period. The Stage 1 and 2 fees have therefore increased from that originally envisaged for a traditional form of construction and is confirmed as Stage 1 £415,740 and Stage 2 £752,648, giving an overall total for Stages 1 and 2 of £1,168,388. A copy of the build up to the Stage 2 Development Programme Fee is included in Appendix 3.
- 3.3. Following the discovery of the sewer the Council confirmed a further maximum Additional Services Fee of £35,000 excl VAT. The works originally defined and undertaken as Stage 1 have been completed within these financial limits and a breakdown of these fees could be provided for audit purposes should that be required by the Council.

### **4. Developer Performance Report**

- 4.1. The Developer Track Record Performance is not required for this project as it is less than 6 months since the signing of the Overarching Agreement.

### **5. Value for Money Assessment**

- 5.1. The project team have continued to develop the design in conjunction with the Council and HCA and taking on board comments and requirements from Welsh Water. The scheme remains one that meets normal market conditions for student accommodation and incorporates the features that students expect to see in such accommodation.

- 5.2. The proposals as currently drafted provide for a total of 178 units over four/five floors. A summary of the current proposals are included in Appendix 4. The scheme currently provides for:
- 5.2.1. A total of 168 standard and 4 accessible cluster rooms with shared kitchens and communal space. Current proposal is generally for 6 bedrooms to share one kitchen.
  - 5.2.2. A total of 3 standard and 3 accessible self contained studio style units for students who prefer to be independent. These respond to the College's requirements around the neuro-diversity of their student body and the design is being carefully considered to enhance the welfare of students who would find a cluster flat environment socially difficult but without isolating them. The studio rooms are located on the ground floor but still requiring access through the main Reception so there is a level of interaction with management and on-site staff.
  - 5.2.3. The main entrance to the building being towards the centre of the ground floor with space provided for students to socialise and carry out shared project working. There could also be an element of gallery space. A workshop will be run with the students in late October/early November to understand better from them the type of space they consider would be most appropriate.
  - 5.2.4. The 'back of house' support accommodation is also provided on the ground floor making efficient use of the reduced levels at the Aylestone Hill end of the site.
  - 5.2.5. A total of 6 car park spaces are proposed for staff and disabled use only in line with planning policy and with fast charging points for electric vehicles as part of an enhanced sustainability approach in line with the Council Criteria.
  - 5.2.6. The students will be given the opportunity to design art installations for the Aylestone Hill gable end of the building as well as artwork for the public realm to the front of the building. This is seen as an important part of bedding the building into Hereford.
- 5.3. A separate commercial unit which could be a coffee shop or small retail type offering serving both the building and the adjacent railway station is being considered to the West of the main building. However, there are site constraints between the highways visibility splay and the Welsh Water sewer. If these can be satisfactorily resolved then this building will form part of a future detailed planning application. The viability of the main accommodation block is not affected by the omission of this building.
- 5.4. The proposals have been developed with environmental criteria in mind from the outset. An independent BREEAM assessor has worked as part of the design team to ensure environmental sustainability informs the approach. This is not generally a market requirement in student accommodation projects and many universities have no specific targets beyond compliance with building regulations. Measures considered include fast charging points for electric cars so that staff and / or students can use these vehicles as they become more widely

adopted. Consideration is also being given to PV installations for the roof and other sensible and practical measures will continue to be reviewed.

