

Update on Redevelopment of 24 Somerset Road, Birmingham

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Action Required	Decision
Draft Resolution	See end of report
Background	MC/14/81

1. This paper provides a short update on progress with the 24 Somerset Road development. There has been a setback in the planning process in that the Birmingham City Council planning officer and conservation officer have made unexpectedly radical suggestions which are outlined below. A summary of the revised cost estimate and VAT position is also included.

Planning developments

2. The plans for the development were based on plans for a residential development approved in 2008 with the development of the building within the existing footprint consistent with the style of the original building supplemented by a separate teaching block sympathetic in style with the existing building. The conservation officer had previously expressed the view that the new part of the building should demonstrate a second phase of development with a different style but not radically so. Our architect advised that the plans as submitted were most likely to be acceptable to the planners and the Calthorpe estate.
3. The planning officer and conservation officer had a joint meeting and proposed some radical suggestions. Their suggestions were:
 - The east extension which was used as a swimming pool and gym should be completely demolished and nothing built on this footprint apart from a small conservatory building.
 - The west rear extension should also be demolished and rebuilt with a change of axis of the rooms and two storeys high.
 - The west front extension should be built with the same footprint as the lower floor.
 - The lecture block should be longer and thinner and match in depth the new two storey extension.
4. This would involve much more new building work than was envisaged and likely additional cost. The time taken to agree revised plans is also likely to delay completion of the project beyond September 2016.
5. The project team met on 1 September and the Network Committee was updated regarding the proposals from that meeting on 3 September. The project team has also involved Andrew Brown who has extensive experience of the redevelopment of listed buildings and of renovation projects in the Methodist Church.
6. There have since been several further meetings with Birmingham City Council officers – the Conservation Officer and Planning Officers. During these meetings the Methodist Council and its advisers impressed on them the finite availability of funding available and the fact that as a charity we cannot pass on additional costs through increased rental values etc. We have continued to make the case that as a responsible long-term owner the Church offers the best chance of bringing this dilapidated property back into use in a way that is sympathetic to the neighbourhood.

Cost estimate

7. At its meeting in October 2014 the Council agreed a budget for the redevelopment of Somerset Road of £1.9m including VAT, the original ex VAT cost estimate being £1.59m. All costs to be met from the Fund for Training, within which the freehold of 24 Somerset Road is held as an asset. At this point it was stated that the requirement was for up to 30 study bedrooms, plus a large lecture theatre and some seminar rooms.
8. Since that time there have been a number of factors that have increased the overall cost of the project. In addition to inflationary increases in building costs, which are running well ahead of headline rates, the level of professional remedial treatment required to certain parts of the building has proven to be greater than originally thought. The level of Mechanical and Electrical (M&E) services required is higher than anticipated and the Conservation Officer has insisted on various re-instatement works that his predecessor had not required. In addition, the Council is incurring increased design and project management costs due to the negotiations with the City Council. Work is underway with the professional advisers to minimise these. In line with the Church's stated commitment to the environment, rainwater harvesting and ground heat pump systems have been specified, at a cost of £150k +VAT, which were not within the original budget. Each of these will generate some financial payback in the future, although it is too early for that to be calculated with any degree of accuracy.
9. As a result of these extensive negotiations, the architects and surveyors have worked to produce several options which were presented to the Strategy and Resources Committee (SRC) on 17 September 2015. Having evaluated these, the SRC now proposes that the Council chooses between the two options below and approves the appropriate budget. Both options include the provision of two small flats within the roof space in addition to the numbers of en-suite study bedrooms stated. In each case, several of the ground floor rooms will be fully fitted for people with disabilities. The appendix shows the existing ground floor plan, plus the two options that are for the Council to consider.

Option 1 assumes that the property redevelopment remains within the existing building envelope (which was the assumption when the property was purchased). The costs within this option are as follows:

Option 1: 33 study bedrooms £2.687m +VAT

Option 2 assumes that the lecture theatre is accommodated in a separate building, rather than within the existing envelope.

Option 2: 30 study bedrooms £3.137m +VAT

VAT

10. The VAT position may be less onerous than before as outlined below. However, the costs will change again if the plans are changed.
11. Advice has been obtained from Saffery Champness regarding the VAT treatment of the proposed development. The position is, inevitably, complex but the analysis provides a significant reduction in VAT on input costs from the basic rate of 20%. The main elements are:
 - The conversion work of the empty property, which was commercial, into student accommodation will qualify for a reduced rate of VAT of 5%.

