

Report subject	<b>Housing scheme at Surrey Road, Bournemouth</b>
Meeting date	22 May 2024
Status	Public
Executive summary	<p>This scheme is being brought forward from programme 3, new build – medium to large sites, of CNHAS, approved by Cabinet on 29 September 2021</p> <p>The BCP owned site consists of an area of unused land adjacent to the Wessex Way, formerly occupied by housing prior to demolition to make way for the road. The site presents an opportunity for redevelopment and the building of sustainable affordable homes for the Local Authority Housing Fund (LAHF) Programme, to house refugee families.</p> <p>This scheme provides 8 x 3 bed houses. Full planning permission was granted on 24 March 2023. The necessary building works are to be procured directly with the internal Construction Works Team, subject to capacity and budgets being acceptable.</p> <p>They will be built using the design and construction principles as set out in the approved CNHAS Strategy to ensure they provide high levels of thermal efficiency, space and amenity and minimise the need for retrospective environmental upgrades in the foreseeable future, please refer to paragraph 6.</p>
Recommendations	<p><b>Cabinet recommends to Council to approve:</b></p> <ol style="list-style-type: none"> <li>1. To Council to approve the development of 8 x 3-bedroom houses at Surrey Road at a total scheme cost (Capital Budget) of £3.518m.</li> <li>2. The financial strategy for the scheme as set out in paragraphs 11 to 19 with specific approval for the use of £1.838m new prudential borrowing to be repaid over 50 years from the HRA.</li> <li>3. The procurement of build works to the inhouse Construction Works Team (subject to capacity and budget).</li> <li>4. The delegation to Service Director (in conjunction with the Chief Financial Officer) authority to enter into a contract for build works providing all key parameters (including delivery within approved capital budget) are met.</li> <li>5. Appropriate the site for housing purposes under section 19 of the Housing Act 1985.</li> <li>6. Transfer the site to the Bournemouth Neighbourhood Housing Revenue Account (BNHRA) from the General Fund at the market value of the property based upon the</li> </ol>

	affordable rent development with the appropriate financial adjustments.
Reason for recommendations	To enable the proposed affordable housing scheme to progress with the agreed funding arrangements through to construction and subsequent completion to deliver the wide range of benefits to the Council and local communities.

Portfolio Holder(s):	Cllr Kieron Wilson, Portfolio Holder for Housing and Regulatory Services
Corporate Director	Graham Farrant (Chief Executive Officer)
Contributors	Jonathan Thornton, Head of Housing Delivery Peter Friend, Development Project Manager
Wards	Talbot and Branksome Woods
Classification	For Decision

## Background

### Site background information

1. The site is owned by BCP Council and consists of an area of unused land adjacent to the Wessex Way, formerly occupied by housing prior to demolition to make way for the road.
2. The site was left alone with minimal and intermittent tree and scrub cut backs over the years. In the last few years an effort has been made to keep the scrub clear to discourage rough sleepers who had started to use the site as it offered a place to pitch a tent out of view.
3. The site was fenced off with security fence towards the end of 2021 and the area has been kept clear of scrub within this fenced area.
4. The Housing Delivery Team secured planning approval for a scheme of eight 3-bedroom houses in March 2023.
5. A number of trees were identified for removal as part of the planning process and these were removed in November 2023.
6. The Housing Delivery Team intend to develop the site to provide high quality energy efficient housing to increase the Council's housing stock and to help reduce the numbers of families in need of suitable housing.

### Proposed scheme

7. The proposed scheme consists of 8 x 3 bed houses for Affordable Rent, complete with parking spaces. The proposal is to use the properties for refugee families living in temporary accommodation. Plans for the proposed scheme are included in Appendix five. The Affordable rents are capped at Local Housing Allowance, which for this scheme are between 62% and 66% of market rents.

### Quality build standards

8. 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.
9. 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 eight.
10. 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 but not 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, which will ensure lower energy bills for residents.

## Financial Strategy

11. Approval for this scheme to be included in the CNHAS programme with a Total Scheme Cost (TSC) budget of £2.31m was granted at the April 13<sup>th</sup> 2022 Cabinet meeting.
12. Increasing the TSC budget by £1.21m results in new TSC of £3.518m. The change in TSC is predominantly due to the increase in construction costs over the intervening two years since approval. The April 2022 Cabinet report's construction costs were based on an estimate of £2.63m. The construction costs of £3.178m in this report have been supplied by BCP's Employers Agent.
13. The previous scheme was submitted as a Private Rental Sector (PRS) tenure whilst the current scheme is for Affordable Rent tenure (AR). The difference in income and change of tenure, together with the increased costs of borrowing has also had an effect on the TSC.

Appendix 1 - Financial Summary for Surrey Road					
		Temporary Accommodation in HRA			Comment
		50	50	50	
		Affordable Rent £000s	Shared Ownership £000s	TOTAL £000s	
		£	-		
Homes Prudential Borrowing Period					
Scheme Costs					
Works	£3730m2	3,178	0	3,178	
Fees		124	0	124	
Other costs (Contingency at 5%)		163	0	163	
Interest (during Build Phase)		28	0	28	
Land Acquisition costs	Transfer value	25	0	25	
Total Scheme Cost		3,518	0	3,518	
Scheme Funding					
Funding rate (per unit)					
DLUHC Grant - Local Authority Housing Fund		(1,200)	0	(1,200)	
Homes England Grant - Accelerated Construction		0	0	0	
Affordable Housing s106 Contributions		(480)	0	(480)	
Sales - Shared Ownership		0	0	0	
Housing Revenue Account		0	0	0	
- Capital Funding - 1 for 1 Right to Buy Receipts		0	0	0	
- Capital Funding - Reserve allocation		0	0	0	
Prudential Borrowing - additional borrowing		(1,838)	0	(1,838)	
OPE funding		0	0	0	
Total Scheme Funding (as Cabinet and Council Approved)		(3,518)	0	(3,518)	
Net Cost shown as Shortfall if +ve		0	0	0	
Total scheme value		3,545	0	3,545	
Cost to value		99.24%	0	99.24%	

