

Appendix 4d **CONFIDENTIAL**

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

Executive Summary

1. In November 2021 Council approved the Council Newbuild Housing & Acquisition Strategy (CNHAS) 2021-2026 to deliver over 1000 new homes across the conurbation by 2026. This is an ambitious strategic programme that will potentially invest around £235 million in meeting local housing demands and to better enable the council to respond to a diverse set of supply challenges and generate a rental income to fund council services. The same report specified that Council should formally approve the CNHAS capital budget for the forthcoming year as part of the wider annual budget setting process. To facilitate this, this confidential appendix provides Council with more detailed information on planned CNHAS activities for 2022/23. This consists of £24.4 million in the general fund capital investment programme (CIP) and £39.9 million within the housing revenue account (HRA) capital programme. Total CNHAS planned investment across both the general fund and HRA in 2022/23 is £64.3 million.
2. CHNAS consists of housing projects within both the general fund and HRA, some of which will be across both with a mixture of tenures. It also includes a programme of new street property and land / property acquisitions. The programme for 2022/23 includes capital budgets that have already been approved (for example Princess Road), requests for additional capital budget for approved programmes (for example Street Property Acquisition), and provisional capital budget allocations for new projects not yet fully costed (for example Oakdale and Hillbourne).
3. A CNHAS interim review report is planned for Cabinet in April 2022. This will provide an overview of CNHAS programme progress to date and seek approval for Oakdale and Hillbourne projects.

CNHAS General Fund – £24.4 million (£69.9 million by 2026/27)

4. £24.4 million CNHAS spend is planned for 2022/23. This consists of £11.8 million on the Street Property Acquisition programme (for which £7.9 million capital budget is already approved (formerly Temporary Accommodation Portfolio), £11.5 million for Princess Road hostel and private rented sector accommodation (capital budget already approved), £0.7 million (provisional estimate) for housing development at Oakdale and £0.4 million (provisional estimate) for Alma Road GP surgery.
5. Provisional budget allocations for Oakdale and Alma Road will be further revised as indicative costings are refined. A further CNHAS update paper is planned for Council in Spring / Summer 2022 which will provide information on and seek council approval of revised capital budget requirements.
6. Of the planned £24.4 million CNHAS spend in 2022/23, £19.4 million (£11.5 million for Princess Road and £7.9 million for Street Property Acquisition (formerly Temporary Accommodation Portfolio)) is already approved within the capital investment programme.

Appendix 4d CONFIDENTIAL

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

Prog	Status / governance frame	Project Description	number of units	capital budget								
				2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	total		
				£000	£000	£000	£000	£000	£000	£000		
4a	Council approved CNHAS acquisition strategy. Annual capital budget requires advance council approval	4a	Acquisition of 250 residential street properties and redundant buildings (including 40 1BF part funded from RSAP grant)	40	1,225	5,775	0	0	0	0	0	7,000
				65	525	2,100	1,925	3,150	3,675	0	11,375	
				125	780	2,925	8,970	5,850	5,850	0	24,375	
				15	0	930	1,240	1,550	930	0	4,650	
				5	100	100	100	100	100	0	500	
			250	2,630	11,830	12,235	10,650	10,555	0	47,900		
3	New capital budget to be approved	18	Alma Road GP surgery	20	190	380	1,520	1,710	0	0	3,800	
				20	190	380	1,520	1,710	0	0	3,800	
2b	New capital budget to be approved	13	Oakdale	16	0	660	1,530	2,180	0	0	4,370	
				16	0	660	1,530	2,180	0	0	4,370	
2a	Existing capital budget already approved	12b	Princess Road hostel and PRS	57	52	11,537	2,205	0	0	0	13,794	
				57	52	11,537	2,205	0	0	0	13,794	
CNHAS - general fund capital budget (included in GF CIP)				343	2,872	24,407	17,490	14,540	10,555	0	69,864	
Street Properties unspent capital budget c/fwd					2,630	7,909	0	0	0	0	10,539	
Princess Rd unspent capital budget c/fwd					52	11,537	2,205	0	0	0	13,794	
Existing approved capital budget					2,682	19,446	2,205	0	0	0	24,333	
Street Properties additional capital budget					0	3,921	12,235	10,650	10,555	0	37,361	
Alma Road					190	380	1,520	1,710	0	0	3,800	
Oakdale (provisional budget)					0	660	1,530	2,180	0	0	4,370	
New capital budget to be approved					190	4,961	15,285	14,540	10,555	0	45,531	
					2,872	24,407	17,490	14,540	10,555	0	69,864	