- 5.5. The proposals will continue to be developed with the Council and HCA over the next few weeks. Minor changes could be made to internal layouts but it is not envisaged that the overall size or massing of the building will materially change.
- 5.6. The proposals have been developed in accordance with the Council's original criteria and the scheme as proposed is considered to be fully compliant with these. The one area that will need consideration during Stage 2 is the impact on the displacement of car parking from the site and the team will continue to work with the Council to develop the strategy for car parking.
- 5.7. Following a period of consultation with key Members and the general public the planning application for the scheme was submitted on 15 October.
- 5.8. Discussions with Planners will remain ongoing during the planning consultation period. Prior to the application being submitted it was agreed with Planners that areas such as final selection of materials, access for servicing the site and how to overcome the Welsh Water easement can all be agreed either during the consultation process or as conditions. Planners are aware of the overall timeframe for delivery of the project and would like to target the 18 December Planning Committee for determination, with the 23 January 2019 Committee date seen as a back stop.
- 5.9. Buildability has also been reviewed. A modular building approach is considered as a way of significantly de risking the programme and enhancing the quality of the building and the proposals contained in this report assume this route will be adopted.
- 5.10. The current design and build cost estimate for the project is £13.8m, inclusive of design fees but exclusive of VAT. This equates to a build cost of £77,528 per bed space which is considered to be within the industry standards for modular built accommodation of this type and scale which also incorporates the extent of social space on the ground floor seen as fundamental to the social interaction of the students.
- 5.11. Costs are based upon the information currently available and the detail design continues to be developed with the modular builder. A more detailed cost appraisal will be available for the Stage 2 report.
- 5.12. Discussions have commenced with the Council over the establishment of a best value framework, considering the wider aspects of the project, which will be developed with the Council and utilised as part of the Stage 2 report.

## **6. Preliminary Development Appraisal**

- 6.1. The Preliminary Development Appraisal for the project is included in Appendix 5. The appraisal has been prepared on the assumption that the project will be funded via an institutional investment, income strip type arrangement with market norm assumptions made at this stage. Key inputs and assumptions from the appraisal are:
  - 6.1.1. Rent levels of £135 per week over a 42 week per annum period.

- 6.1.2. Occupancy guarantee of 100%
- 6.1.3. Operating and lifecycle costs at industry norm.
- 6.1.4. A net initial funding yield of 3.15%. This will be reviewed as part of the soft market testing exercise but is considered to be current.
- 6.1.5. Gross Development Value of £17,831,000.
- 6.1.6. Gross Development Cost of £17,831,000. This includes a gross land receipt payable to the Council of £454,395.
- 6.1.7. Currently the project indicates a break even position.
- 6.2. The project continues to remain viable overall. As noted above, further work will be undertaken on soft market testing of the funding for the project. At this stage the yield assumed in the appraisal is well within the range of figures provided by one of the funds. The ultimate decision on funding will be around the most appropriate balance of term of years and indexation and will take account of the funders view of the covenant strength of the organisations involved.
- 6.3. The main impact of amending the design to take account of the sewer has been the shortening of the building. This had the knock on effect of reducing the potential number of units that could be delivered. However, the key aim at the outset of this project was to support the growth ambitions of the HCA and they remain clear that they require as close as possible to the original 200 units as can be provided for on the site. They see this building as a catalyst and will indeed need further units in the coming years. A separate demand study undertaken by GVA, attached in Appendix 6, has confirmed this initial demand for the building.
- 6.4. The Development Appraisal will continue to be reviewed as the design and proposed method of construction are firmed up. The appraisal will also form part of the review of funding options and will support the ultimate decision over the most appropriate funding route to be adopted on this project.

## **7. Target Delivery Dates**

- 7.1. A copy of the pre-site commencement programme is included in Appendix 7. The key dates and critical path on the programme are as follows:
  - 7.1.1. Item 73, Place PCSA order with Caledonian 15 November 2018. To be able to produce the detail design and costings ready for a Stage 2 submission in January we need to commit to Caledonian by 15 November.
  - 7.1.2. Item 104, Cityheart pull together report on soft market testing of finance offers – 30 November 2018.
  - 7.1.3. Item 107, Council approve funding route and underwrite on funder's due diligence costs – 21 December 2018.
  - 7.1.4. Item 80, Submit Stage 2 to the Council – 18 January 2019.
  - 7.1.5. Item 83, Cabinet approval to the scheme – 28 February 2019. This will be conditional upon the final funding deal which will be progressing through funder due diligence. It does however ensure we have Council approval to the scheme ahead of purdah.

