

Cabinet



Report subject	Housing Scheme at Duck Lane (Phase 2), Bournemouth
Meeting date	16/12/2020
Status	Public
Executive summary	<p>The BCP Council owned site comprises a disused plot within the grounds of three HRA flat blocks. The land is behind a block of garages and is a frequent location for fly tipping and other anti-social behaviour.</p> <p>The current proposal is for the provision of 12 x 2- bed flats for smaller families. There is to be associated parking and landscaping.</p> <p>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 affordable rent and will be designed to high energy efficiency standards with ground source heat pumps and triple glazing.</p>
Recommendations	<p>Cabinet recommends that Council approves the proposed £2.405m housing development, including specifically:</p> <ol style="list-style-type: none"> 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 appropriations and contractual and legal agreements in consultation with the Monitoring Officer and Chief Finance Officer. Approve the proposed funding model for the scheme, with specific approval for the use of £1.684m of prudential borrowing to be repaid from the Housing Revenue Account (HRA) over 50 years. Authorise the Section 151 Officer in consultation with the Portfolio Holder for Finance to determine the detailed funding arrangements.
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	Kinson (Councillor Norman Decent: Councillor Duane Farr: Councillor Laurence Fear)
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. Duck Lane (Phase 2) 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 proposed scheme will follow many others which have been successfully delivered over previous years and there is a pipeline of many additional sites going forwards to help address our housing needs locally.

Site background information

7. The BCP owned site comprises a disused plot within the grounds of three HRA flat blocks. The land is behind a block of garages and is a frequent location for fly tipping and other anti-social behaviour.
8. A planning application for the housing development scheme was submitted and validated on 02/09/2020.

Proposed scheme

9. The current proposal presents a new build scheme of 12 flats with associated parking and landscaping. Subject to consents the proposed commencement date is May 2021 with the scheme ideally due to be completed in May 2022.
10. It is recommended that the site is developed directly by the Council to provide a residential scheme comprising of the following:
 - Affordable Rent (12 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 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.
12. As noted earlier, the need for affordable and socially rented housing below market rates is high.
13. The scheme would provide 9 unallocated parking spaces in line with the existing parking policy as well as secure storage for 10 cycles.
14. As a part of the development and as an improvement to the neighbourhood, 17 existing garages will be demolished. These will be replaced by 14 replacement parking spaces. The existing garages are in poor repair. They create an area without overlooking which is prone to fly tipping and ASB. They are typically not large enough for modern cars and are alternatively rented and used for storage – only a couple of these are let to the residents of the flats.

Environmental build standards

15. 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 block will benefit from the addition of photovoltaic panels which will provide free electricity to supplement that taken from the network. This will reduce the service charge payable by residents and reduce costs overall. 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.
16. We are currently considering build standards and increased sustainability standards for the overall future programme of new build on our own land.
17. 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.
18. Though subject to competitive tender, there is a presumption in favour of modular construction. This can improve on build quality and air-tightness through the modular units having been produced in controlled conditions. It has been proposed that this scheme forms part of the South West Pilot for 'Prisoners Building Homes Local Communities' through West of England Combined Authority to Central Government. This scheme is expected to continue whether it is part of the pilot or not (as it is not dependant on the pilot status for funding).

Summary of key benefits

19. 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.
 - Provide 12 new homes for affordable rent to meet housing need which will also help address the challenging Local Plan housing targets and help meet local housing demands.
 - Utilisation of £721k of Right to Buy receipts to help fund the scheme. If these monies are not spent within 3 years of receipt, they cannot be used locally and need to be returned to central government.
 - The scheme will bring improvements to the wider area with the provision of good quality and well managed homes and wider environmental improvements.
 - 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

20. 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 £33k and within that, the financial spend to date (including design, surveys and planning) is £25k.

21. A planning application for the housing development scheme was submitted and validated on 02/09/2020. A decision is likely to be made within 12 weeks.

Financial overview

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

<i>Homes Prudential Borrowing Period</i>		Housing Revenue Account
		12 50
		Affordable Rented £000s
Scheme Costs		
Works	Demolition	86
	Build Costs @ £2,338 m2	1,964
		2,050
	10% contingency	205
Fees & Other Costs	Development Team	60
	Other fees	52
	Oncost contingency £500/unit	6
Interest (during Build Phase)		32
Total Scheme Cost		2,405
Scheme Funding		
Housing Revenue Account		
- Capital Funding - 1 for 1 Right to Buy Receipts		721
Prudential Borrowing - additional borrowing		1,684
Total Scheme Funding		2,405

23.

24. The build cost of £2,338 per m² relates to the interior of the dwellings and excludes communal areas. If the communal areas were to be included, the m² rate would fall to £2043 m². 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.

25. The total scheme costs are therefore estimated to be up to £2.405m profiled over a 20-month period as the construction phase moves ahead. Interest on borrowing required during this phase of £32k is included within capital outlay above.
26. £721k 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. No third-party grant funding is proposed for this development. The remaining £1.684m capital outlay is proposed to be funded from Prudential borrowing through the HRA.
27. Estimated long term cash flows 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 £2.8m are forecast.
28. 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

29. The 12 new housing units will be designated as affordable housing. As there is ongoing demand for affordable housing, 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.
30. 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).
31. 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 £721k (30% of £2.4m capital outlay) of RTB receipts received as funding for this scheme.

Prudential Borrowing

- 32. 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 £1,684k of prudential borrowing over 50 years. The use of 50 years reflects the estimated useful economic life of the asset.
- 33. 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.
- 34. 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 £1.1m risk premium allowance. Risk Premium that is budgeted but ultimately not required will increase availability of HRA Reserves used for future housing developments.
- 35. Ultimately the decision to borrow will be a treasury management decision based on the overall financial position of the Council.
- 36. Furthermore, any funding will only be drawn down when required and not in advance of need.

