

Report subject	Housing scheme at Cabbage Patch St Stephens Rd Bournemouth
Meeting date	29 July 2020
Status	Public Report
Executive summary	<p>The BCP owned site is currently a staff car park with 27 spaces.</p> <p>The current proposal presents a new build scheme of 11 apartments and associated parking to be provided on the site. These homes will help towards imminent new Local Plan housing targets and will also contribute significantly to unmet housing need by delivering Council homes at social rents.</p>
Recommendations	<p>It is RECOMMENDED that:</p> <ol style="list-style-type: none"> 1. Cabinet Approve the proposed £2.369m housing scheme for progression to Council for subsequent approval request: <ol style="list-style-type: none"> a. Approval to 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. Approve the financial strategy for the scheme as set out in paragraphs 29 to 52 with specific approval for: <ol style="list-style-type: none"> i) The appropriation of land from the General Fund to the Housing Revenue Account (HRA) to enable the development of the Council housing valued at £350k. ii) £815k of prudential borrowing to be repaid over 50 years used to finance the Housing Revenue Account (HRA) social rented homes.

	<p>iii) The capping of rental income to Social Rent levels.</p> <p>c. Authorise the Section 151 Officer in consultation with the Portfolio Holder for Finance to determine the detailed funding arrangements.</p> <p>d. Authorise the Corporate Property Officer in consultation with the Monitoring Officer to agree the detailed contract provisions and to approve entry into the final form agreements.</p>
Reason for recommendations	To enable the proposed housing scheme to progress with the agreed funding arrangements through to construction and subsequent completion in order to deliver the wide range of benefits to the Council and local communities.

Portfolio Holder(s):	Cllr Kieron Wilson, Portfolio Holder for Housing
Corporate Director	Kate Ryan, Corporate Director of Environment and Community
Report Authors	Lorraine Mealings, Director of Housing Jon Thornton, Housing Development Manager
Wards	Bournemouth Central
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 2,600 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 Council housing at sub-market rates is very high. There are c6,000 households on the Housing Register for the Bournemouth, Poole and Christchurch area waiting for 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. Cabbage Patch is a potential development scheme for Council housing within the conurbation that could be developed directly by the Council for Social rent, for those in housing need.

Site background information

6. The site is owned by BCP within the General Fund and currently contains a 27-space staff car park.
7. The site has been determined as surplus to requirements as a staff car park and agreed for residential use through the Corporate Property Group

Proposed scheme

8. The proposed development will provide a total of 11 apartments. Subject to consents the proposed commencement date is November 2020 with the scheme ideally due to be completed in February 2022.
9. It is recommended that the site is developed directly by the Council to provide a residential scheme comprising the following: -
 - Social Rent (11 homes) 7x1-bed and 4x2-bed apartments

Plans for the proposed scheme are included in Appendix 5.

10. 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 Housing Options and Partnerships 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.
11. As noted earlier, the need for Council housing, including social rented housing, is high across BCP.
12. The scheme is designed in one block, principally within the central site area, to have minimal effect on the existing trees. The proposed block has access and stair core to the St Stephens Road elevation. The building will provide self-contained homes with a mix of one bed and two bed apartments.
13. The scheme will provide 9 parking spaces in line with the existing parking policy.
14. The scheme gained full planning permission on 10th October 2019.

Environmental build standards

15. The development will provide a highly energy efficient scheme which will help address the Climate and Ecological Emergency.

16. We intend to build the scheme to Passiv Haus standard, if site constraints do not allow full accreditation, Passiv Principles will be followed. The scheme aims to have Photovoltaic panels on the roof to provide power to the hot water system and communal lighting. The building will be fully Building Regulation compliant whereby energy usage and insulation standards are higher than the historical Code for Sustainable Homes Level 3. The scheme was originally designed with individual gas boilers. We are now investigating alternative non-gas heating systems that are appropriate for this block.

Summary of key benefits

17. 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 11 self-contained homes to help address the challenging Local Plan housing targets and help meet local housing demands.
- Provide 11 new Council homes at social rent levels to meet housing need which comprises 100% of the total homes on the proposed site and is significantly higher than the 40% required within the Affordable Housing Planning Policy.
- Utilisation of £604k 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 £350k Section 106 monies to help fund much needed Council 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 help address fuel poverty for tenants.
- It will generate employment during the construction phase to help grow the local economy.