7.1.6. Item 114, Financial Close – 22 April 2019.

7.1.7. Item 116, orders placed for pre-construction design activity – 29 April 2019.

7.1.8. Item 132, Start on site – 27 May 2019.

7.1.9. Item 135, Handover facility – 22 June 2020.

## 8. Risk Review

8.1. A full Risk Register is attached in Appendix 8. The following are the key risks identified and associated mitigation measures:

Risk	Mitigation
Location of Welsh Water sewer crossing the site	Building has been redesigned to avoid the sewer. Liaison ongoing with Welsh Water over partly building in the easement area
Delay in planning process	Continuing dialogue with Planners. Further pre-app discussions before submitting application
Consultation	Support Planners with CGI type graphics during consultation period to better explain the proposals
Funding sign off	Liaison commenced with one funder who understands programme. Soft market testing of offer to be undertaken. Close liaison ongoing with Council's S151 officer
Buildability and achieving the construction programme	Review of modular solutions ongoing

## 9. Conclusion and Recommendation

- 9.1. The programme for the delivery of this project has always been challenging. The discovery of a sewer crossing the site called for a redesign of the scheme and compounded the concern over programme.
- 9.2. The requirement to have a sizeable student accommodation block ready for the September 2020 intake of students to support the growth plans of HCA and the start up of NMiTE has not changed. If anything, in the case of NMiTE the date of September 2020 is in even sharper focus following the discussions with them and lack of suitable alternative accommodation that can be provided in this timescale.
- 9.3. Buildability of the scheme within the programme timescales remains a concern and the decision to adopt a modular construction approach to reduce the risk associated with the depth of the local supply chain will continue during Stage 2.
- 9.4. Discussions have commenced with a potential funder and indications are this will be attractive to them. A soft market testing exercise on potential funders will be undertaken during Stage 2 and will include the Council's S151 officer and key



Members. On the basis of the scheme presented and initial high level reviews on costs, values and funding rates indications are that the scheme remains deliverable against the initial criteria set by the Council and viable. This viability will continue to be tested during Stage 2 as the proposals and funding route are firmed up.

- 9.5. To achieve the overall programme of a September 2020 completion a number of activities will continue to run in parallel during Stage 2.
- 9.6. The Programme Board is requested to recommend this Stage 1 Submission to the Council. In particular, the Board are requested to recommend:
  - 9.6.1. A Stage 1 Development Programme Fee of £415,740.
  - 9.6.2. A Stage 2 Development Programme Fee of £752,648.
  - 9.6.3. Approval of the current design proposals for the scheme.





## **Appendix 1**

### **New Project Request**



Appendix 1,  
StationApproach-NF





## **Appendix 2**

### **Memorandum of Understanding and Nominations Agreement**

**[commercially confidential draft]**



**Appendix 3**  
**Development Programme Fee**

<b>Station Approach, Hereford</b>		<b>Rev E</b>			
<b>Development Programme Fee 09.11.18</b>					
			<b>Stage 1</b>	<b>Stage 2</b>	<b>Total</b>
<b>Item</b>	<b>SUMMARY</b>		<b>£ (ex VAT)</b>	<b>£ (ex VAT)</b>	<b>£ (ex VAT)</b>
	<b>TOTAL</b>		<b>415,740</b>	<b>752,648</b>	<b>1,168,388</b>

## Appendix 4

### Current Design Proposals



Appendix 4, PL106 - Appendix 4, PL105 - Appendix 4, PL104 - Appendix 4, PL103 - Appendix 4, PL102 -  
Proposed External ViewProposed Roof PlanProposed Fourth FloorProposed Third FloorProposed Second Floor



Appendix 4, PL101 - Appendix 4, PL100 - Appendix 4, PL200 - Appendix 4, PL108 - Appendix 4, PL107 -  
Proposed First FloorProposed Ground FloorProposed ElevationsExisting Site LocationExisting Site Layout



## **Appendix 5**

### **Preliminary Development Appraisal**



Appendix 5, HCA  
Development Appra

## **Appendix 6**

### **GVA Demand Study**



Appendix 6, GVA  
Demand Study, FINA

## **Appendix 7**

### **Programme**



Appendix 7, Station  
Approach Pre-site C

## **Appendix 8**

### **Risk Register**



Appendix 8, Risk  
register 12.10.18.xls