

# CABINET



Report subject	<b>Housing Scheme at Ibbertson Way, Bournemouth</b>
Meeting date	20 December 2019
Status	Public Report (Appendices 1-3 are Exempt)
Executive summary	<p>The BCP Council owned site contains 16 garages, all of which are void. The site is currently secured pending redevelopment.</p> <p>The current proposal presents a new build scheme of 3 houses and associated parking to be provided on the site. These homes will help towards Local Plan housing targets and will also contribute significantly to unmet housing need.</p>
Recommendations	<p><b>1. Approve the proposed £712k housing scheme for subsequent approval request:</b></p> <ul style="list-style-type: none"><li><b>a. Approval to planning and subsequent tender, commencement and completion of build subject to the conditions set out in the Financial Strategy and authorises the Corporate Director for Environment and Community to approve necessary appropriations and contractual and legal agreements in consultation with the Monitoring Officer and Chief Finance Officer.</b></li><li><b>b. Approve the financial strategy for the scheme as set out in paragraphs 45 to 49 with specific approval for:</b><ul style="list-style-type: none"><li><b>i) The appropriation of land from the General Fund to the Housing Revenue Account (HRA) to enable the development of the affordable housing valued at £35k.</b></li><li><b>ii) £358,668 of prudential borrowing to be repaid over 25 years used to finance the Housing Revenue Account (HRA) Affordable rented homes.</b></li></ul></li></ul>

	<p><b>c. Authorise the Section 151 Officer in consultation with the Portfolio Holder for Finance to determine the detailed funding arrangements.</b></p> <p><b>d. Authorise the Corporate Property Officer in consultation with the Monitoring Officer to agree the detailed contract provisions.</b></p>
Reason for recommendations	To enable the proposed housing scheme to progress with the agreed funding arrangements to construction and subsequent completion in order to deliver the wide range of benefits to the Council and local communities.
Portfolio Holder	Cllr Kieron Wilson (Portfolio Holder for Housing)
Corporate Director	Kate Ryan, Corporate Director of Environment and Community
Contributors	Lorraine Mealings, Director of Housing Jon Thornton, Housing Development Manager
Wards	Muscliff and Strouden Park
Classification	For Decision

## Background

### Housing Market Context

1. Levels of unmet housing demand in Bournemouth, Christchurch and Poole (BCP) are very high, with housing demand exceeding supply. Providing more housing is a key priority of the council.
2. The government has set out a new methodology for calculating Local Plan housing targets and as a result the BCP Council area will need to increase its housing delivery significantly to approximately 2,500 new homes to be built every year. This will need a step change from current delivery levels and is one of the key housing challenges locally, as well as nationally.
3. There is a need for additional homes across all tenures and in particular, the demand for 'affordable housing' at sub-market rates is very high. There are c4,300 households on the Housing Register for the Bournemouth area, c950 in Poole area and c400 in the Christchurch area waiting for 'affordable housing' in the form of either Council Housing or Housing Association properties.

### Council's direct delivery of new homes

4. BCP Council now has a well-established Housing Development Team who are well placed to help deliver the future pipeline of in-house residential new-build developments.

5. Ibbertson Way is a potential development scheme for affordable housing within the conurbation that could be developed by the Council for affordable rent, for those in housing need.
6. This new build scheme follows many which have been successfully delivered over previous years and there is a pipeline of additional sites in the pipeline going forwards to help address our housing needs locally.

### **Site background information**

7. The site is owned by BCP Council within the HRA and consists of 16 garages. A proportion of the site is owned by the General Fund. The garage site is currently secured pending redevelopment.
8. Full Planning permission is expected to be granted in November 2019.

### **Proposed scheme**

9. The proposed development will provide 2 x 2-bedroom houses and 1 x 3-bedroom house. Subject to consents the proposed commencement date is January 2020 with the scheme ideally due to be completed in September 2020.
10. It is recommended that the site is developed directly by the Council to provide a residential scheme comprising of the following:

- Affordable Rent (3 homes)

Plans for the proposed scheme are included in Appendix 5.

11. This tenure mix has been developed after consideration of numerous factors including the need for financial viability and return, housing demands, site specifics and the need to ensure a sustainable community. The Council Housing team and the Strategic Housing Options team have been closely involved in the development of this scheme to help ensure that it adequately meets housing needs and is designed in such a way to be sustainable and to enable good quality housing management.
12. As noted earlier, the need for affordable rented housing below market rates is high.
13. The scheme would provide 6 parking spaces in line with the existing parking policy.

