

Annex 2 - Regeneration of 44 & 46 Rochester Road, Bournemouth– 25 October 2023 Cabinet

Background

Site background information

1. The site is owned by BCP Council and consists of two two-bedroom houses that present significant maintenance issues, including structural defects. The Council's long-term plans are to modernise properties where required and reduce future maintenance costs. This can include the redevelopment of existing properties.
2. Given the prohibitive cost of retrofitting and refurbishment of the properties, the opportunity has been identified to demolish the existing two two-bedroom houses and provide better quality affordable environmentally friendly homes.

Proposed scheme

3. The proposed scheme consists of 2 two-bedroom houses for Affordable Rent. Plans for the proposed scheme are included in Appendix 5.

Quality build standards

4. The development will provide energy efficient homes to help address the BCP Council declared Climate and Ecological Emergency 2019. The development will contribute to the Council's commitment to achieving a net zero carbon emission target.
5. A carbon reduction statement has been completed which measures the sustainability of the development through carbon savings. The statement provides details of the carbon reduction figures and is included at Appendix 8.
6. All homes will be built to high sustainability standards delivered through the excellent fabric first and airtightness approach (designed in this case to accommodate the principles of Passivhaus excluding the external accreditation/certification element). This standard offers the benefit of low carbon heating requirements, high levels of energy efficiency and an off-gas heating system.

Financial Strategy

7. Appendix 1 sets out the proposed financial profile of the scheme for the Housing Revenue Account (HRA). The total scheme costs are estimated to be £598,000 profiled over the next 10-month period as the construction phase moves ahead.
8. Around 52% of the total scheme cost will be funded through Right To Buy receipts (RTBr) (30%), affordable housing s106 contributions (14%) and HRA Capital contributions (8%); whilst £285,000 of Prudential borrowing is required within the HRA. Appendix 2 shows the long-term cashflow for the scheme. Appendix 3 sets out the financial appraisal assumptions.
9. The tenure mix of the properties (and associated rental stream) provides a balance in terms of financial returns required by the Council and ensuring low rents. This has been considered in the context of the whole HRA development pipeline identified to date. Estimated long term cash flows presented in Appendix 2 indicates the positive contribution in terms of cashflow to the HRA from the first year after completion (Year 1), once constructed and fully occupied. The forecast demonstrates that Prudential Borrowing will be repaid over 50 years, producing annual net surpluses in each year. (The **cumulative** cashflow remains in surplus from years 1 to 50). This is based on a rental income from Affordable Rent, capped at Local Housing Allowance. Utilising a Social Rent income alternative would reduce the affordable debt and increase subsidy required per home by £60,000. The 50yr cumulative surplus is also greatly reduced by charging a Social Rent. Rents charged are shown in appendix 3.
10. Contact with Homes England has not been made regarding bidding for Grant for this scheme. The Right to Buy receipts (RTBr) of £179,000, affordable housing s106 contributions of £85,000 and HRA Capital contribution of £50,000 total £314,000

(equivalent to £157,000/home). It is unlikely that Homes England would provide grant levels at or above this level, for replacement homes of any tenure (including Social Rent).

Prudential Borrowing

11. 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 £285,000 of prudential borrowing repaid over 50 years at an annual interest cost of £14,000.
12. Appendix 2 demonstrates a positive contribution to the HRA from year 1 to year 9. Year 10 shows a small deficit as a result of the inclusion of additional annual budget for major repairs. The forecast cashflow resumes net positive cash inflows from year 16 onwards. 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 5.5%) during the construction period before entering into a long-term arrangement (at an interest rate of 5.5%).

Taxation and Public Sector Subsidy (State Aid)

13. A tax evaluation has not been undertaken as this is a newbuild housing scheme and will be zero rated. Stamp Duty Land Tax (SDLT) is not applicable as the land the existing properties are located on is owned by the HRA and will not constitute a chargeable consideration for SDLT purposes. VAT: Any VAT incurred on construction cost will be fully reclaimable as the spend will relate to the statutory function of the Council.
14. State Aid is not applicable as no State resource is given to the Council.

