

# Cabinet



Report subject	<b>Housing Scheme at Wilkinson Drive, Bournemouth</b>
Meeting date	16/12/20
Status	Public
Executive summary	<p>The BCP Council owned site comprises open space and a disused playpark which was identified as surplus to requirements in the Bournemouth Neighbourhood play and open space review of 2009.</p> <p>The current proposal presents a new build scheme of 4 x 3-bed houses and 9 x 2- bed flats with associated parking and landscaping. These homes will help towards Local Plan housing targets and will also contribute significantly to unmet housing need.</p> <p>All of the homes are to be for social rent and will be designed to high energy efficiency standards with ground source heat pumps and triple glazing.</p>
<b>Recommendations</b>	<p>Cabinet recommends that Council approves the proposed £2.771m housing development, including specifically:</p> <ol style="list-style-type: none"><li>Approval to commence 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 contractual and legal agreements in consultation with the Monitoring Officer and Chief Finance Officer.</li><li>Approve the proposed funding model for the scheme, with specific approval for the use of £1.2m new prudential borrowing to be repaid from the Housing Revenue Account (HRA) over 50 years.</li><li>Approves the designation of the development as 'social rented' housing and acknowledges the financial impact of this decision as summarised in paragraphs 24, 25 &amp; 48.</li><li>Authorise the Section 151 Officer in consultation with the Portfolio Holder for Finance to determine the detailed funding arrangements.</li></ol>

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 Bob Lawton, Portfolio Holder for Homes
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 may 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. Wilkinson Drive is a potential development scheme for affordable housing within the conurbation that could be developed by the Council for social rent, for those in housing need.

6. This new build scheme follows many which have successfully delivered over previous years and there is a pipeline of additional sites going forwards to help address our housing needs locally.

### **Site background information**

7. The BCP Council owned site comprises open space and a disused playpark which was identified as surplus to requirements in the Bournemouth Neighbourhood Play and Open Space Review of 2009, the local plan and the SHLAA.
8. A planning application for the housing development scheme was submitted and validated on 24<sup>th</sup> June 2020.

### **Proposed scheme**

9. The current proposal presents a new build scheme of 4 houses and 9 flats with associated parking and landscaping. Subject to consents the proposed commencement date is February 2021 with the scheme ideally due to be completed in February 2022.
10. It is recommended that the site is developed directly by the Council to provide a residential scheme comprising of the following:

- Social Rent (13 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 and socially rented housing below market rates is high.
13. The scheme would provide 12 unallocated parking spaces in line with the existing parking policy as well as secure storage for 10 cycles (for the flats, the houses will have sheds to meet Secured by Design standards).

### **Environmental build standards**

14. 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 houses and flats will benefit from the addition of photovoltaic panels which will provide free electricity to the occupants of the houses and will reduce the service charge for those in flats. Triple glazing will provide sound and

heat insulation and additional cavity insulation will complement this to reduce the heating requirement which will be met by ground source heat pumps.

15. We will consider how best to deliver the emerging sustainability priorities of BCP Council in the future delivery programme, with reference to schemes such as those homes delivered to Passiv Haus Standard at Tedder Road, Bournemouth in 2018.

### **Summary of key benefits**

16. 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 13 homes to help address the challenging Local Plan housing targets and help meet local housing demands.
- Provide 13 new homes for social rent to meet local housing need.
- Utilisation of £831k of 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 £200k section 106 monies and £540k of HRA New Build 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**

17. During 2019, 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 £59k and within that, the financial spend to date (including design, surveys and planning) is £37k.

18. A planning application for the housing development scheme was submitted and validated on 24/06/2020. A decision is imminent.

### **Financial overview**

19. Capital outlay and funding for the scheme is as follows:

		<b>Housing Revenue Account</b>	
		13 50	
		<b>Social Rented £000s</b>	
<b>Scheme Costs</b>			
Works	Build rate at £2,338m <sup>2</sup>		2,210
	Landscaping		97
			<b>2,307</b>
	10% contingency		231
Fees	Oncost contingency £500/unit		7
	Design fees, surveys		58
Other costs	Development Team		65
	Contribution to Parks		78
Interest (during Build Phase)			26
<b>Total Scheme Cost</b>			<b>2,771</b>
<b>Scheme Funding</b>			
	Affordable Housing s106 Contributions		200
	Housing Revenue Account		
	- Capital Funding - 1 for 1 Right to Buy Receipts		831
	- Capital Funding - Reserve allocation		540
	Prudential Borrowing - additional borrowing		1,200
<b>Total Scheme Funding</b>			<b>2,771</b>

20. The build cost of £2,338 per m<sup>2</sup> relates to the interior of the dwellings and excludes communal areas. If the communal areas were to be included, the m<sup>2</sup> rate would fall to £2180 m<sup>2</sup>. This is based on a worst-case estimate from the Council's employer's agent (Quantity Surveyors). This cautious pre-tender estimate of cost is based on current local build rates. 10% contingency has been added for unforeseen spend. Capital outlay also includes a one-off contribution of £78k in 2020/21 towards the General Fund Parks & Open Spaces strategy. This income will be budgeted for within the General Fund's revenue budget.