- Princess Road** hostel and private rented sector (PRS) (project 12b) - £11.5 million profiled capital spend (£13.8 million 5-year total) on the delivery of new hostel and private rented sector housing at Princess Road (now included within the CNHAS). This capital budget is already approved. Construction is expected to start mid 2022/23, with new properties occupied from 2024/25.
- Street Property Acquisition** (project 4a) – In accordance with the principles on which CHNAS was approved in November 2021, Council approval is required for 2022/23 capital budget of £11.8 million (£47.9 million 5-year total) for the acquisition of around 64 new residential street properties in CNHAS programme 4a (overall 5-year target is 250 new homes). This programme subsumes the legacy Temporary Accommodation Portfolio approved project in the CIP. Existing approved but unspent capital budget of £10.5 million in relation to the original Temporary Accommodation Portfolio programme will be carried forward into the new Street Property Acquisition Programme. Associated annual borrowing repayments of £0.4 million in relation to this have already been factored into the MTFP.
- Properties to be acquired range from 1 bedroom flats to 3 bedroom houses. The 64 new homes planned to be acquired in 2022/23 include 33 homes part funded from Rough Sleepers Accommodation Programme (RSAP) government grant funding. Accommodation will be used as temporary accommodation, accommodation for care experienced young people (CYEP) and as full market private rented sector accommodation to residents with no affordable or specialist housing needs. These individual street property acquisitions will include purchase and repair (P & R) activity.
- The Street Property Acquisition programme benefits from up to £3.7 million RSAP capital grant funding secured from government and £10.5 million (including £2.6 million in 2021/22) historic prudential borrowing approved for the temporary accommodation portfolio (now subsumed within the Street Property Acquisition programme). Additional prudential borrowing of £33.7 million will be required to deliver the full 5 year acquisition programme. Annual borrowing repayments in respect of the additional borrowing requirement start at £11k in 2023/24, increasing to £1.3 million by 2026/27 (based on low

Appendix 4d CONFIDENTIAL

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

risk Invest to Save Framework rate of 3%, over 50 years borrowing term). The MTFP has been adjusted to take account of this.

11. Subject to approval by the Board of Directors of Seascapes Homes & Properties Limited, new homes acquired under this programme will be leased to Seascapes Homes & Properties Limited in line with the company's 5 year growth plan, with BCP receiving lease payments (based on around 92% of rental income received). Additionally, the Council will receive RSAP revenue grant payments until 2023/24 for all RSAP part-funded properties. Annual provision for programme delays, rent arrears and vacancy is made based on 10% of lease payments.
12. The costs of tenancy management be the responsibility of BCP Council. The Council's current staff base for management of this is 2.5 FTE. Staffing levels could potentially be required to increase by 3 FTE in line with growth in the number of homes over 5 years to ensure ongoing good quality management of the homes. Allowance for this has been made within the MTFP.
13. Annual allowance of £1.5k per property has been made for repairs and maintenance.
14. A summary of revenue implications is provided below:

Residential Property Acquisition programme	MTFP implications (incremental)						total
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
	£000	£000	£000	£000	£000	£000	
Lease payments from Seascapes Homes (assume 92% of rent). 2% annual rent increase	(36)	(477)	(541)	(621)	(577)	(278)	(2,530)
10% allowance for programme delays / rent arrears / vacancy factor	11	41	54	62	58	(149)	76
RSAP revenue grant claimed (until 2023/24)	(12)	(118)	(96)	226	0	0	0
Repair & Maintenance (assume £1.5k per property general wear & tear and property maintenance)	6	35	123	86	79	33	363
Additional tenancy management staff (assume 3 x FTE phased in)	0	50	50	50	0	0	150
Historic prudential borrowing already approved (3.5% over 50 years)	0	112	337	0	0	0	449
22/23 new prudential borrowing (assume 3% low risk rate over 50 years)	0	0	11	0	0	0	11
23/24 new prudential borrowing (assume 3% low risk rate)	0	0	0	476	0	0	476
24/25 new prudential borrowing (assume 3% low risk rate)	0	0	0	0	414	0	414
25/26 new prudential borrowing (assume 3% low risk rate)	0	0	0	0	0	410	410
Net annual revenue implications	(32)	(357)	(61)	278	(26)	16	(182)
less borrowing repayments already factored into MTFP	0	(112)	(337)	0	0	0	(449)
MTFP implications	(32)	(469)	(399)	278	(26)	16	(631)

15. Alma Road surgery (project 18) and Oakdale (project 13) are provisional capital budgets, for which further Council approval will be required. A separate paper will be brought forward to Council on these in Spring / Summer 2022 as part of a wider CNHAS programme update.

Financial risks

16. The Princess Road (project 12b) general fund scheme has already progressed to tender award stage. Estimated capital budget is therefore based on current market conditions and includes appropriate contingency within.

