

Cabinet



Report subject	Housing Development Scheme - Cynthia House (Cynthia Close, Poole)
Meeting date	16/12/2020
Status	Open Report
Executive summary	This paper brings forward the recommendation of the award of a new contract to the preferred bidder for the delivery of works on the Cynthia House site. These works will deliver the demolition of the current empty building and construction of 22 new council homes at affordable rents and shared ownership comprising 10 houses and 12 flats within the HRA. These homes will help to deliver much needed Council housing across Poole and will be built to the Passive House Institute (PHI) Low Energy Building standard ensuring the highest quality build and impact on local lives
Recommendations	It is RECOMMENDED that Cabinet recommends that Council: a) Approve a £4.543 million scheme to redevelop Cynthia house to provide 22 new homes. b) Approve the financing of the scheme including £3.019 million of prudential borrowing, £1.096 million of Right to Buy Receipts and £428k of capital receipts from the shared ownership element of the scheme. c) Approve the award of the construction contract to the preferred bidder.
Reason for recommendations	The award of this contract will enable the delivery of the previously agreed scheme on this site and ensure that much needed Council housing can be delivered

Portfolio Holder(s):	Councillor Robert Lawton
Corporate Director	Kate Ryan
Contributors	Su Spence, Chief Executive, PHP Trevor Roffe, Head of Housing Delivery, PHP Lorraine Mealings, Director of Housing, BCP
Wards	Newtown and Heatherlands
Classification	For Decision

Background

The site and previous decisions

1. The land owned by the council within the Housing Revenue Account presents real opportunities for use to meet the council's strategic objectives. For the delivery of council housing this means that there should be and is constant review of current sites to ensure that best use is being achieved.
2. During 2016, Poole Housing Partnership (PHP), an Arms Length Management Organisation (ALMO) and the Borough of Poole undertook a review of the current stock with particular focus on the sheltered schemes. The review sought to understand future demand requirements, relative efficiency of current sites and referenced intelligence from other providers to challenge thinking and approaches. Overall, the review was positive but did identify a number of sites where housing was not felt to be fit for purpose or the most efficient use of the site. The outcomes led to the re-designation programme that was delivered throughout 2017 and 2018 and the proposal to redevelop the Cynthia House site.
3. Cynthia House is a standalone site on Cynthia Close that comprises 38 bedsits, 1 flat and a common room. It is part of a wider scheme that has a further 4 bungalows and 34 one-bedroom flats set within 2 storey blocks. While the properties across the wider scheme are popular and remain so, the use of the House was subject to long void times with the allocation of bedsits difficult. In April 2018 Cynthia House had 5 void properties, 1 having been vacant since November 2017 and having been advertised 16 times.
4. In June 2018 the Borough of Poole Cabinet agreed the following recommendations

- That the Cynthia House site should be redeveloped in order to support the delivery of affordable general needs housing
 - That Cabinet approve funding of £115k to develop the project design to enhanced RIBA stage 3 (planning application) and RICS Formal Cost Plan 1
 - That Cabinet sets aside a provision of £315k in order to fund the home loss payments to enable the project to move forward at pace and with the right support in place for all affected residents, but that these are subject to portfolio holder approval to release
 - That these costs be funded from the Housing Revenue Account capital programme
 - That officers will bring forward detailed plans for approval by council of the final scheme
5. Following approval from the Borough of Poole, PHP has progressed plans for the re-development of the site and completed the decant of residents to other sheltered schemes across Poole.
 6. The decant process took place throughout 2018 and 2019 and supported residents to move to accommodation that met their need. Following the closure of the common room in the House and in line with recommendations from the wider sheltered review the full sheltered scheme covering Cynthia Close was also re-designated as general needs accommodation.
 7. Once the decant of the House was completed the building was secured and utilities were disconnected. A programme of asbestos removal was also undertaken in order to support the reduction of risk and costs for the re-development programme construction and ensure that full site surveys could be completed.

Proposed development

8. The development proposal for the site seeks to reflect the housing demand across Poole as demonstrated by the Housing Needs register. Demand for low cost family homes across BCP remains high with 1000+ households currently on the Poole register. PHP worked closely with colleagues in the council Housing Options team to develop a site configuration that could best meet current demand and support overall needs.
9. The proposed scheme will deliver 10 x three bedroom (6 person) houses and 12 x one and two bedroom flats, providing 102 bed spaces in total. This mix

of build types will ensure that much needed 3 bedroom homes can be delivered while seeking to maximise overall bed space numbers across the site. The scheme will deliver a mixed tenure approach with rented properties let at affordable rent levels and some made available for purchase via shared ownership and managed within the Housing Revenue Account.