Taxation

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

State Aid

- 38. 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

- 39. The total construction costs are estimated at £2.050m. The total scheme costs are estimated at £2.405m which is higher than the Gross Development Value (GDV) which is estimated at £2.190m (being the total estimated value of the completed homes). This disparity in value arises because of the wider environmental improvements that are to be undertaken to the immediate

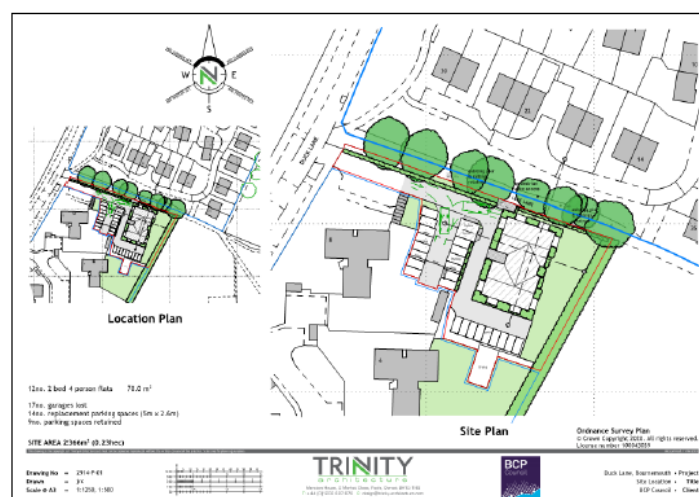
surroundings of the site to improve the realm for the existing housing as well as the environmental efficiency measures which will be incorporated into the scheme.

40. Carbon Saving statement: As shown below, 19.9 number of tonnes of CO₂ 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 ² K)	Exposed Roof (W/m ² K)	External Wall (W/m ² K)	Walls to Unheated Spaces (W/m ² K)	Walls to Heated Spaces	Air Permeability (m ³ /hm ² (@ 50Pa))
0.10	0.10	0.13	0.15	Fully filled cavities with sealed edges	1.00

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



Duck Lane

- 12no. 2 bed 4 person flats
- 17no garages lost
- 14no. replacement parking spaces (5m x 2.6m)
- 9no. Cycle Spaces retained

Estimated Carbon Reduction:

- 96% better than Part L 2013 (SAP 10 Carbon Factors).
- A reduction of 19.90 tonnes of CO₂

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

41. 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 an estimated build rate of £2338m² which have been provided by David Richards Partnership Ltd (DRP). They have confirmed that given the scope of works, the total construction costs (including a 10% contingency) represent value for money.

Consultation

42. Pre-application advice was sought through our Planning colleagues. A smaller scheme is now proposed than previously presented at pre-application stage. Additionally, the intention had been the provision of emergency family

accommodation (a hostel). This proposal has been modified to permanent family accommodation which is more palatable to the local neighbours.

- 43. The Housing Development Team undertook consultation with housing teams and input was gained from the Housing Landlord, Enabling and Housing Options and Partnerships teams.
- 44. Consultation with the Housing Portfolio Holder and Ward Councillors. These have been updated with scheme progress pre and post planning.
- 45. Neighbours who are likely to be affected by the scheme have been written to and will be kept up to date.

Alternative Options

- 46. The following options have been considered and discounted:

Option 1: Market disposal of site

- 47. One option would be to dispose of the site for development. The expected financial benefit would be approximately £400k. This option however would not deliver the wider corporate aims around housing need and homelessness.
- 48. The disposal of this site could take 12 months to complete.
- 49. 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 £33k including professional costs and site surveys which has been funded through the HRA Housing development budget.

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

- 50. If the 12 affordable rented homes were delivered on social rent levels, this would add significant financial challenges to the delivery of the site. With 12 social rented homes, the scheme would require a further £796k subsidy which would need to be funded from s106 receipts or HRA reserve. Over 30 years, social rents would generate £611k less surplus reducing the ability of the HRA to carry on developing in the longer term.
- 51. To help mitigate the impact of affordable rent levels on tenants' ability to pay, rents will be capped at Local Housing Allowance (LHA) rates rather than the higher 80% of average private market rent levels. In fact, the current valuation puts the affordable rent at c£23pw less than the LHA level. The Housing

Development Team is currently delivering other sites with homes at Social Rent levels.

1.

52. 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

53. Provided within the body of the report.

Summary of legal implications

54. The Housing Act 1985, Part II, empowers the Council to build and provide affordable housing accounted for within the Housing Revenue Account (HRA).

55. The Council also has the General Power of Competence pursuant to the Localism Act 2011, and therefore the power to borrow for the purposes set out within this Report.

56. 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

57. 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

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 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.

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 although a new BCP Allocations Policy is being developed which may be live at the point this scheme is completed.
59. The Councils standing specification requires the architect to implement the requirements of Lifetime Homes where it is practical to do so.
60. Properties will be constructed to fully meet Building Control Approved Document Part M Volume 1 (Dwellings; M4; category 1; visitable dwellings).
61. The constrained nature of the site and the intention to carry out a modular build 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.
62. A copy of the EINA is included in Appendix Four.

Summary of risk assessment

63. 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 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.

64. 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

65. Refreshed Bournemouth Housing Strategy 2017 - 2020 -

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

66. 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

2914-P-01 Site Location

2914-P-02 Site Plan

2914-P-03 Floor Plans

2914-P-04 Floor Plans

2914-P-05 Elevations

2914-P-06 Sections

Appendix Six: Health and Safety Assessment Tool (HASAT)

Appendix Seven: Environmental Impact Assessment

Appendix Eight: Project Plan