

Report subject	Maintaining the momentum- PRS Housing scheme at Surrey Road, Bournemouth
Meeting date	8 th March 2023
Status	Public
Executive summary	<p>This scheme(site 17) is one of 44 projects within CNHAS currently being progressed along their development pipeline (refer Background Paper), has been brought forward from programme 5 - 'Harder to reach' sites, within the Council New build Housing and Acquisition Strategy (CNHAS) Programme - approved by Cabinet on the 29th of September 2021 and subsequently reviewed every 6 months since.</p> <p>This 8 Unit scheme was submitted for planning on 22 March 2022 and a decision is anticipated imminently.</p> <p>The building works are to be procured directly with the internal Construction Works Team, subject to the capacity and budgets being acceptable- if not we will tender externally.</p> <p>They will be built using the design & construction principles as set out in the approved 2021 CNHAS Strategy – a 'fabric first' approach- to ensure they provide high levels of thermal efficiency, space and amenity and minimise the need for retrospective environmental upgrades in the foreseeable future. Providing sustainable cost-efficient homes, critical at this time.</p>
Recommendations	<p>Cabinet recommends that Council approves:</p> <ol style="list-style-type: none"> 1. The financial strategy for the Surrey rd scheme set out in paragraphs 11 to 21 with specific approval for the use of up to £3.174M new prudential borrowing (the budget) to be repaid over 50 years from the General Fund. 2. Subject to Planning consent, the procurement of build works to the inhouse Construction Works Team (subject to their capacity and budget adherence). 3. The delegation to Director of Housing in conjunction with the Chief Financial Officer) the authority to enter a contract for build works providing all key parameters (including delivery within approved capital budget) are met.

Reason for recommendations	This additional housing will assist in working towards BCP housing targets and the targets within CNHAS. Furthermore, it will provide a substantial investment and income through the provision of a number of Private Rental Homes through the General Fund.
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Portfolio Holder(s):	Cllr Phil Broadhead, Portfolio holder for development, growth and regeneration
Corporate Director	Jess Gibbons, Chief Operating Officer
Contributors	Peter Friend, Project Manager Development & Nigel Ingram, Head of Housing Delivery
Wards	Bournemouth Central
Classification	For Decision

Site background information

1. The site is a vacant plot of land, overgrown with trees and vegetation that measures 0.516ha. Part of this site includes a sloping supporting embankment to the Wessex Way (A338), some mature trees and other vegetation and some Japanese Knotweed Stems. Surrey Road is located to the front of the site. The properties that front onto Surrey Road are detached and semi-detached large residential properties, some of which have been subdivided into flats. To the west of the site is the Laguna Hotel. The site is located adjacent to Wessex Way (A338) – a major trunk road that runs through Bournemouth. Part of the site forms an embankment to the Bournemouth West roundabout and Wessex Way dual carriageway, elevated alongside the south and south-eastern boundary.
2. This site was the subject of a planning pre-application in March 2021, where the principal of this site for residential development was accepted by the planning officer. The minor issues raised were addressed by the planning design now being proposed. Minor issues included the pre-application scheme having too much car parking, concerns with street scene, noise, drainage and biodiversity.

Previous Planning History

3. Due to the constraints of this site; part of the site forming the support structure for Wessex Way and some mature trees on the site's developable area, this scheme was designed specifically around the key trees identified by the BCP Arboricultural Team that needed protection. Initial pre-app proposals showed 9 units on this site, but following a pre-app meeting, we reduced the total number to 8 residential units.
4. A Temporary TPO notification was received during the pre-application planning process which covered all the trees on the site, which was later confirmed by a permanent TPO.

Proposed scheme

5. The proposed development includes the development of 8 private rented houses. Subject to consents, the proposed commencement date is planned for June 2023 with the scheme ideally due to be completed in Summer 2024.

6. It is recommended that the site is developed directly by the Council to provide a residential scheme comprising Private Rented Sector (8 homes): 4x 3-bed houses at 113m² and 4x 3-bed houses at 100m². The proposed dwellings would be 2½ stories in height. The proposed layout is determined by the shape and topography of the site, location of trees, proximity to the Wessex Way embankment and Japanese Knotweed, access and the existing character of the surrounding area. The schemes layout prevents any privacy or overlooking issues with neighbouring properties. Furthermore, this design allows for a significant number of existing trees on site to be retained.

Quality build standards

7. The development will provide a highly energy efficient scheme, will help address the 2019 BCP Council declared Climate and Ecological Emergency and future proof the new homes against the 2025 Future Homes Standard for housing. The development will contribute to the Council's commitment to achieving a net zero carbon emission target.
8. The fabric first approach will help address fuel poverty for those on low incomes. The cost of enhanced buildings is £251 per home per year, which is expected to be less than the saving in fuel bills by the tenant. This will assist in tenants not entering a state of fuel poverty (which could increase the likelihood of a tenant defaulting rent payments).
9. The scheme will be measured in terms of sustainability through carbon savings - full details of the carbon reduction figures are shown in appendix nine. The lifetime cost of the proposed development is 428.1 per tCO₂. Whilst this is slightly higher than the BEIS guidance of £367.17/tCO₂ it is still considered to be value for money. We intend to incorporate Build with Nature principles into this development and include, swift boxes, bat boxes and hedgehog highway fence holes where practicable.