21. The total scheme costs are therefore estimated to be up to £2.771m profiled over a 20-month period as the construction phase moves ahead. Interest on borrowing required during this phase of £26k is included within capital outlay above.

22. £831k of the capital outlay will be funded from Right to Buy (RTB) receipts. At 30%, this is the maximum level of RTB that can be applied as funding. Under the social-rented housing model, £200k of the capital outlay will be funded by S106 monies. £540k of the capital will be funded from HRA reserves. No third-party grant funding is proposed for this development. The remaining £1.2m capital

outlay is proposed to be funded from Prudential borrowing repaid through the HRA.

23. Estimated long term cash flows (under the social-rented housing model) presented in Appendix Two forecast net annual cash surplus from first year of completion. 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. Over the 50 year scheme life, cumulative cash surpluses of £935k are forecast.
24. Appendix Three sets out the financial appraisal assumptions supporting the capital outlay and 50 year cashflow forecast. The Council is also in the process of completing a wider benchmarking exercise, with the assistance of comparable local authorities, to ensure ongoing relevance and appropriateness of core assumptions applied.
25. Members are asked to note that, were the properties designated as 'affordable housing' as opposed to 'social rented housing', prudential borrowing for the scheme could be increased from £1.2m to £1.94m, freeing up £540k HRA capital reserves and £200k s106 housing contributions for alternative developments. This is because the rental income from affordable rented properties (from which to repay greater prudential borrowing) is significantly higher than through social rented housing. Gross rent in year 1 in the social rented model is £68,450. This increases to £111,352 in the affordable housing model. Designating the development as affordable housing would potentially allow more homes to be built over the longer term.
26. The majority of HRA tenants, 70.55%, are in receipt of Housing Benefit or Universal Credit to assist with housing costs. However, tenants living in larger family accommodation can be subject to the benefit cap which is currently set at £20,000 per year. Assistance with housing costs can then be substantially reduced for those living in both affordable and social rented housing but those with an affordable rent will have a greater shortfall of rent to make up from existing benefits than those with a social rent. The greatest impact is on larger families who are solely reliant on benefits as the cap does not apply where a tenant is working and earning above a certain amount. Carers for someone with a disability can also be exempt from the cap. While the cap can have a significant impact, the number of existing tenants known to be subject to it within the Bournemouth neighbourhood stock is relatively low.

### **Financial Risks**

27. It is proposed that the 13 new housing units will be designated as social rented housing, for which the Council has reasonable assurance over rental income streams for the next 50 years. Forecast cashflows assume modest annual increases in rental income of 3.5% in years 1 – 3 (in line with Government

guidance of RPI + 1%), reducing to 2.5% per annum from year 4 (inflationary RPI increase only). Additional provision is made for voids at 2% of gross residential rent per annum.

28. Ongoing operational spend (property letting and management, service costs and general repairs and maintenance spend) are allowed for within the model on a standard £/unit basis. The £/unit values used are based on historic financial data, and are therefore considered to be accurate. Annual inflation at 2.5% is applied to reflect increases in these costs over the 50 year period. In addition allowance is made for major repairs across the housing development. This is an annual allowance, from year 10 onwards, at 0.8% of housing development value (based on original capital outlay with annual inflationary increases).
29. Under s11(6) of the Local Government Act 2003, local authorities are required to spend retained Right to Buy (RTB) receipts within three years. This is limited, however, to no more than 30% of the cost of a replacement home (whether through acquisition or new build). Where a local authority is unable to spend receipts within three years they are to be returned to the Ministry of Housing, Communities and Local Government (MHCLG), together with interest of 4% above base rate. The financial risk to the Council of having to return unspent RTB receipts is reduced by applying £831k (30% of £2.771m capital outlay) of RTB receipts received as funding for this scheme.

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

30. In the social-rent model, a total of £200k Section 106 monies will be used to part fund construction of the 13 new homes.