Development Feasibility Work already undertaken

18. Surveys undertaken to date include:

- a. Arboricultural
- b. Topographical
- c. Acoustic
- d. Services locations
- e. Legal Report on Title
- f. Valuations
- g. Heating and hot water assessment

19. Design development has been completed as Full Planning Permission has been gained.

Consultation

20. Public consultation was conducted by letter, sent to residents in the adjacent homes around the site in March 2019. No comments were received.

21. Ward Councillor consultation was also carried out in March 2019. One comment was received, noting that the scheme should not be for rented accommodation, but for Shared Ownership. Feedback from the Housing Options and Partnerships team was that we should provide for the greatest need, which was and remain for rented

accommodation. This scheme is to provide rented homes to people on the housing waiting list, let at Social rent levels. Ward Councillors were updated with scheme progress in March 2020.

22. Internal consultation within BCP Council teams has continued through the design development stage, with further consultation required prior to Cabinet and Council. This has included colleagues from Estates, Planning, Highways and Finance. Further detailed consultation will include Finance and Legal.
23. On the 18th June 2019, the scheme was discussed by the area's Design Review Panel, which is a team of independent development professionals who provide design advice for new schemes. The Panel is set up by (and shadowed by) BCP planning urban design team. The panel gave the scheme an 'Amber rating – requires revision'. Since the review, design changes have been made, that include:
 - a. Enhancement to footpath and open space
 - b. Increased balcony sizes
 - c. Acoustic survey undertaken, and glazing specification enhanced to allow for noise from the Wessex Way
24. During the planning application process, no public comments were received.

Financial overview

25. Appendix One, sets out the proposed financial profile of the scheme for the Housing Revenue Account (HRA).
26. The total scheme costs are estimated to be £2.369m profiled over the next 2-year period as the construction phase moves ahead.
27. Around 65% of this total scheme cost will be funded through capital receipts, HRA reserves and s106 contributions; whilst £815k of Prudential borrowing is required within the HRA.
28. Appendix Two shows the long-term cashflow for the scheme. Appendix Three sets out the financial appraisal assumptions.

Financial Strategy

29. The tenure mix of the properties (and associated rental stream) provides a balance in terms of financial returns required by the Council and ensuring low rents. This has been considered in the context of the whole HRA development pipeline identified to date.
30. Estimated long term cash flows presented in Appendix Two indicates the positive contribution in terms of cashflow to the HRA from the first year after completion (Year 1), once constructed and fully occupied. The forecast demonstrates that Prudential Borrowing will be repaid over 50 years, producing annual net surpluses in each year, apart from in years 10-17, where (as a result of annual major repairs provision) small deficits arise. The **cumulative** cashflow remains in surplus from years 1 to 50).

31. Funding identified for the scheme consists of the following:

	£000
HRA Capital Reserves	600
S106 Housing Contributions	350
Right to Buy Receipts	604
Prudential Borrowing	815
Total Funding	2,369

Grants and 3rd party funding

32. A total of £350k Section 106 monies will be used to part fund the 11 social rented homes. Due diligence has been undertaken to establish that this sum has been received and is available to be used in support of this scheme.

33. Contact with Homes England has not been made regarding bidding for Grant for this scheme. The Right to Buy receipts (RTBr) of £604k and s106 contributions of £350k for this scheme total £954k (equivalent to £87k/home). It is unlikely that Homes England would provide grant levels at or above this level.

Capital funding

34. Due diligence has been undertaken around the Right to Buy funding stream to ensure that this is achievable. £604k of Right to Buy funds will be used to part fund the 11 social rented homes scheme.

35. £600k of HRA capital reserves are available to allocate to the scheme, as shown within the overall housing development programme.

Land appropriation

36. The land on which the 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 RICS Valuer from Estates has valued the parcel of land containing the affordable homes at £350k which is proposed to form the appropriation value paid from the HRA to the General Fund.

37. The land value for the appropriation of the HRA element of the site is set at market value, £350k 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 £350k of debt without changing its base budgeted position. Summary of financial implications across both the General Fund and HRA is provided in table below:

	HRA	General Fund
Capital Implications		
Capital Financing Requirement before transfer (as at 1 April 2019)	139,687,000	271,140,000
Market Value of Land funded transferred	350,000	(350,000)
Adjusted Capital Financing Requirement after transfer	140,037,000	270,790,000
Revenue Implications		
Minimum Revenue Provision (HRA nil)	0	(14,000)
Interest on borrowing (Item 8)	3,500	(3,500)
Net revenue impact	3,500	(17,500)

38. The funding for this HRA scheme of £2.369m is already named within the Bournemouth Neighbourhood 2020/21-2021/22 HRA Major Project Capital Programme as part of the recognised Housing Development programme which was approved by the BCP Cabinet (agenda Item 8, Appendix F) and Council in February 2020, subject to 'further approval required'. There is sufficient budget to cover the £114k (difference between the £2.255m noted in the budget and the £2.369m noted within this report) within the same programme from 'New build and Acquisition TBC'. The increase is to allow for a higher build standard (Passiv Haus or Passiv Haus principles).