Development Feasibility Work already undertaken

10. During 2020 and 2022, consultants were appointed, and surveys completed to enable a scheme design ready for planning submission. The scheme was submitted for planning approval in March 2022 and comments to date have been addressed. The financial commitment to date (including design, surveys and pre-planning) is £53,467 This is included within total project outlay of £3.174 million. Of the £53,467 financial commitment, £44,407 has been spent to date (including design, surveys and planning).

Financial Strategy

11. Appendix One, sets out the proposed financial profile of the scheme for the Housing Revenue Account (HRA).
12. Our appointed Employment Agent (Quantity Surveyor) estimates that the Build Costs for the scheme are £2.6 million, £3,087 per sqm. The total scheme costs are estimated to be £3.174 million profiled over the next 2-year period as the construction phase moves ahead
13. Estimated long term cash flows presented in Appendix 2 forecast net annual cash surplus from 5th year of completion. This is after provision has been made for both capital and interest repayments as well as management, maintenance, 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 £3 million are forecast at the current PWLB rate of 4.32%, are forecast.
14. 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.
15. The 8 new housing units will be additional new Council housing and will be retained by the Council and let via Seascope. As there is ongoing demand for additional housing of many

tenures, the Council has reasonable assurance over rental income streams for the next 50 years. Forecast cashflows assume modest annual increases in rental income of 2% per year (inflationary RPI increase only) from year 3 onwards. Additional provision is made for voids at 2% of gross residential rent per annum.

16. Ongoing operational spend (property listing and management, service costs and general repairs and maintenance spend) for the units withing the PRS tenure are allowed for within the model on a standard £/unit basis. The £/unit values used as based on historic financial data and are therefore considered to be accurate. Annual inflation at 2.0% 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). The tenure mix of the properties (and associated rental stream) provides a balance in terms of financial returns required by the Council.

Prudential Borrowing

17. 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 £3.174m of prudential borrowing repaid over 50 years at an annual cost (including interest) of £85k. The use of 50 years reflects the estimated useful economic life of the asset.
18. Appendices 1 and 2 are based on current market rents of £1650-1750pcm .
19. Appendix 2 demonstrates a positive contribution to the GF from year 5. The loan is repaid at year 50. This is after provision has been made for both capital and interest repayments as well as management, maintenance and major repair costs, and an adjustment to the rental income to cover void costs. Any potential capital growth has been ignored for the purposes of this modelling. The financial modelling assumes the use of flexible short-term funding (at an interest rate of 4.32%) during the construction period before entering into a long-term arrangement (at an interest rate of 4.32%).

Taxation and Public Sector Subsidy (State Aid)

20. Generally, construction of residential accommodation that meets the required conditions to qualify as dwellings is zero rated for VAT purposes. This, however, excludes certain types of services such as architects, surveyors, consultants etc, (unless they are provided under a Design and Build Contract). Provision of residential accommodation within the Housing Revenue Account is considered as a non-business activity and therefore any VAT incurred on construction cost is fully reclaimable under Section 33 of the value Added tax Act 1994. Stamp Duty Land Tax will not apply.
21. Public Sector subsidy, (State Aid), has been considered and assessed as low risk, as we are not passing on funding to a third party.

Value for Money

22. The financial appraisals set out in Appendices one, two and three show that the scheme is viable in the short, medium and long term for the Council. The Total Gross Development Value (Market value of the completed properties) is £3m, which is lower than the Total Scheme Cost of £3.174m.
23. The 8 units are intended to be for PRS, and the Council through prudential borrowing, will pay for these units. The scheme provides a surplus in the long term cumulative cashflow from year 2 to Year 50 when the loan is repaid. Beyond year 50 the surplus will be in excess of £3m.
24. 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 by our Employers Agent who have confirmed the scope of works and total

- construction costs represent value for money. BCIS data for Bournemouth, August 2022, indicates costs for estate housing similar to that proposed at £3,087 per square meter.
25. The use of high quality Fabric First principles to set CNHAS standards for design and construction allows for significant reductions in energy costs for our residents. It also negates the need for expensive fossil fuel heating systems and their subsequent replacement in the future, thus helping the Council to meet the 2025 Future Homes Standard. This highly energy efficient and environmentally sympathetic fabric first construction method represents good value for money for the Council by helping to reduce its future maintenance liability.

Consultation

26. The Portfolio Holder for Regeneration and Ward Councillors were notified of the proposed development in December 2021. No adverse comments were received.
27. This site has been the subject of several pre-apps in 2015 and before. So, these detailed comments provided at the planning application process informed this scheme
28. It is also worth noting that, when planning permission is granted, issues such as materials, boundaries and landscaping are conditions to a planning application. This means that the treatments and materials used for building, boundaries and landscaping will need to be approved separately by the planning department later. This is considered normal procedure by the planning department.