- Work on common areas and works to the immediate site of the building will qualify for the reduced rate of VAT.
 - Work on disabled facilities will be zero rated for VAT purposes.
 - The lecture block could qualify for zero rating if it is used for a charitable purpose. This would apply if the block is let to the Queen's Foundation for no consideration. If the block is let for consideration the standard rate of VAT will apply.
12. As regards the lease of the buildings to the Queen's Foundation, the letting of the residential accommodation would be exempt from VAT and so all input tax would be a cost to the Church. However, if the lease is for more than 21 years, as envisaged, this could be a zero rated supply but may have business rate implications.
13. Clearly, in the absence of the reliefs referred to, VAT would be a major cost of the development and so reasonable efforts should be made to minimise this cost. More detailed advice will be obtained as the project progresses, but the necessary VAT exemption certification has been obtained from HMRC and supplied to the contractors.

SRC Recommendations

14. In evaluating the options presented, the SRC questioned the potential payback on the value of the property by proceeding with option 2. Its recommendation to the Council is therefore that it should adopt option 1 unless there is clear advice that the additional £0.45m +VAT incurred by Option 2 will be reflected in the potential long-term sales value of the property. It is intended that the Council will be furnished with this advice ahead of its meeting and the resolution moved accordingly.

*****RESOLUTIONS**

76/1A. The Committee recommends to the Council that the amount allocated from the Fund for Training for the redevelopment cost of 24 Somerset Road is increased from £1.9m inc VAT to £2.4687m +VAT.

76/1B. The Committee recommends to the Council that the amount allocated from the Fund for Training for the redevelopment cost of 24 Somerset Road is increased from £1.9m inc VAT to £3.137m +VAT.

24 SOMERSET ROAD

REFURBISHMENT OPTIONS

ON BEHALF OF THE METHODIST CHURCH

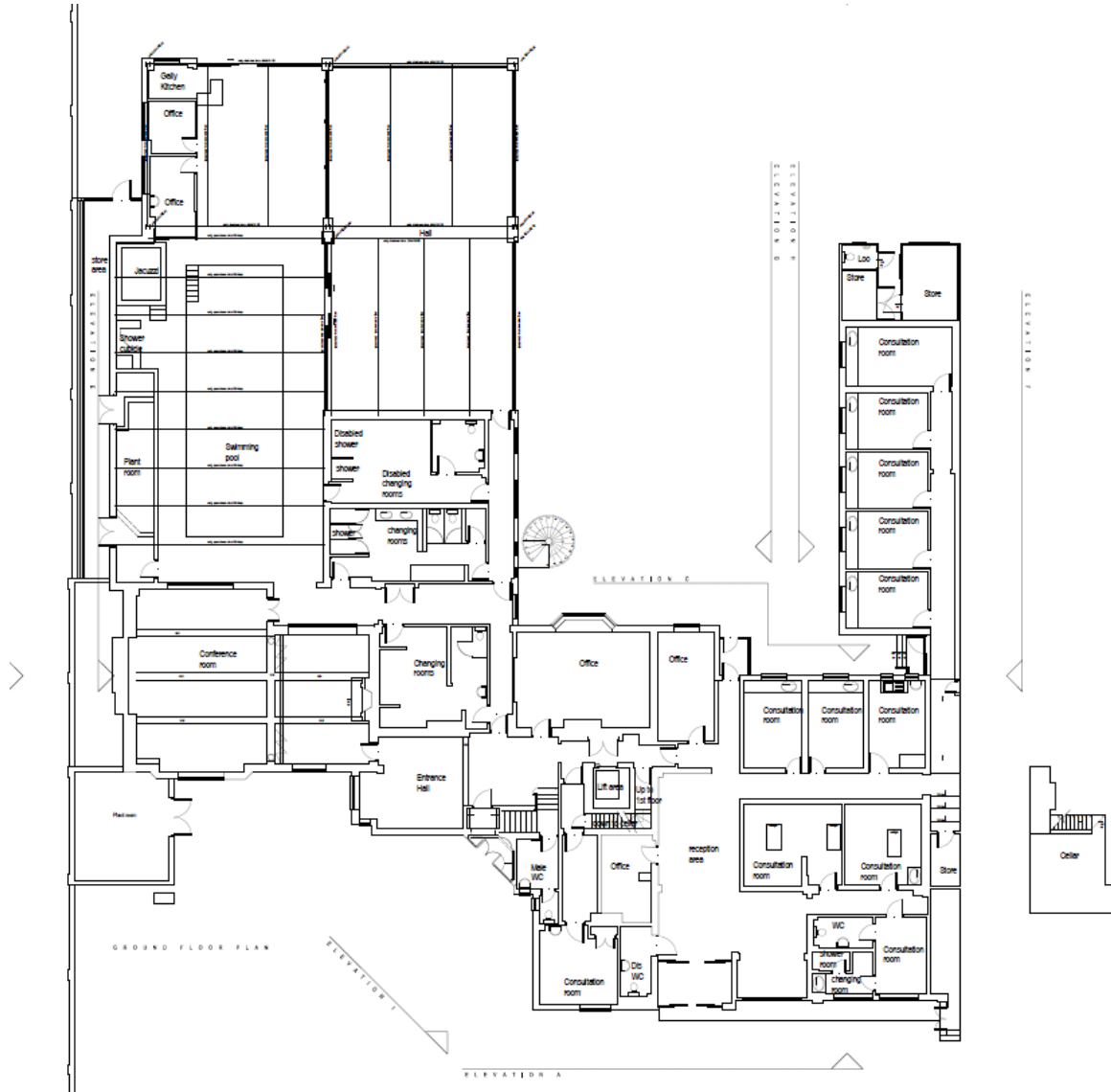


September 2015

The existing House:

Below are plans of the ground, first and second floors as the House currently is.