### **Environmental build standards**

14. The scheme will be fully Building Regulation compliant whereby energy usage and insulation standards are higher than the historical Code for Sustainable Homes Level 3. Properties that reduce energy usage through build design or upgraded features such as window and doors are looked on favourably. The new homes will include PV panels on the roof which absorb sunlight as a source of energy to generate electricity. Triple glazing will be installed which will improve thermal comfort levels, acoustic performance and noise reduction and reduce the

risk of condensation. We are currently considering build standards and increased sustainability standards for our future programme to involve delivering highly innovative sustainable schemes on some of our future new build sites. This will help role-model the emerging priorities of BCP Council, such as those homes delivered to Passiv Haus Standard at Tedder Road, Bournemouth in 2018.

### **Summary of key benefits**

15. The following summarises the key benefits of the proposed scheme:

- Maximise the Council's land assets to bring about financial gains, as well as delivering the Council's housing aspirations.
- Provide much needed additional homes to meet unmet housing demands and housing needs within the BCP area.
- Provision of 3 homes to help address the challenging Local Plan housing targets and help meet local housing demands.
- Provide 3 new affordable homes for affordable rent to meet housing need.
- Utilisation of £203k Right to Buy receipts to help fund the scheme. If these are not spent within 3 years of receipt, they cannot be used locally and need to be returned to central government.
- Use of £75k section 106 monies and £75k (Bournemouth Neighbourhood Housing Revenue Account (BNHRA) Reserves to help fund much needed affordable housing provision on the site.
- The scheme will bring improvements to the area with the provision of good quality and well managed homes. It will deliver high levels of sustainability in terms of design and will generate employment during the construction phase to help grow the local economy.

### **Development Feasibility Work already undertaken**

16. During 2018, consultants and surveys have been appointed to develop a scheme design to planning submission stage. The financial commitment to date (including design, surveys and planning) is £20,242 and the financial spend to date (including design, surveys and planning) is £13,756.

17. Full planning permission is expected to be granted in November 2019.

### **Financial overview**

18. The total scheme cost totals over £500k so requires Cabinet approval.

19. Appendix One, sets out the proposed financial profile of the scheme for the Housing Revenue Account (HRA).

20. The total scheme costs are estimated to be £712k profiled over a 21-month period as the construction phase moves ahead.

21. Around half of this total scheme cost will be funded through capital receipts and s106 contributions; whilst £359k of Prudential borrowing is required within the HRA.

22. Appendix Two shows the long-term cashflow for the scheme. Appendix Three sets out the financial appraisal assumptions.

### **Financial Strategy**

23. The tenure mix of the properties provides a balance in terms of financial returns required by the Council.

24. The financial strategy for our Council Housing new build programme is being reviewed to establish the viable tenure profile that can be delivered in the future programme. This work will help determine the financial capability of delivering future homes at the lower 'social rent' levels and the scale that could be delivered within financial parameters whilst balancing this against the need to maximise the number of homes delivered.

25. Estimated long term cash flows presented in Appendix Two indicates the positive contribution in terms of cashflow to the HRA in year 3 after completion, once constructed and fully occupied. The initial deficit, due to interest costs incurred on the borrowing during the construction phase is £15,262 and will be funded from a negative HRA reserve which will be replenished from the scheme once the positive contributions commence. A cumulative positive position for the whole scheme will be achieved in year 3 and this will be one of the key financial benefits assumed from this project.

### **Land appropriation**

26. A proportion of the land on which the affordable homes will be developed needs to be appropriated (transferred) to the HRA from the General Fund because of the legislation around where affordable housing needs to be accounted for within the Council. The land to be Appropriated is shaded dark blue on drawing ASP.18.113.004F in Appendix 5. The BNHRA has agreed to pay £35,000 to appropriate the land from the General Fund. This figure has been assessed by an internal RICS Registered Valuer as the policy compliant market value of the site, based on provision of a 100% Affordable Rented scheme.

27. The land value for the appropriation of the HRA element of the site is set at market value and works by reducing the historical General Fund debt position and increasing the historical HRA debt position. This reduction enables the General Fund to then take on an additional £35k of debt without changing its base budgeted position.

The table below shows the effect of the land transfer on both the BNHRA and General Fund:

	<b>BCP HRA</b> £	<b>General Fund</b> £
<b>Capital Implications</b>		
Capital Financing Requirement before transfer (est as at 1 April 2019)	139,687,000	271,140,000
Market Value of Land funded transferred	35,000	(35,000)
<b>Adjusted Capital Financing Requirement after transfer</b>	<b>139,722,000</b>	<b>271,105,000</b>
<b>Revenue Implications</b>		
Minimum Revenue Provision (HRA nil)	0	(1,400)
Interest on borrowing (Item 8)	350	(350)
<b>Net revenue impact</b>	<b>350</b>	<b>(1,750)</b>

28. The indicative funding for the HRA scheme of £712k is already allocated in the Housing Development programme which was approved by the BCP Shadow Authority in February 2019.