- 14.
15. Appendix One, sets out the proposed financial profile of the scheme for the Housing Revenue Account (HRA). The total scheme costs are estimated to be £3.518m profiled over the next 24-month period as the construction phase moves ahead.
16. Whilst £1.838m of Prudential borrowing is required within the HRA, this will be offset with £1.20m of Department for Levelling Up Housing and Communities grant in the form of Local Authority Housing Fund. The addition of these funds provides a positive cashflow saving from year 1. Appendix Two shows the long-term cashflow for the scheme. Appendix Three sets out the financial appraisal assumptions.

17. 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 Two 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, (which is 62-66% of market rent for this scheme). Utilising a Social Rent income alternative would reduce the rental income by £47k per annum. Rents charged are shown in appendix Three.
18. Homes England grant in the form of Local Authority Housing Fund, (LAHF), is being incorporated as this scheme will be included as part of the refugee housing programme. This grant funding negates the need to use Right to Buy receipts, (RTB) and Section 106 contributions freeing up these funds for use on other projects in the Housing Delivery Programme.
19. Land appropriation value of £25k has been allowed for transferring the land from General fund to HRA (or debt transfer).

### **Prudential Borrowing**

20. 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 £1.84m of prudential borrowing repaid over 50 years at an annual interest cost of 5.1%
21. Appendix Two demonstrates a positive contribution to the HRA from year 3. 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 5.1%) during the construction period before entering into a long-term arrangement (at an interest rate of 5.1%).

### **Taxation and Public Sector Subsidy (Subsidy Control)**

22. 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 Council 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.
23. Subsidy Control legislation is not applicable as no State resource is being passed on by the Council.

### **Value for Money**

24. 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 scheme cost of £3.518m is lower than the Gross Development Value (GDV) which is estimated at £3.545m (valued January 2024 by an RICS valuer). The scheme provides a surplus in the long term cumulative cashflow from year 5.
25. The construction costs are based on a design and build from the planning permission value of £3,730 m2 including abnormals. At this level, the scheme remains viable in terms of costs and a 5% 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.

26. The proposed housing scheme is not being considered for sale on the open market. The proposed scheme delivers a strong cash surplus over 50 years and provides much needed affordable homes and alleviates temporary accommodation cost pressures. The cost to value ratio should be viewed in the long term with the expectation that the GDV of the scheme will increase over the term of the loan. This expected increase in value will offset the current costs and should be deemed to present value for money in the long term. Whilst the total scheme cost of c£443k per home may appear high, it is providing high energy efficient homes which are not available on the market.

## **Consultation**

27. Ward Councillor consultation was undertaken prior to the planning application submitted and prior to this report submission. The only concern raised was regarding existing antisocial behaviour in the area. Once approved, further resident consultation will take place, by letter to inform adjacent residents of when construction will take place and notify them of the contractor (with contact details).
28. Significant internal consultation within BCP Council teams has been undertaken to help the development of this scheme. This has included colleagues from Planning and Housing Options. Pre-application advice has been gained in detail through our Planning colleagues.

## **Approval Conditions**

29. Should the build cost increase across the scheme, 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**

30. The Council is empowered by Section 1 of the Local Government Act 2003 to borrow funds for any purpose related to its functions. This proposal is to support the provision of housing in accordance with the Council's housing duties.
31. The power to erect and use housing on the land arises on acquisition or appropriation of the land under Housing Act powers. It will therefore be necessary to appropriate the site for housing purposes under section 19 of the Housing Act 1985 before the Council can rely on statutory powers to erect Council housing. (Section 9 of the Housing Act 1985.)
32. A council can appropriate land which is not required for its current purpose to any other purpose for which it is empowered to acquire land.
33. As this land is currently held in the general fund, following the appropriation, the Council must make the requisite adjustments to the General Fund and the Housing Revenue Account to comply with section 24, Town and Country Planning Act 1959; section 74(1)(b), Local Government and Housing Act 1989.
34. 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 procuring the works contract and completing the appropriate documentation for the construction elements.

## **Summary of human resources implications**

35. 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 tendered if CWT cannot achieve the budget, and other professionals have also been procured e.g. architects to bring this scheme forward.

## Summary of DIA impact

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

## Summary of public health implications

37. 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

38. A copy of the EIA is included in Appendix 6.

## Summary of risk assessment

39. 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 £3.178m is an inclusive Design & Build cost provided by our Employers Agent. A further 5% contingency is included in our financial appraisals.
Scheme not gaining a satisfactory planning consent	Low	Planning approval for the proposed scheme was granted on 24 March 2023.
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.

40. 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

1. [CNHAS report for 29-09 Cabinet Final 29092021 Cabinet.pdf \(bcpcouncil.gov.uk\)](#)
2. [\(Public Pack\)Agenda Document for Cabinet, 13/04/2022 10:00 \(bcpcouncil.gov.uk\)](#)

## **Appendices**

Appendix One: Income and Expenditure Summary  
Appendix Two: Financial Appraisal Long-term Cash flow  
Appendix Three: Summary of Funding Assumptions  
Appendix Four: Decision Impact Assessment (DIA)  
Appendix Five: Approved development plans  
Appendix Six: Equality Impact Assessment (EIA)  
Appendix Seven: Project Plan  
Appendix Eight: Carbon Reduction Statement