Taxation

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

40. 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.

41. VAT – Both the HRA and General Fund are part of the Council, the land transfer between the two 'funds' is treated as a non-business transaction. Any VAT incurred on construction cost will be fully reclaimable as the spend will relate to the statutory function of the Council.

State Aid

42. State Aid is not applicable as no State resource is given to the Council.

Prudential Borrowing

43. The Council can 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 £815k of prudential borrowing repaid over 50 years at an annual cost (including interest) of £35k.

44. Appendix Two demonstrates a positive contribution to the HRA up to and including year 9. Years 10 to year 17 show a small deficit as a result of the inclusion of additional annual budget for major repairs. The forecast cashflow resumes net positive cash inflows from year 18 onwards. The loan is repaid at year 50. 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 is the current 'low risk' investment rate within the Council's Invest to Save Framework and includes risk premium allowance. The Council's actual cost of external borrowing will be lower, and could benefit further from access to the Government's new lending rates for social housing (estimated to be 100 basis points below published PWLB rates).

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

Value for Money

46. 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. Although the Total scheme

cost of £2.369m is greater than the Gross Development Value (Market value of the completed properties) of £1.915m, the scheme provides a surplus in the long term cumulative cashflow from year 1 to year 50 when the loan is repaid. Beyond year 50 the surplus will be in excess of £75k per annum to the HRA.

47. Whilst the cost is an average of c£215k/home compared to a value of £174k/home, the value of the proposed homes does not take into consideration that these are new homes and built to Passiv Haus Standards, so will have a much lower cost to run. There is no intention to sell these homes, so no loss will be realised by the Council. Right to Buy could apply, but there is adequate protection for the Council due to the 'cost floor' within the legislation.
48. Without this scheme proceeding, the Right to Buy funding of £604k would likely be returned to central government. The greatest value to this scheme is the provision of Affordable homes which would not otherwise be provided in the marketplace and outweighs a perceived short-term loss.
49. The construction costs are based on a relatively high build value of £2490m² which has been provided by David Richards Practice Ltd (our Employers Agent). The total construction costs include a 5% contingency budget. At this level, the scheme remains viable in terms of costs and an additional 5% contingency budget has been included in the financial appraisal. Conditions have been set to revisit the scheme through Cabinet/Council should costs further exceed this as set out below.

Approval Conditions

50. Should the build cost increase across the scheme, the RTBr can be increased accordingly, and to pay the balance, the Prudential Borrowing would need to be increased to maintain a near steady state for the long-term cash flow.
51. Should costs reduce, typically the funding will reduce proportionately.
52. It is therefore suggested that approval is sought here subject to some conditions as follows whereby deviation from these will require further Cabinet or Council approval: -
 - a) **Changes to approved budget** - Any changes to the scheme budget resulting in a reduction to costs or additional costs greater than £1m will require the scheme to be reapproved by *Council*.
 - b) **Changes to approved budget** - Any changes to the scheme budget resulting in a reduction to costs or additional costs of greater than £500k will require the scheme to be reapproved by *Cabinet*.
 - c) Any changes to the scheme causing the positive cumulative cashflow to be achieved later than currently modelled (Year 1) shall require approval by Council.
 - d) **Changes to funding strategy** - Any changes to the current approved funding strategy that result in a greater utilisation of combined BCP resource (e.g. earmarked capital reserves, capital receipts, prudential borrowing) than as outlined in this paper will be reported to Cabinet or Council, depending on value of change.

Options Appraisal

53. The following options have been considered but discounted: -

Option 1 : Market disposal of site

54. One option would be to dispose of the site for development. The valuation made by BCP Estates colleagues for the site is £350k and would be a potential capital receipt to the Council's General Fund. If planning permission was gained on this site prior to disposal then the value could be higher. This option however would not deliver the wider

corporate aims around housing need and homelessness, as well as long term surpluses into the HRA.

55. Whilst the site would need to comply with the affordable housing planning policy requiring up to 40% affordable housing subject to viability, there would be no certainty about the scale of affordable housing that would subsequently be agreed and subsequently delivered by the developer.
56. The disposal of this site would take 12-18 months for tender and sale to be completed.
57. Having already worked the scheme up prior to seeking planning, 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 £23k including professional costs and site surveys. This has been funded through the HRA Housing development budget.