10. In line with the strategic objectives of the council and the Climate and Ecological Emergency the scheme will be built to the PHI Low Energy Building Standard that will deliver the highest energy efficiency levels possible using the approved planning design. This approach will include the use of Low Carbon Air Source Heat pumps delivering a 300-400% energy efficiency vs a 95% efficient gas boiler. The scheme will also be an early adopter of the Governments no-gas initiative to reduce the use of fossil fuels in the domestic sector which will be implemented in new build developments from 2025. The homes will achieve excellent thermal insulation properties and cost effective heating providing residents with high levels of comfort and low fuel costs.
11. The development will be a pilot to deliver the first 'passiv haus formally certificated. Other schemes have been built to high energy efficient fabric first standards without formalising the accreditation.
12. We will consider how best to deliver the emerging sustainability priorities of BCP Council in the future delivery programme

Feasibility works and planning application

13. PHP has worked closely with the council to develop a scheme that meets the needs of the site, is complimentary with the current surrounding residential accommodation and meets wider planning objectives. The site has been de-risked with the disconnection of the utility services and the removal of asbestos products. While no further land contamination has been identified this always remains a risk and there is a further retained risk of drainage levels on the site being too low to connect to the existing infrastructure. This would mean that the existing pumping station would be retained for drainage of foul water for part of the site.
13. PHP has completed all necessary planning surveys including but not limited to:
 - Ecology
 - Drainage
 - Energy Statement and design
 - PHI design modelling.
 - Arboriculturist

- Contaminated land
- Asbestos
- Noise
- Contaminated land

14. The Planning application for the proposed scheme was considered at Planning Committee on 30th April 2020 and received full approval.

Procurement approach

15. Following receipt of Planning permission PHP tendered the works for delivery on site. These works were tendered through the BCP procurement portal and meet all BCP financial regulations.

16. An open tender approach was undertaken with the OJEU notice published on 11th June 2020 and return date of 19th August 2020.

17. PHP received 5 compliant bids and these were evaluated by the relevant teams, comprising BCP officers PHP officers and the Employers Agent for this scheme Rider Levett Bucknall (RLB).

18. The bidder's submissions were scored against a 60:40 quality/price evaluation matrix. The preferred bidder scored first on quality and a very close third on price. It is recommended to award the construction contract to the preferred bidder to the value of £3.806m.

Alternative options

19. Alternative options considered and dismissed were –

20. Market disposal of the site

Market disposal of the site was considered. However, this option did not guarantee the delivery of more much needed council housing and therefore was dismissed.

21. Use as Move On Accommodation

The site has been considered as part of national government proposals to deliver move on accommodation for rough sleepers over the next 4 years. This option was dismissed after initial investigations confirmed changes could not be delivered by March 2021 and the level of costs to be incurred to refurbish the site did not represent value for money in light of its proposed temporary use.

22. Refurbishment / Continuation as sheltered accommodation

This option was considered as part of the April 2018 decision to decant and re-develop the building. The overall costs to refurbish the building to deliver fit for purpose and desirable accommodation was estimated as £2.2m. The approach was rejected as this would significantly reduce the number of units and bed spaces and not provide accommodation that reflected demand from the Housing Register.

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

23. The overall cost of the scheme is expected to be up to £4,543 m. This is comprised of the following costs:

	£ 000s
Scheme Costs	
Construction Costs	3,806
Construction contingency – 5% of cost	190
Fees and other costs	547
 Total scheme cost	 4,543
 Funded by:	
Capital Funding – 1 for 1 Right to Buy Receipts	1,096
Capital Receipt – Shared Ownership	428
Prudential Borrowing	3,019
 Total scheme funding	 4,543

Fees and other costs of £547k include £430k pre scheme design costs, services disconnection, asbestos surveys and removal works, PHI Energy modelling assessments and home loss and moving costs. These costs were previously approved by Cabinet.