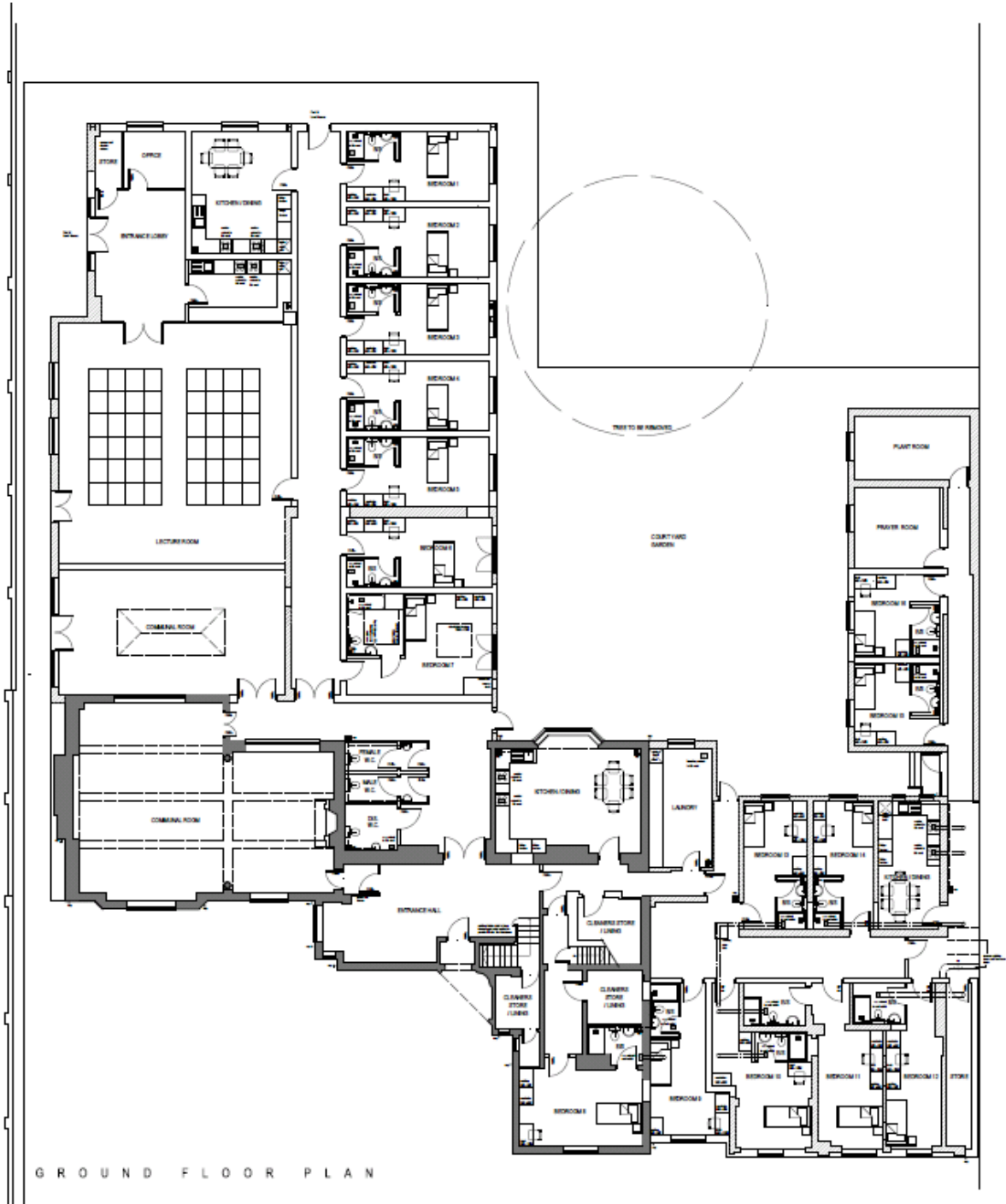
Ground Floor



OPTION 1

This option stays within the primary footprint of the existing building but extends the ground and first floor main building at the rear of the house to add accommodation (33 bedrooms and 2 flats in roof) and the lecture facilities are within the main house space.

Ground Floor:



Option 2

This Option involved the full scheme with a new lecture block separate from the main house and constructed in the rear garden and extended the main house to provide better accommodation (30 Bedrooms shown plus 2 flats in the roof) and facilities including two court yards to the rear:

Ground Floor:

