

Report subject	Hawkwood Road Phase 2
Meeting date	10 December 2024
Status	Public Report
Executive summary	<p>This report sets out the redevelopment opportunity at Hawkwood Road, which is a priority project for the Boscombe Towns Fund. The report outlines two options for the delivery; either a mixed use site of residential home and a clinical facility in collaboration with the NHS (subject to contract, (Option 1) or a 100% residential scheme (Option 2) . The report confirms we will use best endeavours to pursue Option 1 mixed-use project, however, seeks authority to retain the flexibility to deliver the 100% residential (option 2), if necessary. The financial viability is dependent on Homes England grant for the delivery of 100% affordable homes and sufficient headroom in the Housing Revenue Account. Hawkwood Road delivers significant social and physical regeneration to the ward of Boscombe West and the associated local context. The project also contributes the delivery of much needed social homes.</p>
Recommendations	<p>It is RECOMMENDED Cabinet recommends to Council the:</p> <ol style="list-style-type: none"> 1. Approval of option 1 for the Hawkwood Road development scheme for 68 units and a clinical facility at a total scheme cost of £28.7m (preferred option). 2. Approval of option 2 (fully residential) to be delivered at total scheme cost of £26.6m in the event we are unable to deliver Option 1 (the mixed-use scheme which includes the clinical facility). 3. Approval of the financial strategy for the scheme for both options inclusive of borrowing level over 50 years from both the Housing Revenue Account and the General Fund. 4. Approval of the procurement of construction works of Hawkwood Road Ph2 through an open and competitive tender for the preferred option, subject to securing Homes England Affordable Housing Grant and a viable HRA business plan.

	<p>5. Approval of the delegation to the Chief Operations Officer in conjunction with the Director of Finance and the Director of Law & Governance authority to enter contracts for building works, the Memorandum of Understanding with the NHS Dorset and the lease for the Clinical Facility, providing all key parameters (including delivery within approved capital budget) are met.</p> <p>6. Approval of the appropriation of part of the main Hawkwood Road south site for housing purposes under section 19 of the Housing Act 1985 following its appropriation for planning purposes, once the required car parking area has been formally closed.</p> <p>7. Approval of the transfer of the land to be held for housing purposes from the General Fund (GF) to the Housing Revenue Account (HRA) for an appropriate certified financial consideration.</p> <p>It is RECOMMENDED Audit and Governance Committee Recommend to Council:</p> <p>8. Approval of an increase in the authorised borrowing limit of the Council to accommodate the £6.1m in the HRA for social rent/shared ownership and £3.2m in the general fund of prudential borrowing for Option 1 of this scheme and the proposal in the business cases for the financing of this debt.</p> <p>Or</p> <p>9. Approval of an increase in the authorised borrowing limit of the Council to accommodate the £6.9m in the HRA for social rent/shared ownership of prudential borrowing for Option 2 of this scheme and the proposal in the business cases for the financing of this debt if Option 1 cannot be delivered.</p>
Reason for recommendations	<p>To enable the delivery of social homes and a clinical facility to the benefit of Boscombe West, ensuring a revitalisation of an area in need of new homes and infrastructure. This will unlock long term social value in Boscombe West through the delivery of affordable homes and enabling long term residents to access much needed healthcare.</p>

Portfolio Holder(s):	Cllr Kieron Wilson, Portfolio Holder for Housing and Regulatory Services
Corporate Director	Glynn Barton, Chief Operating Officer
Report Authors	Jonathan Thornton, Head of Housing Delivery Remi Oshibanjo, Housing Development Manager Peter Friend, Development Project Manager
Wards	Boscombe West
Classification	For Recommendation