24. Construction costs are based on tendered values rather than estimates. A further 5% contingency is included within estimated capital outlay to cover the risk of unforeseen spend.

25. The scheme will be funded from using £1,096k retained 1 for 1 Right to Buy receipts, £428k sale proceeds from Share Ownership units and £3m prudential borrowing.
26. The £1,096k Right to Buy (RTB) receipts is is the maximum that can be applied to the project. RTB receipts are restricted to the affordable housing elements of the project and cannot be applied to the shared ownership components. The use of RTB receipts ensures they are retained for investment locally rather than paid back to the national government. The availability of Homes England grant will be explored and utilised if this achieves a higher income stream that can offset the use of HRA reserves.
27. The scheme will also offer to market 6 x two bed flats as shared ownership. These are expected to achieve a capital receipt of around £428k. Capital receipts are assumed to arise very close to practical completion of the development and are therefore treated as a funding source towards capital outlay (reducing prudential borrowing required). The remaining £3m capital spend will be funded from Prudential borrowing.
28. Estimated long term cash flows presented in Appendix Two forecast net annual cash surplus from the first year of completion. This is after provision has been made for both capital and interest borrowing repayments as well as management, maintenance and major repair costs and an adjustment to forecast rental income in respect of 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 £7.7m are forecast.
29. 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.

Financial Risks

30. It is proposed that the new housing units retained by the HRA will be rented at 'affordable rent' levels, for which the Council has reasonable assurance over rental income streams for the next 50 years. Forecast cashflows assume modest annual inflationary increases in rental income of 2.5% per annum from year 1 (CPI + 1%). Additional provision is made for voids at 2% of gross residential rent per annum.

31. 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, from the first year of development.
32. 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 £1,096k (30% of affordable housing capital outlay) of RTB receipts received as funding for this scheme.

Prudential Borrowing

33. 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 assumes £3,019k of prudential borrowing repaid over 50 years. The use of 50 years reflects the estimated useful economic life of the asset.
34. 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.
35. 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 £2m risk premium allowance. Risk Premium that is budgeted but ultimately not required will increase availability of HRA Reserves used for future housing developments.
36. Ultimately the decision to 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.

Taxation and State Aid

38. A tax evaluation has not been undertaken as this is a newbuild housing scheme and will be zero rated. Any VAT incurred on construction cost will be fully reclaimable as the spend will relate to the statutory function of the Council.
39. State Aid would be involved where the council is using its own resources to support a third party in a manner which skews competition. As in this case the council's resources are being used to undertake work on its own behalf (i.e. BCP Council will still own the assets once built) then there is no grant. Monies being paid to PHP for managing the contract/project & to the successful contractor for carrying out the work do not constitute aid as the council is receiving goods & services to the same value as the money being expended.

Value for money

40. The preferred bidder's construction price reflects a cost equivalent to £1,964 per square metre which is already comparable with other schemes developed elsewhere within BCP council for homes of this type, built to building regulation standard. Therefore, when considering the homes within this development will meet the enhanced PHI Low energy building standard for the same construction price, the council can be confident the development will deliver value for money. Particularly as previous build cost assessments to help establish the likely financial impact of achieving an enhanced PHI standard have led to estimated build cost increases of between 10 to 20%.
41. The schemes total development delivery cost of £4.543m has also been assessed against the current housing market in Dorset. As part of that process a full RICS valuation report has been carried out by Fox Property Consultants, assessing both the rental and market sale value of the property mix on the development. The RICS market sale values have been used to determine the Gross Development value (GDV) of the site. At these current market sale price the completed value of the homes will deliver a GDV of circa £5.115m which equates to a £572k surplus.

42. In addition, the investment of these enhanced environmental standards will lead to lower maintenance costs across the life time of the properties as well as avoid retro fitting costs in future years to meet the national government target of zero emissions by 2050. To demonstrate this further we also modelled the variance in energy cost and carbon reduction for the space heating in the new houses. We compared the performance of the PHI low energy building standard against the same house built to the conventional Building Regulations Standard. This resulted in a 73% reduction in energy consumption cost per year and a carbon reduction of 1.436 Tonnes. Therefore, the enhanced PHI build for the full development scheme would provide an additional carbon reduction of circa 26.36 Tonnes per year.
43. The delivery of new Council housing also has many unidentified social value advantages. The provision of secure affordable accommodation will allow those households currently facing precarious housing need to be more secure and provide a basis for managing other aspects of their life. This security will allow households to better access the job market, provide consistency for children and enhances mental health. All of which support the delivery of more prosperous, healthy and economically active individuals across the conurbation.
44. The project could also benefit from a post project review to demonstrate transparency and support a 'lessons learnt' culture to aid future development projects.