Appendix 4d CONFIDENTIAL

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

17. There is financial risk around the capital budget for Street Property Acquisition project (project 4a). Estimated acquisition prices are based on current market, but there is the possibility that property prices increase (particularly as the owners become aware of the council's acquisition strategy). There is also financial risk around the extent of property improvement works that will be required after acquisition, especially to bring properties up to a standard consistent with the Council's green ambitions. Members will note that the total estimated budget for project 4a has increased from original estimate of £45.5 million (CNHAS Strategy approved November 2021) to £47.9 million in this paper. This represents additional financial allowance that is made for these risks (around £10k per property). There is also the risk that prices may fall over time creating a less favourable value for money position in terms of the council's investment.
18. Rental projections for private rented sector accommodation are estimates informed by Office for National Statistics benchmarked data on private rental market statistics and understanding of the local market. There is significant risk with these as final rental values will be determined by the property's size, location, facilities and overall standard. Monthly rent for 2 bedroom properties can range from between £690 (flats in Boscombe) to £1,350 (town centre flats). 125 of the 250 units planned to be acquired under the Street Property Acquisition programme are intended to be 2 bedroom properties for private rent. Whilst the financial modelling assumes a reasonably cautious estimate of £950 per month rental income for these, there is financial risk that actual rental income achieved is significantly lower. Rental income levels achieved will be monitored closely as the CNHAS programme is delivered to ensure that the right properties are acquired, the strategy remains robust and is financially viable.
19. The Street Property Acquisition project also targets 40 of the 1 bedroomed properties planned to be acquired to be former council owned properties sold through RTB schemes. The council retains relatively up to date building condition data on these and therefore has reasonable assurance over the level of capital investment required to bring the properties up to the required standard. There is risk that the council will have to expand its target property database to include non ex-council properties too in order meet its acquisition target.
20. The current funding strategy for 40 of the 250 homes in the Residential Property Acquisition project assumes around 60% of capital outlay will be funded from RSAP Homes England grant funding (up to £3.65 million). This funding applies to 1 bedroom flats only and is claimed in arrears as they are acquired. It is strictly time limited and only properties acquired by 31 March 2023 will be eligible for this funding. Any shortfall in RSAP grant funding to assumed levels will result in additional prudential borrowing requirement.
21. Whilst some allowance has been made for delays in the planned timeline for street property acquisitions, deliverability of the programme is dependent on the availability of homes of a reasonable standard for BCP to acquire. Slippages in planned programme above and beyond allowance already made for programme delays will result in new MTFP pressures arising.
22. Homes acquired under Project 12b and Project 4a are expected to be leased to Seascope Homes & Properties Limited, with annual lease payments made from the company to BCP. Formal Seascope Homes & Properties Limited Board of Director approval for this is required.



Appendix 4d CONFIDENTIAL

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

23. Members are reminded that all lease payments received by BCP from Seascapes Homes & Properties Limited are based on actual rent received by the company. BCP Council therefore bears all financial risk in relation to rent arrears not recovered.

24. The growth in number of new homes acquired will inevitably result in an increase in BCP resource allocated to acquisition, tenancy and property management. Allowance has been made within MTFP indicative net additional income projections for staffing and estimated additional property maintenance costs but no allowance has been made for potential further investment required (for example ICT requirements). It is proposed that this is considered as part of the council's Transformation work with KPMG.

Appendix 4d CONFIDENTIAL

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

CNHAS HRA - £39.9 million (£105.0 million by 2026/27)