Approval Conditions

29. Should the build cost increase across the scheme, Prudential Borrowing would need to be increased to maintain a near steady state for the long-term cash flow. Should costs reduce, borrowing will reduce proportionately. Should costs reduce, typically the funding will reduce proportionately.

Summary of legal implications

30. The Housing Act 1985, section 9, empowers the Council to build and provide housing accommodation (including houses, flats and ancillary facilities such as open space). Credits and debits in respect of such accommodation must be accounted for within the Housing Revenue Account (HRA) – section 74(1) of the Local Government and Housing Act 1989.
31. “Local Authorities have the power to borrow under s1 Local Government Act 2003. The discretion afforded to Local Authorities to borrow under s1 of the Act is wide reaching – “for any purpose relevant to its functions under any enactment or for prudent management of [the Local Authorities] financial affairs”. The content of this report indicates that the Service Unit relies upon borrowing “for any purpose relevant to its functions under any enactment” given that the aim of this project is to improve service delivery and infrastructure via building additional affordable housing to meet housing needs in the local area and to building housing to an improved a high level of fabric first standards as required by CNHAS to promote the Council’s environmental commitments.
32. Legal Services has not had sight of the terms and conditions associated with the PWLB borrowing, however given the nature and prevalence of PWLB borrowing, it is likely that the Council’s Finance team are comfortable with the borrowing terms and proposed interest repayments.
33. The Service is advised that in order to comply with the Subsidy Control Regime, it must ensure that any contractor and / or consultant appointed as part of the build process has been selected following the relevant procurement process in accordance with the Council’s Financial Regulations and Public Contracts Regulations 2015. The Service Unit must seek advice from the Council’s Procurement Team when appointing any consultant and / or consultant.

34. The Service Unit must ensure that appropriate contractual arrangements are entered into with the contractor prior to the commencement of any works. Legal Services would advise that an industry standard works contract, likely to be some form of JCT, is used, however advice should be sought via Legal Services once a specification has been produced. The Service Unit should continue to liaise with the Procurement Team to identify whether there is a suitable framework available. The Service Unit should also ensure that collateral warranties are obtained as appropriate throughout the build process.
35. The Service Unit must ensure that the relevant planning, highway or other consents have been obtained prior to the commencement of any works. It appears from this report that the Service Unit has already engaged with the Council's Planning Department. Given that this report refers to widening footpaths and roads; it is also possible that other forms of service medium may need to be installed, the Highways Team should be consulted on this point.
36. A full report on title has been received and no risks have been identified.

Summary of human resources implications

37. The existing Housing Delivery(development) Team will oversee the delivery of this scheme alongside the other new build schemes in the CNHAS pipeline. The construction works are being tendered through in-house CWT and other professionals have also been procured, e.g. architects to bring this scheme forward.

Summary of DIA impact

38. A copy of the Decision Impact Assessment is included in Appendix 7.

Summary of public health implications

39. The housing scheme will create a sustainable good quality housing development and bring many benefits to the residents and the wider community. The proposed scheme gives careful consideration to the wider issues such as trees and provides amenity space for prospective residents to help create an attractive area which improves the local community.

Summary of equality implications

40. A copy of the EIA is included in Appendix 4.

Summary of risk assessment

41. 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	medium	Build costs are based on recent tender values from CWT and external contractors. 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 our contractor and a 5% contingency for the build is included.
Scheme not gaining a satisfactory planning consent	Low	Pre-planning advice has been taken on a previous version of this scheme and measures proposed by the planning team have been fully considered with regard to appropriateness

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
		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 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,	Low	Monitor and review spend of such funding on other schemes within the development programme. Should insufficient funding be available, schemes will be prioritised and potentially some schemes put on hold until sufficient funding is available. Alternative tenure such as Shared Ownership would attract different funding, such as grant from Homes England, which could be used to ensure the scheme is brought forward.
Increased fire risk during construction phase	Low	Design and construction will be closely monitored by Housing Development Team, Employers Agent and the Construction Team & in House specialists for Health & Safety.

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

Maintaining the Momentum- CNHAS responds to Market Volatility

<https://www.bcpccouncil.gov.uk/About-the-council/Strategies-plans-and-policies/Documents/housing-strategy-2021-20261.pdf>

Appendices

- Appendix One : Income and Expenditure Summary General Fund and HRA
- Appendix Two A and Two B: Financial Appraisal Long-term Cash flow
- Appendix Three : Summary of Funding Assumptions
- Appendix Four : Equality Impact Assessment (EQIA)
- Appendix Five : Development proposal plans
- Appendix Six : Health and Safety Assessment Tool (HASAT)
- Appendix Seven : Design Impact Assessment (DIA)
- Appendix Eight : Project Plan
- Appendix Nine : Carbon Reduction Statement