### **Prudential Borrowing**

31. 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 £1.2m of prudential borrowing over 50 years. The use of 50 years reflects the estimated useful economic life of the asset.
32. 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. It has the benefit of creating additional risk premium to mitigate the risk of potential fluctuations in long term cashflow projections.
33. In March 2020, HM Treasury announced a new Public Works Loan Board (PWLB) HRA lending rate of 100 basis points below standard PWLB rate (1.64% at today's rate). The difference between 3.5% Invest to Save rate and 1.64% PWLB HRA rate is £0.8m risk premium allowance. Risk Premium that is budgeted but ultimately not required will increase availability of HRA Reserves used for future housing developments.

34. Ultimately the decision to borrow will be a treasury management decision based on the overall financial position of the Council.

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

### Taxation

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

### State Aid

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

### Value for Money

38. The total construction costs are estimated at £2.307m. The total scheme costs are estimated at £2.771m, which is lower than the Gross Development Value (GDV) which is estimated at £2.848m (being the total estimated value of the completed homes).

39. Carbon Saving statement: As shown below, 22.15 number of tonnes of CO<sub>2</sub> will be saved per annum by building to the proposed standard compared to traditionally built Building Regulation compliant equivalent homes.

This note provides an estimation of the onsite carbon reduction for the 2 sites referenced below. The analysis has been undertaken with Heat Pumps & PV Array using the following parameters;

Exposed Floor (W/m <sup>2</sup> K)	Exposed Roof (W/m <sup>2</sup> K)	External Wall (W/m <sup>2</sup> K)	Walls to Unheated Spaces (W/m <sup>2</sup> K)	Walls to Heated Spaces	Air Permeability (m <sup>3</sup> /hm <sup>2</sup> (@ 50Pa))
0.10	0.10	0.13	0.15	Fully filled cavities with sealed edges	1.00

Glazing (W/m <sup>2</sup> K)	G-Value	Fraction Glazed	Frame Factor	Light Transmittance
0.80	0.50	90%	10%	65



### Wilkinson Drive

4no. 3 bed Houses

9no. 2 bed 4 person flats

17no. Parking spaces (5m x 2.6m)

10no. Cycle Spaces for flats

### Estimated Carbon Reduction:

99% better than Part L 2013 (SAP 10 Carbon Factors).

A reduction of 22.15 tonnes of CO<sub>2</sub>

Source: Hoare Lea: BCP. Carbon Reduction Investigation (November 2020)

40. 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 build rate of £2,338m<sup>2</sup> which have been provided by David Richards Partnership Ltd (DRP) as a budget build cost. The financial model includes a 10% contingency on the provided budget amount. They have confirmed that given the scope of works, the total construction costs (including a 10% contingency) represent value for money.

## **Consultation**

41. Pre-application advice was sought through our Planning colleagues. A smaller scheme is now proposed than previously presented at Pre-application stage.
42. The Housing Development Team undertook consultation with housing teams and input was gained from the Housing Landlord, Enabling and Housing Options and Partnerships teams.
43. Consultation with the Portfolio Holder for Homes has been undertaken and Ward Councillors have been updated with scheme progress pre and post planning.
44. The scheme has been discussed at several Townsend Together Team meetings which is a local and very active community group. The group are supportive of the scheme and keen to see housing delivered generally because of the housing crisis.
45. Neighbours who are likely to be affected by the scheme have been written to and will be kept up to date. Concerns were raised about the scale of the previously proposed scheme and this has been addressed. Concern also raised about the parking and the loss of open space. Parking is likely to be an issue for every development. The loss of open space reflects the Parks strategy of having fewer, larger parks with better facilities and overlooking.

## **Alternative Options**

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 £270k. This option however would not deliver the wider corporate aims around housing need and homelessness.
47. The disposal of this site could take 12 months to complete. Finding a buyer would be difficult as the LPA are unlikely to consider a planning application for anything other than affordable / social rent to mitigate the loss of open space.
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 £59k including professional costs and site surveys which has been funded through the HRA Housing development budget.

**Option 2: Alternative tenure provision (using affordable rent rather than the proposed social rent)**

49. If the 13 socially rented homes were delivered on affordable rent levels, this would provide significant financial benefits to the HRA. With 13 affordable rented homes, the scheme would require £740k less upfront HRA funding (£540k capital reserves and £200k s106 housing contributions) and would generate greater net surplus over 50 years. This is because of the significant difference in rental income forecast:

	<b>Social rent</b>	<b>Affordable rent</b>
<b>Capital Outlay</b>	<b>£000</b>	<b>£000</b>
Prudential Borrowing	1,190	1,930
Right to Buy Receipts	841	841
HRA Capital reserves	540	0
S106 housing contributions	200	0
	<b>2,771</b>	<b>2,771</b>
<b>Revenue Implications</b>	<b>£000</b>	<b>£000</b>
Gross rent in year 1	68.5	111.4
Net cash surplus in year 1	(1)	(9)
Net cash surplus over 50 years	(936)	(3,384)

50. Members are asked to note that figures quoted above assume prudential borrowing over 50 years at 3.5%. Clearly, given the scale of forecast 50 year surplus in this scenario, there is scope for borrowing to be repaid much earlier.