### **Grants and 3<sup>rd</sup> party funding**

29. A total of £75k section 106 monies and £75k BNHRA Reserves will be used to part fund the 3 affordable rented homes. Due diligence will be undertaken to establish that this sum has actually been received and is available to be used in support of this scheme.

### **Capital funding**

30. Due diligence will be undertaken around the Right to Buy funding stream to ensure that this is achievable. £202,845 of Right to Buy funds will be used to part fund the 3 affordable rented homes.

31. If any future residents in the proposed properties exercise the Right to Buy or Right to Acquire during the 25 year loan period, any receipts generated should be retained to repay the loan to offset any loss created by the reduced rental income.

### **Taxation**

32. A tax evaluation has not been undertaken as this is a newbuild housing scheme and will be zero rated.

33. Stamp Duty Land Tax (SDLT) has also been considered but discounted as a land transfer between the General Fund and HRA will not constitute a chargeable consideration for SDLT purposes.

### **State Aid**

34. State Aid has been considered and assessed as a low risk, as we are not passing on funding to a third party.

### **Prudential Borrowing**

35. The Council is able to borrow under the Prudential Code as long as it is affordable and can be repaid over the life of the asset. The proposed scheme is predicated on £358,668 of prudential borrowing.

36. Appendix Two demonstrates a positive contribution to the HRA. This is after provision has been made for both capital and interest repayments as well as management, maintenance and major repair costs, and an adjustment to the rental income to cover void costs. Any potential capital growth has been ignored for the purposes of this modelling. The financial modelling assumes the use of flexible short-term funding (at an interest rate of 3.5%) during the construction period before entering into a long-term arrangement (at an interest rate of 3.5%). The 3.5% interest rate has been used as a matter of prudence for the financial modelling. Ultimately the decision to actually borrow will be a treasury management decision based on the overall financial position of the Council.

37. Furthermore, any funding will only be drawn down when required and not in advance of need.

### **Value for Money**

38. The total construction costs are estimated at £607k (and total scheme costs at £712k) which is lower than the Gross Development Value (GDV) which is estimated at £765k; the total estimated value of the completed homes.

39. The financial appraisals set out in Appendix One, Two and Three show that the scheme is viable in the short, medium and long term for the Council. The construction costs are based on a build rate of £2,083m<sup>2</sup> which has been provided by the Construction Works Team and Frazer Garner Associates Ltd have confirmed it represents value for money. The total construction costs include a 10% contingency budget.

### **Consultation**

40. Pre-application advice was sought through the Local Planning Authority.

41. The Housing Development Team undertook consultation with housing teams and input was sought from the Housing Landlord, Enabling and Strategic Housing Options teams.
42. Consultation with the Housing Portfolio Holder who is also a Ward Councillor was undertaken and Ward Councillors have been updated with scheme progress.
43. The scheme was discussed at Townsend Together Team meetings which is a local community group.
44. The garage tenants were notified prior to planning submission and the garage tenancies were terminated. The garages are now vacant, awaiting demolition.

### **Alternative Options**

45. The following options have been considered and discounted:

#### ***Option 1: Market disposal of site***

46. One option would be to dispose of the site for development. The expected financial benefit would be approximately £255k. This option would not deliver the wider corporate aims around housing need and homelessness.
47. The disposal of this site could take 12 months to complete.
48. A decision to dispose of the land will incur abortive costs for the Council although some of the costs would be partially recouped through the sale price. Costs incurred and committed so far total approximately £20k including professional costs and site surveys which has been funded through the HRA Housing development budget.

#### ***Option 2: Alternative tenure provision (to Social Rent)***

49. If the 3 affordable rented homes were delivered on social rent levels, this would add significant financial challenges to the delivery of the site. With 3 social rented homes, the scheme would require an additional £120k subsidy in total (which equates to an additional £40k per home) which would need to be funded from s106 receipts (or other public subsidy such as reserves). To help mitigate the impact of affordable rent levels on tenants' ability to pay, rents will be capped at Local Housing Allowance rates rather than the higher 80% of average private market rent levels. There is likely to be scope for developing viable schemes on the social rent model for other sites within the new build programme.