Background

1. The Council successfully secured funding from MHCLG under the Towns Fund programme for the delivery of new homes, new community facilities, a skills hub and improvements to the public realm. There is £13.3m allocated to the Hawkwood Road Masterplan which requires the delivery of a new community centre, a clinical unit, redevelopment of the car park and 68 new homes. The grant condition requires the project to be contractually committed by March 2026 and meaningful works commenced by this date.
2. This report sets out the business case for Phase Two of the Bournemouth Towns Fund for Boscombe, on Hawkwood Road; the first phase being the Community Centre and ancillary works which is fully funded by Towns Fund Grant and was approved by the Council in October 2024.
3. Full planning consent was received in October 2024 to develop the site with highly energy efficient homes, a clinical facility and a new public garden as Hawkwood Road, Phase 2.
4. In October Cabinet approved £4.1m for the community centre allocated from the Towns Fund programme. The remaining Towns Fund grant of £7.4m will contribute to the provision of 68 homes and a clinical facility (option 1) or 76 homes (option 2).
5. The current use of the site is a car park, which is underused and Cabinet declared surplus on 11 January 2023. Therefore, utilising this land is in part an efficiency improvement. The parking income will reduce when the project begins on site. The new development will continue to provide an element of public car parking which will be owned and managed by the Council. Parking provision is a key consideration for the development with Hawkwood Road with 49 spaces being retained.
6. Phase 2 of Hawkwood Road is close to the main retail centre of Boscombe. The transformation of the underused asset will bring the existing and new communities together and create a legacy for Boscombe. The opportunity of a clinical facility offers the local population much needed oral healthcare and training space to create a sustainable workforce while driving more foot fall to the high street and the rest of Boscombe West. The clinical facility will be the held in the General

Fund, leased to the NHS and the indicative rental income will cover the debt required.

7. The Council is working in partnership with Health Services University, NHS Dorset and the Integrated Care Board to develop a business case with the first stage being to enter into a Memorandum of Understanding (MoU) before the end of the calendar year with an Agreement to Lease to follow and signed before the contract of works are awarded. This will secure the funding and de-risk the delivery of this element of the scheme.
8. Whilst the NHS are moving through their own governance process, there is still risk in developing the mixed-use scheme (option 1). Therefore, we have developed a contingency plan that will be utilised if the NHS is unable to move forward, option 2.
9. If the MoU is received but there is no Agreement for Lease by the time we go out to tender the build works in early 2025 option 2 becomes the preferred option.
10. If there is no agreement in the form of an MoU, option 2 becomes the preferred option. Option 2 would require a revised planning permission which will need to be submitted as a variation to the approved scheme under the Section 73 (S73) Town and Country Planning Act 1990 and remove the clinical element to deliver an 100% residential affordable housing scheme.
11. Bringing forward Option 2 will prolong the programme given the requirement to seek a s73 amendment to the current approval. This means the ongoing discussions with NHS Dorset require formalisation at the earliest opportunity.
12. Discussions are underway with Homes England to secure affordable housing grant to support the delivery of the scheme. The current modelling is based on delivering 46 Social rented homes (which is between 41.6% and 50.5% of Market rent) as the major tenure of the project, and 22 shared ownership homes.
13. Homes England have advised their preference is for Social Rent (rather than Affordable Rent) which generates less income to support the scheme viability and therefore negotiations are underway to support increased grant rates. This grant will need to be in place to enable the delivery of the homes in the HRA and use of headroom. The provision of Social Rent instead of Affordable Rent will require a higher subsidy from Homes England due to lower rental income.
14. The HRA Business Plan is currently being prepared and the financial modelling for has been tested as a scheme in the HRA and the payback period over a 50 year period.

Proposed scheme options

15. Appendix 2 shows sensitivity analysis with different interest rates and different rent inflation increases over the life of the buildings.

Options Appraisal

Option 1.

16. The current scheme that we have received consent for, consists of 68 residential apartments spread across three individual blocks, A, B and C. The medical facility is on the ground floor of block A. These form two separate areas either side of the new park/gardens. The remaining public car park is to the west of block A.

17. This option provides both affordable homes and a clinical facility that will also add value for the community. While providing much-needed affordable homes, this option delivers other public health benefits by bringing health care into the community. This scheme is more costly than option 2 (due to the provision of the clinical facility) the space required and reduction in the ability to 'stack' homes as a cost avoidance measure.
18. However, it is important to emphasise the various deliverables of the mixed-use scheme which make it the preferred delivery option.
19. The option also brings forward a clinical facility that NHS Dorset may use to bring forward an oral health programme which will seek to develop an oral health work force whilst providing clinical and preventative services to the people of Boscombe and the wider area.

Block A Affordable Rent	No. Homes	Block B Affordable Rent	No. Homes	Block C Shared Ownership	No. Homes	Block A	No.	Total
1b2p flat	8	1b2p flat	6	1b2p flat	8	Medical Facility	1	22
2b3p flat	10	2b3p flat	3	2b3p flat	3			16
3b4p flat	10	3b4p flat	9	3b4p flat	11			30
total	28	total	18	total	22	total	1	69

Option 2.