51. Work is currently underway to help shape the future housing delivery strategy for how the Council builds on its own land and factors such as tenure type, delivery model and sustainability standards will form part of these considerations.

**Summary of financial implications**

52. Provided within the body of the report.

**Summary of legal implications**

53. The site is currently accounted for within the Housing Revenue Account (HRA) in accordance with Schedule 4 of the Local Government and Housing Act 1989.

54. As the land is no longer required as a playpark it is surplus to requirements and Section 122 of the Local Government Act 1972 means that it can be put to another use provided that the Council have a power to acquire land for the same purpose.
55. Sections 9 and 19 of the Housing Act 1985, Part II, provide the power for the Council to acquire and therefore to appropriate land for the purpose of providing affordable housing and a corresponding power to build and provide affordable housing accounted for within the Housing Revenue Account (HRA).
56. The adopted Bournemouth Local Plan indicates that the land use designation for the area in which the property is located is Open Space. Therefore, the Council will need to advertise notice of the Council's intention to appropriate the site, specifying the land in question, to be advertised in two consecutive weeks in a newspaper circulating in the area in which the land is situated, and consider any objections to the proposed appropriation which may be made to them in accordance with section 122(2A) of LGA 1972.
57. Section 1 of the Local Government Act 2003 gives the Council power to borrow for any purpose relevant to its functions.
58. A planning application was submitted for the erection of 4 houses and a three storey block of 9 flats, formation of vehicular access and parking spaces and validated on 24<sup>th</sup> June 2020.
59. The Council will need to comply with all relevant procurement requirements, including the Public Contracts Regulations 2015 (if applicable) in undertaking the proposals contained within this Report and further legal advice should be sought in this regard.
60. Any grant funding terms will need to be reviewed. Further legal advice should be sought to confirm the proposed use of the funding will be compliant with State aid rules.

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

61. 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 been procured e.g. architects to bring this scheme forward.

### **Summary of environmental impact**

62. 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 could make a positive contribution to the quality of the environment. The new homes will make use of Photovoltaic panels for renewable electricity, ground source heat pumps for cheaper sustainable heating. Triple glazing and enhanced insulation will make the homes extremely efficient.

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

### Summary of public health implications

64. 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

65. 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.

66. The Councils standing specification requires the architect to implement the requirements of Lifetime Homes where it is practical to do so.

67. Properties will be constructed to fully meet Building Control Approved Document Part M Volume 1 (Dwellings; M4; category 1; visitable dwellings).

68. The constrained nature of the site and the need for a high dwelling density so that the site is viable for development, prohibits achieving Lifetime Homes or any alternative Part M category. However, the Council actively considers the provision of Category 2 & 3 dwellings on other schemes in the conurbation.

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

### Summary of risk assessment

70. 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 & Build cost provided by The Construction Works Team and a 10% contingency for the build is included.
Scheme not gaining a satisfactory planning consent	N/A	Pre-planning advice has been taken and measures proposed by the planning team have been fully considered with regard to appropriateness for the client

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
		group and scheme feasibility. Where practical, they have been incorporated.
Fall in housing need for accommodation tenure provided caused by changes to the housing market or economy	Low	Monitor through construction period the requirement for affordable rent 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 tenures 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 Housing Development Team, Employers Agent and the Construction Works team.

71. 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

72. Refreshed Bournemouth Housing Strategy 2017 - 2020 -

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

73. 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 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**

3283-P-01 Site Location  
3283-P-02 Site Survey  
3283-P-03 Houses Ground Floor Plans  
3283-P-04 Houses First Floor Plans  
3283-P-05 Houses Elevations  
3283-P-06 Houses Elevations  
3283-P-07 Flats Ground Floor Plans  
3283-P-08 Flats First Floor Plans  
3283-P-09 Flats Second Floor Plans  
3283-P-10 Flats North West Elevation  
3283-P-11 Flats South East Elevation  
3283-P-12 Flats South West Elevation  
3283-P-13 Flats North East Elevation

**Appendix Six: Health and Safety Assessment Tool (HASAT)**

**Appendix Seven: Environmental Impact Assessment**

**Appendix Eight: Project Plan**