Summary of legal implications

45. The site is currently held in the Housing Revenue Account (HRA).
46. Section 9 of the Housing Act 1985, Part II, provides the power for the Council to build and provide affordable housing accounted for within the Housing Revenue Account (HRA).
47. Section 1 of the Local Government Act 2003 gives the Council power to borrow for any purpose relevant to its functions.
48. The Council needs to comply with all relevant procurement requirements, including the Public Contracts Regulations 2015 (if applicable) in undertaking the proposals contained within this Report. A procurement exercise has been undertaken to ensure these requirements are met.

49. The placing of a new contract over £1m requires Cabinet and council approval and as such is brought forward for decision.
50. If grant funding is subsequently required then the terms of any funding agreement will require review.

Summary of human resources implications

51. The scheme will be delivered by the PHP Development Team. There is good expertise within this team having delivered a number of new build sites over the past 5 years. The scheme is within current resource planning assumptions.
52. From a legal service point of view resourcing may be affected in preparing the physical contract, conveyancing for the shared ownership leases (is this to be outsourced) and review of the grant agreement (if required)

Summary of environmental impact

53. The ecology survey identified an area to be retained for wildlife on the south east boundary of the site. This will include creation of hedgehog walkways and the installation of bat boxes on the houses and flats with southern elevations. An Ecological Clerk of the Works has been appointed for the duration of the build process.
54. The scheme will be built to the PHI Low Energy Building Standard that will deliver a fabric first design approach to the highest energy efficiency levels possible using the approved planning design. This approach will include the use of Low Carbon Air Source Heat pumps delivering a 300-400% energy efficiency vs a 95% efficient gas boiler. The scheme will also be an early adopter of the Governments no-gas initiative which will be implemented in new build developments from 2025. The homes will achieve excellent thermal insulation properties and cost-effective heating providing residents with high levels of comfort and low fuel

Summary of public health implications

55. None identified

Summary of equality implications

56. The scheme will provide housing for those identified as most in need and on the current Housing Register. As such the scheme will benefit those who are deemed to have needs that are not being met or are financially disadvantaged. A copy of the EINA is included Appendix four.
- 57 Properties will be constructed to fully meet Building Control Approved Document Part M Volume 1 (Dwellings; M4; category 2 accessible and adaptable dwellings). However, the Council actively considers the provision of all categories, with Category 1 & 3 dwellings on other schemes in the conurbation. Lifetime Homes is a standard requirement in the Employers Requirements (BCP Specification) to be provided where practicable. Category 2 (as is being provided) is the Building Regulations equivalent to the Lifetime Homes Standard.

Summary of risk assessment

58 Rising construction costs

The tender process identifies a fixed cost price for the project and risks rest with the construction company to manage any supply chain price changes. The project is also supported by an Employers Agent who will advise on current market position and understand wider issues emerging.

59 Fall in housing needs

A fall in housing needs is not anticipated and there is significant backlog of households requiring the housing planned to be able to replace any reduced demand emerging.

60 Delivery of build within a COVID secure workforce

The tender process required the contractor to demonstrate how all health and safety requirements (including those emerging from the COVID pandemic) will be managed. Any additional costs (based on the government's current guidelines) emerging from distancing or revised timelines to ensure that trades are delivered separately have formed part of the tender bid.

61 Impact on residents of the build

Local residents have been consulted regarding the design and delivery of the build and will receive regular updates. A resident liaison coordinator will be in place to identify any emerging issues and seek solutions with the contractor to ensure that the build does not disrupt local living conditions too greatly.

Background papers

62 BoP Cabinet Report June 2018 – Outline Business Case for Development of Cynthia House Sheltered Housing Scheme

Appendices

1. Income and expenditure summary.
2. Long term cash forecast (LTCF)
3. Appraisal assumptions
4. Equality impact needs assessment (EINA)
5. Health and safety assessment tool (HSAT)
6. Environmental impact checklist
7. Cynthia development plan