20. The revised scheme consists of 76 residential apartments spread across four individual blocks, A1, A2, B and C. These form two separate areas either side of the new park/gardens. The remaining public car park is to the west of blocks A1 and A2.
21. This option delivers the most affordable housing to the ward, as the scheme is 100% affordable, providing eight more homes than option 1. It is the cheaper option to build overall but is one dimensional in its value to the community.
22. A new planning application will be required for this option, which has been prepared.

Block A1 Affordable Rent	No. Homes	Block A2 Affordable Rent	No. Homes	Block B Affordable Rent	No. Homes	Block C Shared Ownership	No. Homes	Total
1b2p flat	6	1b2p flat	6	1b2p flat	6	1b2p flat	8	26
2b3p flat	3	2b3p flat	3	2b3p flat	3	2b3p flat	3	12
3b4p flat	9	3b4p flat	9	3b4p flat	9	3b4p flat	11	38
total	18	total	18	total	18	total	22	76

Outcomes

23. The main outcome of both options is the provision of much needed affordable housing, pocket park and resurfacing of hard landscaping in the area, linking through to the previously approved Phase 1 (Community Centre) and Christchurch Road shopping area. It must be noted however that the provision of

the clinical facility, present on option 1 of the site is an important placemaking element, that would bring forward deep and sustained benefit to the wider area of Dorset, inclusive of the new residents that Option 1 would provide a home for.

Summary of financial implications and Value for Money

10. See Appendix 8

Risks

24. It should be recognised that there are challenges to this scheme as the Council have no confirmation of the Homes England Grant. Further risk from this funding is due to the required subsidy at higher than usual allocation because of the Homes England preference to deliver social rent housing instead of affordable rent tenancies. This generate less rental income to support ongoing costs of the scheme and therefore requires higher subsidy to achieve affordability.
25. The Towns Fund allows for defrayed expenditure until March 2027, the current estimated project completion is January 2028. Although it is estimated that enough expenditure can be incurred by March 2027 to fully utilise the grant ahead of borrowing, the Council should not enter a build contract until there is an identified Grant allocation from Homes England sufficient for the Social Rent and Shared Ownership scheme and confirmation that the project can be delivered within the milestones from MHCLG.
26. The transfer of the land between the General Fund and the Housing Revenue Account needs to be an appropriate certified value which is not available at the time of writing therefore the model is based on an estimated value £1.02M. The Council should not enter a build contract nor transfer the land until a Certified value of the land is obtained.
27. At the time of writing, the NHS have not signed up to an agreement to occupy and pay the estimated market rental value for the clinical facility. The Council should not enter a contract for Option 1 until the NHS are contracted to occupy at the required annual rent. If no agreement is reached, option 2 should be used.
28. The initial lease with the NHS for the clinical facility is intended for 25 years. The financing for this asset is modelled over 50 years, therefore an extension of the NHS lease needs to be secured, or alternative funding needs to be arranged to be able to continue the financing repayments for the subsequent 25 years.
29. The apartments have been formally valued in July 2024, which substantiates the Shared Ownership sales income forecast. The future housing market and demand for shared ownership arrangements may increase the risk to the estimated income in the model.
30. Uncertainty over the inflationary increase for future rental income. The Government has committed to CPI +1% only for the next five years. 2% baseline inflation has been assumed in the models.
31. High interest rates make feasibility of the scheme more challenging. Affordability of the schemes relies on an estimated future lower interest rate of 4.5% in the HRA and 4.9% in the general fund, making viability of the project more vulnerable.

32. The viability of the model is reliant on the construction costs being value engineered. The value engineered assumptions may not be realised in the tender submissions.
33. The major repairs assumption has been reduced to £2,500 per unit from year 11 considering the total build cost including a high proportion of infrastructure (car park resurfacing, highway works, pocket park etc).
34. Cost contingency is assumed at 10% to allow for build cost fluctuations.

Prudential Borrowing

35. The Council can borrow under the Prudential Code if it is affordable and can be repaid over the life of the asset. The proposed scheme is predicated on borrowing circa £6.1m in the HRA and £3.2m in the General Fund (option 1) and £6.9m (option 2) repaid over 50 years at an annual interest cost using a future estimated rate of 4.9% (LINK forecast for March 2026). Appendix 2 shows a summary net operating position for both Invest to save low risk HRA rate of 5.1% and the forecast rate of 4.5%. For the General Fund and, the low risk rate of 5.5% and a forecast rate of 4.9% have been used.
36. Appendix Two demonstrates a positive contribution to the HRA over the 50-year period for both versions This is after provision has been made for 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 fixed rates funding for the schemes repaid on a maturity basis as shown in Appendix 2.