Prog	Status / governance frame	Project Description	number of units	capital budget							
				2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	total	
				£000	£000	£000	£000	£000	£000	£000	
1a	Project specific capital budgets already approved	1	Cynthia House	22	1,240	2,785	109	0	0	0	4,134
		2	Moorside Road	14	2,000	1,939	0	0	0	0	3,939
		3	Northburne Day Centre	9	650	1,141	0	0	0	0	1,791
		4	Mountbatten Gardens	2	326	149	0	0	0	0	475
				47	4,216	6,014	109	0	0	0	10,339
1b	Project specific capital budgets already approved	5	Craven Court	24	0	2,750	2,436	0	0	0	5,186
		6	Wilkinson Drive	12	549	1,816	362	0	0	0	2,727
		7	Templeman House	27	666	3,000	1,716	0	0	0	5,382
		8	Duck Lane	12	350	1,400	612	0	0	0	2,362
		9	Cabbage Patch	11	500	1,790	0	0	0	0	2,290
				86	2,065	10,756	5,126	0	0	0	17,947
2a	Project specific capital budgets already approved	10	Herbert Avenue	24	48	2,656	469	0	0	0	3,173
		12a	Princess Road (HRA)	82	750	10,000	11,248	0	0	0	21,998
				106	798	12,656	11,717	0	0	0	25,171
3	Council approved CNHAS new build strategy. Annual capital budget requires advance council approval.	15	Beaufort Rd / Cranleigh Rd ON HOLD	16	0	600	1,580	1,780	0	0	3,960
		17	Surrey Road (subject to confirmation of final tenure)	8	0	350	580	1,380	0	0	2,310
		19	Egmont Road, Turlin Moor	9	0	310	1,365	0	0	0	1,675
		20	Redhorn Close, Turlin Moor	8	0	70	1,140	790	0	0	2,000
		21	Junction Road, Turlin Moor	3	0	25	474	223	17	0	739
		22	Dale Close	4	0	25	421	205	0	0	651
		23	Lake Avenue	6	0	25	497	433	0	0	955
		24	Cavan Crescent / Sopers Lane	4	0	440	1,140	440	0	0	2,020
				58	0	1,845	7,197	5,251	17	0	14,310
2b	Provisional budget allocation - report to Council March 2022	13	Oakdale	47	0	1,920	4,490	6,420	0	0	12,830
		11	Hillbourne	110	83	6,655	10,625	5,916	953	153	24,385
				157	83	8,575	15,115	12,336	953	153	37,215
CNHAS - HRA capital budget (included in HRA CIP)				454	7,162	39,846	39,264	17,587	970	153	104,982
Specific infill projects already approved					6,281	16,770	5,235	0	0	0	28,286
Place shaping projects already approved					798	12,656	11,717	0	0	0	25,171
Existing approved capital budget					7,079	29,426	16,952	0	0	0	53,457
Programme 3 new build					0	1,845	7,197	5,251	17	0	14,310
Oakdale (provisional)					0	1,920	4,490	6,420	0	0	12,830
Hillbourne (provisional)					83	6,655	10,625	5,916	953	153	24,385
New capital budget to be approved					83	10,420	22,312	17,587	970	153	51,525
					7,162	39,846	39,264	17,587	970	153	104,982

25. Programmes 1a to 2a in the table above already have capital budgets approved by Council and are already included within the HRA capital programme.

26. Programme 3 capital budget is based on costs estimates informed by a number of inputs including cross reference with live recently tendered similar works, agents measured estimates and financial appraisals reflecting BCP requirements.

27. Programme 2b consists of provisional capital budget allocations for Hillbourne and Oakdale. Additional details on each will be brought forward for Council review and confirmation of capital budgets in Spring / Summer 2022 as part of a wider CNHAS programme update report.

CNHAS schemes Future Places

28. New housing developments at Turlin Moor and Constitution Hill that are anticipated will be delivered at least initially by Future Places and are currently outside the scope of this paper. The delivery mechanism for any agreed schemes on these sites is to be determined. Separate reports on each will be brought forward for Member consideration in due course.

Appendix 4d CONFIDENTIAL

Council Newbuild Housing & Acquisitions Strategy (CNHAS)

Value for Money Assessment

29. The value for money implications of CNHAS were considered by Members in September 2021 when the programme was approved.

VAT implications

30. A construction of residential accommodation that meets required conditions to qualify as dwellings is zero-rated for VAT purposes. This excludes certain types of services such as architects, surveyors, consultants, etc unless they are provided under a design and build contract.

31. Construction of commercial units is always subject to VAT at standard rate.

CNHAS General Fund

32. Market rent housing and commercial letting is generally exempt from VAT which means that VAT recovery on capital spend is subject to partial exemption rules.

33. To ensure VAT is fully reclaimable all commercial units should be opted to tax prior commencement of building works.

34. The exemption cannot be waived on private rented sector properties. To ensure the Council's partial exemption position is not affected a responsibility for repairs and maintenance should be transferred to Seascope Homes and Properties Limited.

35. Princess Road hostel (project 12b) - A provision of a temporary accommodation for homelessness is considered as a statutory activity and therefore any VAT paid on capital cost will be fully reclaimed.

36. Princess Road private rented sector (PRS) (project 12b) and Street Property Acquisition (project 4a) - Further VAT review will be undertaken in relation with future transfer of the completed residential properties to Seascope Homes and Properties Limited. This is to ensure the transfer is structured in the most tax efficient way and it does not impact the Council's partial exemption position.

37. Alma Road surgery (project 18) and Oakdale (project 13) – The VAT position for both projects will be considered, and any findings will be incorporated within separate papers that will be brought forward to Council in Spring / Summer 2022.

CNHAS HRA

38. Provision of residential accommodation within Housing Revenue Account is a non-business activity and therefore any VAT incurred on either initial construction phase or on ongoing maintenance is fully reclaimable under Section 33 of the Value Added Tax Act 1994.