Option 2: Alternative tenure provision (to Affordable Rent)

58. If the 11 Social rented homes were alternatively delivered based on higher Affordable rent levels, this would reduce the amount of HRA Reserves used in the current scheme, from £600k down to £500k; a reduction of £100k. The Affordable rent levels are pegged at Local Housing Allowance levels to ensure they remain affordable for those who may be benefit reliant.
59. A mix of affordable rented and social rented homes is not recommended within the same scheme because there would be no logical basis for distinguishing homes as one or the other and would create an inequitable charging policy between neighbouring tenants.
60. As part of the wider housing development programme, we are currently working towards a mixed approach, providing up to 50% new homes (which have yet to have scheme approval) to be let at Social rent and 50% Affordable rent. . This mix of social rented and affordable rented enables a balance between delivering homes at low rents whilst still being able to finance a good number of additional much needed homes.

Option 3: Alternative tenure provision (to Private Rent)

61. If the 11 Social rented homes were alternatively delivered based on higher Private rent levels, the long-term cashflow does not move to surplus until after year 25 when the loan is repaid. The peak deficit is in year 19 (at £490k deficit in the cumulative cashflow). The market rent levels alongside assuming 40% affordable provision onsite are such that they do not make the overall scheme viable unless alternative capital is used, such as £857k of funds to allow for a positive cumulative long-term cash flow. This option has been discounted.

Summary of financial implications

62. Provided within the body of the report.

Summary of legal implications

63. Section 9 of the Housing Act 1985 gives the Council as local housing authority the power to provide housing accommodation by erecting houses on land acquired for housing purposes. The land is held for parking purposes and is surplus to those purposes. As a

result there is an opportunity to appropriate for alternative purposes, and consideration has been given to the power under which this might be done.

64. Section 19 of the Housing Act 1985 provides that “[a] local housing authority may appropriate for the purposes of this Part [housing purposes] any land for the time being vested in them or at their disposal; and the authority have the same powers in relation to land so appropriated as they have in relation to land acquired by them for the purposes of this Part.”
65. Accordingly, the Council may exercise its statutory power to build the housing scheme once the site has been appropriated for housing purposes under section 19 of the 1985 Act.
66. Following the appropriation, the Council must make the requisite adjustments to the General Fund and the Housing Revenue Account as detailed above (section 24, Town and Country Planning Act 1959; section 74(1)(b), Local Government and Housing Act 1989).
67. The Council will need to comply with all relevant procurement requirements in undertaking the proposals contained within this Report and the Council will seek further procurement and legal advice in that respect.

Summary of human resources implications

68. 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 tendered and other professionals have also been procured e.g. architects to bring this scheme forward.

Summary of environmental impact

69. Whilst the site is increased in housing density, it is providing much more energy efficient dwellings, with greater thermal insulation and more efficient heating systems.
70. As set out in the report, the scheme will have a ground source heat pump, photovoltaics panels and be built to Passiv haus or Passiv Haus principles.

71. A copy of the Environment Impact Assessment is included in Appendix Six.

Summary of public health implications

72. 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 gives careful consideration to the wider issues such as trees/amenity space to help create an attractive area which improves the wellbeing of the community.

Summary of equality implications

73. 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.

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

Summary of risk assessment

75. 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. Build cost budget set at £2,490m2 is an inclusive Design & Build cost provided by our Employers Agent and includes 5% contingency for the build and a further £97k contingency is included in our financial appraisals.
Scheme not gaining a satisfactory planning consent	Low	Housing Development Team have completed pre-application discussions with the Planning Team and shared the designs with the Design Review Panel; we have amended the designs in line with most of the comments.
Fall in housing need for accommodation tenure provided caused by changes to the housing market or economy	Low	Monitor through construction period requirement for tenure with the Strategic Housing Options team. Should a particular need reduce 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 would 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	Timber frame will not be permitted. External cladding of the building is to be majority brick. Design and construction will be closely monitored by Housing Development Team, Employers Agent and the Surveying Team.

76. 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

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

b) 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

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

- 8963/100F Site Block Location Plan
- 8963/101G Proposed floor plans
- 8963/102G Proposed Elevations
- 8963/103F Proposed bin store plans, proposed street scene and visual
- 8963/104F Proposed SUDs Plan
- 8963/105B Detail design elements

Appendix Six : Health and Safety Assessment Tool (HASAT)

Appendix Seven : Environmental Impact Assessment

Appendix Eight : Project Plan