

Report subject	Housing scheme at Crescent Road, Bournemouth
Meeting date	22 May 2024
Status	Public
Executive summary	<p>This scheme is being brought forward from programme 4a, Acquisition of street properties (which can include new build) of Council Newbuild Housing and Acquisition Strategy (CNHAS), approved by Cabinet on the 29 September 2021.</p> <p>The BCP owned site consists of a former play area open space at Crescent Road, Bournemouth. The site presents an opportunity for redevelopment and the building of sustainable affordable homes. These homes are being proposed for inclusion in the temporary accommodation programme.</p> <p>This scheme provides 5 x 1 bed apartments and 3 x 2 bed apartments. Full planning permission was granted on 11 October 2022. 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>Cabinet approves:</p> <ol style="list-style-type: none"> 1. The approval of Crescent Road housing development scheme at a Capital Total Scheme cost of £2.151m. 2. The financial strategy for the scheme as set out in paragraphs 10 to 17 with specific approval for the use of £2.151m new prudential borrowing to be repaid over 50 years from the General Fund. 3. The procurement of build works to the inhouse Construction Works Team (subject to capacity and budget). 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. 5. Appropriate the site for housing purposes under section 19 of the Housing Act 1985.
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	Jess Gibbons, Chief Operating Officer
Contributors	Jonathan Thornton, Head of Housing Delivery Peter Friend, Development Project Manager
Wards	Bournemouth Central
Classification	For Decision

Background

Site background information

1. The site is owned by BCP Council and consists of an open space that was formerly occupied by a large residential villa. This villa was demolished to make way for the Wessex Way, which runs along the Western boundary, in 1968. More recently the site was used as a children's playground until it was decommissioned by the Council approximately 14 years ago.
2. There is a similar block of flats on the adjacent Eastern boundary of the site.
3. The Bournemouth Lower Gardens sit to the North of the site.
4. The site was originally earmarked for development and a planning application was submitted in 2019. However, this application was subsequently withdrawn.
5. The BCP Housing Delivery team secured a grant of planning approval on 11 October 2022 and are proposing to develop the site with high value energy efficient affordable homes.

Proposed scheme

6. The approved scheme consists of 5 x one bedroom and 3 x two-bedroom apartments for Affordable Rent. The proposal is to use the properties for families leaving bed and breakfast temporary accommodation. Plans of the approved scheme are included in Appendix five.

Quality build standards

7. 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.
8. 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.
9. 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.

Financial Strategy

10. Approval for this scheme was previously included in the CNHAS programme with a Total Scheme Cost (TSC) budget of £1.685m was granted at the 13 April 2022 Cabinet meeting.
11. Increasing the TSC budget by £466k results in new TSC of £2.151m. 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

12. 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.

	Cost to Value	137.01%	0	137.01%
13.				
14.	Appendix One, sets out the proposed financial profile of the scheme for the General Fund (GF). The total scheme costs are estimated to be £2.151m profiled over the next 24-month period as the construction phase moves ahead.			
15.	Whilst £2.151m of Prudential borrowing is required within the GF, this will be offset with savings from bed and breakfast temporary accommodation costs. The addition of these funds provides a positive cashflow saving from year one. Appendix Two shows the long-term cashflow for the scheme. Appendix Three sets out the financial appraisal assumptions.			
16.	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 development pipeline identified to date. Estimated long term cash flows presented in Appendix Two indicates the positive contribution in terms of cashflow 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 70-77% of market rent for these homes). Utilising a Social Rent income alternative would reduce the rental income by £32k per annum. Rents charged are shown in appendix Three.			
17.	Contact with Homes England has not been made regarding bidding for Grant for this scheme. The inclusion of the bed and breakfast savings income negates the need for Homes England grant and BCP Council subsidy, thus freeing up Right to Buy receipts and Section 106 contributions for other projects within the Housing Delivery programme.			

18. 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 £2.151m of prudential borrowing repaid over 50 years at an annual interest cost of 5.5%
19. Appendix Two demonstrates a positive contribution to the GF from year 1. 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

20. 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 is owned by the GF and will not constitute a chargeable consideration for SDLT purposes.
21. VAT: Any VAT incurred on construction cost will be fully reclaimable as the spend will relate to the statutory function of the Council.
22. Subsidy Control is not applicable as no State resource is given to the Council.

Value for Money

23. 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. Whilst the total scheme cost of £2.151m is higher than the Gross Development Value (GDV), which is currently estimated at £1.57m (Valued January 2024 by an RICS Valuer), the cashflow is positive from year one and provides a healthy surplus over the 50-year borrowing term of £119k.
24. The construction costs are based on a design and build from planning permission value of £3,183m2 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.
25. The proposed housing scheme is not being considered for sale on the open market as it is cost over value, but it provides an immediate cash surplus. The Estates team did previously market the site for sale but did not receive the reserve value. The proposed scheme delivers a strong cash surplus over 50 years and provides much needed affordable homes and alleviate Bed and Breakfast 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.

Consultation

26. Ward Councillor consultation was undertaken prior to the planning application being submitted and prior to this report submission. No negative responses were received. 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).
27. 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.

Approval Conditions

28. 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

29. The Council is empowered by Section 1 Local Government Act 2003 to borrow funds for any purpose related to its functions and this proposal is to support the provision of housing in accordance with the Council's housing duties.
30. 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.)
31. 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. As this site has been used as public

open space a period of advertising is required. This has been carried out in accordance with Section 122 Local Government Act 1972 and [responses have been set out above for consideration.]

32. As this land is currently held in the general fund, it does not need transferring to the Housing Revenue Account.
33. 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

34. 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

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

Summary of public health implications

36. 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

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

Summary of risk assessment

38. 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 £3,183 is an inclusive Design & Build cost provided by BCP's Contract Works Team. 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 11 October 2022
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.

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
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.

39. 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: Financial Summary
Appendix Two: Financial Appraisal Long-term Cash flow
Appendix Three: Summary of Appraisal Assumptions
Appendix Four: Decision Impact Assessment (DIA)
Appendix Five: Approved plans
Appendix Six: Equality Impact Assessment (EIA)
Appendix Seven: Project Plan
Appendix Eight: Carbon Reduction Report