Taxation and Public Sector Subsidy

37. In general, the construction of residential dwellings is not subject to VAT. However, VAT may be applicable on professional fees such as those charged by architects, surveyors etc. Any VAT incurred by the Council on social housing construction is fully reclaimable under section 33 of the VAT Act.
38. Further tax advice should be sought if the properties are sold or leased at market rent.
39. The construction of the community centre and the clinical facility does not qualify for any VAT exemptions and therefore VAT will be charged at standard rate. To ensure the VAT incurred is reclaimable and does not affect the Council's partial exemption threshold, the property must be opted to tax before the works commence.
40. Particular care should be taken when negotiating the terms of the lease for the clinical facility especially regarding fit out costs and any rent-free period. If the NHS undertakes work at the property, that under the general law is considered as the landlord's responsibility, the anti-avoidance measures will be triggered. As a result, the option to tax will be disapplied which will lead to a breach of the partial exemption de-minimis limit and financial implications for the Authority.
41. Subsidy Control is applicable as State resources are given to the Council, in terms of grant from MHCLG and Homes England.

Approval Conditions

42. Subject to Homes England grant and an affordable HRA Business plan which has headroom to subsidise the scheme. 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

43. 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.
44. 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 part of 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.)
45. 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.
46. As this land is currently held in the general fund, the areas where the residential properties will be built will need to be transferred to the Housing Revenue Account. The areas where the new park/garden are located will stay in the General Fund.
47. Further legal advice will be sought regarding the lease wording for the medical facility.
48. 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

49. The existing Housing Delivery Team will oversee the delivery of this scheme alongside the other new build schemes in the pipeline. The construction works for the development will be procured through an open tender.
50. Other professional services have also been procured e.g. architects to bring this scheme forward.

Summary of sustainability impact

51. 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.
52. A carbon reduction statement will be completed to measures the sustainability of the development through carbon savings.
53. 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). This standard offers the benefit of

low carbon heating requirements, high levels of energy efficiency and an off-gas heating system.

Summary of public health implications

54. Both options of the site deliver significant public health benefits to Boscombe West, a ward that suffers from various challenge. The provision of affordable housing delivers stability to an area that is currently struggling with transience and little feelings of rootedness. Further, the clinical facility will deliver much needed skill provision and health services to the wider area.

Summary of equality implications

55. Equality documents are attached

Summary of risk assessment

56. 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.
57. Until all the grant is in place we are unable to tender for the construction works. This may delay the overall programme and increase risk to MHCLG funding.

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. The estimated build cost budget, set at circa £28.7m, (option 1) and £26.60m, (option 2) is an inclusive Design & Build cost to be procured through open tendering and BCP's Construction Works Team. A further 10% contingency is included in our financial appraisals.
NHS partnership falling through or not being agreed at the required level of rent.	Medium	Clear instructions to the NHS of what we require and at what stage has been communicated with the MOU to be received by the 28 th of November. There will be strong liaison with NHS and all associated partners to ensure that there is continuous visibility of their position
Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
Scheme not gaining a satisfactory planning consent	Low	Planning approval for the proposed scheme was granted at the 18 April 2024 planning committee (resolution to grant), UU was signed 30/10/2024. s73 would be required to achieve Option 2. Proposed use class for clinical facility may require a change of use class.

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, RTB receipts or Homes England grant.	High	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.

Background papers

CHNAS Paper

Hawkwood Phase 1

Townsfund Programme

Appendices

- Appendix 1 – EXEMPT - Summary of Cashflow Implications
- Appendix 2 – EXEMPT – HRA Long term Cashflow Option 1
- Appendix 3 – EXEMPT – General Fund Long Term Cashflow Option 1
- Appendix 4 – EXEMPT – Appraisal Assumptions Option 1
- Appendix 5 - Decision Impact Assessment (DIA)
- Appendix 6 - Approved plans
- Appendix 7 - Equality Impact Assessment (EIA)
- Appendix 8 – EXEMPT – Financial Implications and Value for Money
- Appendix 9 – EXEMPT - NHS Overview – Oral Heath Dorset