### **Summary of financial implications**

50. Provided within the body of the report.

### **Summary of legal implications**

51. The Housing Act 1985, Part II, provides the power for the Council to acquire and appropriate land for the purpose of providing affordable housing, and powers to build and provide affordable housing accounted for within the Housing Revenue Account (HRA).
52. The Council also has the General Power of Competence pursuant to the Localism Act 2011, and the power to borrow within the for the purposes set out within this Report.
53. The Council will need to comply with all relevant procurement requirements in undertaking the proposals contained within this Report and the Council will undertake the work in accordance with ongoing legal advice.

### **Summary of human resources implications**

54. The existing Housing Development Team will oversee the delivery of this scheme alongside the other new build schemes in the pipeline. The construction works will be carried out by the Construction Works Team and other professionals have also been procured e.g. employers agent and architect to bring this scheme forward.

### **Summary of environmental impact**

55. The development of new homes on the site will improve natural surveillance of the area, contributing to a safer environment. The site is within a sustainable location and the high-quality building on this site will help make a positive contribution to the quality of the environment.
56. A copy of the Environment Impact Assessment is included in Appendix Six.

### **Summary of public health implications**

57. The housing scheme will create a sustainable good quality housing development and bring many benefits to the residents and the wider community. The proposed scheme considers surrounding issues such as trees and provides private amenity space to each home to help create an attractive area which improves the local community.

### **Summary of equality implications**

58. The housing scheme will provide accommodation for those who are on the Housing Register and in housing need. As such, many households will have protected characteristics and have vulnerabilities. The existing Allocation Policy for the Bournemouth area will help manage allocations to the scheme for those most in need.

59. A copy of the EINA is included in Appendix Four.

### Summary of risk assessment

60. The following key risks have been identified alongside mitigating actions:

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
Rising construction costs render the project unaffordable	Low	Good project management will enable the close monitoring of progress and any issues that may arise to be dealt with promptly. The build cost budget is an inclusive Design and Build cost provided by the Construction Works Team and a 10% contingency for the build is included.
Scheme not gaining a satisfactory planning consent	Low	Full planning permission is expected to be granted in November 2019.
Fall in housing need for accommodation tenure provided caused by changes to the housing market or economy	Low	Monitor through construction period requirement for each tenure with the Strategic Housing Options team. If required, the Housing Development Team can appraise and suggest changes to tenure to suit need and financial viability as required.
Insufficient funding available, such as failure to secure funding from s106 Contributions or RTB receipts	Low	Monitor and review spend of such funding on other schemes within the development programme. Should insufficient funding be available, schemes will be prioritised and potentially some schemes put on hold until sufficient funding is available. Alternative tenure such as Shared Ownership may attract different funding, such as grant from Homes England, which could be used to ensure the scheme is brought forward.
Increased fire risk during construction phase	Low	Design and construction will be closely monitored by the Housing Development Team, Employers Agent and the Construction Works Team.

61. Property development activity involves inherent risks but a cautious approach has been adopted here to minimise these risks as much as possible. Financial

contingencies have been included and significant consultation has been undertaken to date to help ensure a sustainable scheme.

### **Background papers**

62. Refreshed Bournemouth Housing Strategy 2017 - 2020 -

<https://www.bournemouth.gov.uk/Housing/help-with-housing/Documents/bournemouth-refreshed-housing-strategy-2017-2020.pdf>

63. Housing Strategy Refresh 2018-2020 Borough of Poole

<https://www.poole.gov.uk/council-and-democracy/strategies-plans-and-policies/housing-strategy-refresh-2018-2020/>

### Appendices

**[PLEASE NOTE – Appendices 1, 2 and 3 contain exempt information and should Cabinet wish to discuss these appendices Cabinet will need to go into exempt session]**

Appendix One: Income and Expenditure Summary General Fund and HRA

Appendix Two: Financial Appraisal Long-term Cash flow

Appendix Three: Summary of Funding Assumptions

Appendix Four: Equality Impact Needs Assessment (EINA)

Appendix Five: Development proposal plans

- Block and Location Plan ASP.18.113.001 Rev A
- Proposed site plan ASP.18.113.02 Rev J
- Existing site survey ASP.18.113.003 Rev B
- Proposed site plan – Highways Land ASP.18.113.004 Rev F
- Proposed plans ASP.18.113.100 Rev C
- Proposed elevations ASP.18.113.200 Rev E
- Existing and proposed sections ASP.18.113.300 Rev A

Appendix Six: Health and Safety Assessment Tool (HASAT)

Appendix Seven: Environmental Impact Assessment

Appendix Eight: Project Plan