Value for Money

15. The cost of structural remedial work to the property has been priced c£54,000. This does not include any other works to extend the design life of the property or retrofitting the property to be off gas or insulated to current standards which will be required in the future. Based on this, the decision to demolish and rebuild was agreed upon between Housing Delivery and Head of Facilities Management as the most cost-effective strategy.
16. The financial appraisals set out in Appendix 1, 2 and 3 show that the scheme is viable in the short, medium and long term for the Council. The total scheme cost of £598k is lower than the Gross Development Value (GDV) which is estimated at £630k, the total estimated value of the completed homes. The scheme provides a surplus in the long term cumulative cashflow from year 1 to year 50 when the loan is repaid.
17. The construction costs are based on a relatively high build value of £3,200m2 (including demolition and all abnormals). At this level, the scheme remains viable in terms of costs and a 10% contingency budget has been included in the financial appraisal. Conditions have been set to revisit the scheme through Cabinet/Council should costs further exceed this as set out below.

Consultation

18. Public consultation was undertaken prior to submitting the planning application. A letter was sent with the proposed plans to residents in the surrounding area. All concerns from 2 neighbours were addressed.
19. Significant internal consultation within BCP Council teams has been undertaken to support the development of this scheme. This has included colleagues from Planning and Housing Management. Pre-application advice has been gained in some detail through our Planning colleagues.

Approval Conditions

20. Should the build cost increase across the scheme, the use of RTBr can be increased accordingly and to pay the balance, the Prudential Borrowing would need to be increased to maintain a near steady state for the long-term cash flow. Should costs reduce, typically the funding will reduce proportionately.

Summary of legal implications

21. Section 9 of the Housing Act 1985 empowers the Council to erect buildings for the purpose of providing housing accommodation where this is undertaken on land acquired for this purpose. The land can be treated as if “acquired for this purpose” by appropriating the land under Section 19 of the same Act. This provides that “[a] local housing authority may appropriate for the purposes of this Part [housing purposes] any land for the time being vested in them or at their disposal and the authority have the same powers in relation to land so appropriated as they have in relation to land acquired by them for the purposes of this Part.”
22. As the properties will have been demolished, they will not be considered to be “land consisting of houses or part of a house” so the consent of the Secretary of State will not be required for the appropriation.
23. Accordingly, the Council may exercise its statutory power to build the housing scheme once the properties are demolished and the site has been appropriated for housing purposes under section 19 of the 1985 Act.
24. Following the appropriation, the Council must make the requisite adjustments to the General Fund and the Housing Revenue Account as detailed above (section 24, Town and Country Planning Act 1959; section 74(1)(b), Local Government and Housing Act 1989).
25. The Council will need to comply with all relevant procurement requirements in undertaking the proposals contained within this Report and the Council will seek further procurement and legal advice in that respect.

Summary of human resources implications

26. The existing Housing Delivery Team will oversee the delivery of this scheme alongside the other new build schemes in the pipeline. The construction works will be priced by CWT and if the price is above budget, the works will be tendered, and other professionals have also been procured e.g. architects to bring this scheme forward.

Summary of DIA impact

27. A copy of the Impact Assessment is included in Appendix 4

Summary of public health implications

28. 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 to help create an attractive area which improves the wellbeing of the community.

Summary of equality implications

29. A copy of the EIA is included in Appendix 6. The provision of 2 number 2-bed homes does not provide for singles/couples/wheelchair accessible homes, but these are provided as part of the wider delivery programme of homes (Council Newbuild Housing and Acquisition Strategy).

Summary of risk assessment

30. 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. Build cost budget set at £3,200 is an inclusive Design & Build cost provided by our Employers Agent. A further 10%

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
		contingency is included in our financial appraisals.
Fall in housing need for accommodation tenure provided caused by changes to the housing market or economy	Low	Monitor through construction period requirement for tenure with the Strategic Housing Options team. Should a particular need reduce the Housing Delivery 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.
Increased fire risk during construction phase	Low	Design and construction will be closely monitored by the Housing Delivery Team, Employers Agent and the Surveying Team.

31. 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.

Appendices

- Appendix 1 : Income and Expenditure Summary
- Appendix 2 : Financial Appraisal Long-term Cash flow
- Appendix 3 : Summary of Funding Assumptions
- Appendix 4 : Decision Impact Assessment (DIA)
- Appendix 5 : Development proposal plans
- Appendix 6 : Equality Impact Assessment (EIA)
- Appendix 7 : Project Plan
- Appendix 8 : Carbon Reduction Statement